

Biju Mohandas, principal investment officer, IFC, looks back at how healthcare investments have changed in Sub-Saharan Africa over the past decade



Reflections on a Decade of Transformation

Ten years ago, I came to Africa for what I thought would be a three-month stint leading an impact investment fund in the region. A decade later, I am still here, having had the privilege of investing in and working alongside incredible entrepreneurs who have built enterprises that deliver critical services to millions of consumers in sectors ranging from education to renewable energy to healthcare.

Of these, healthcare has provided me with the clearest view of the vast opportunities – and very real challenges – of operating in Sub-Saharan Africa.

Having led US\$300m of investments across nine companies in eight countries, it seems timely to reflect on these enriching experiences and pen some thoughts about the space.

The past decade, as I see it, has been defined by three big trends: the push for Universal Health Coverage, the consolidation of healthcare providers, and the arrival of large-scale private equity investors. A fourth trend – the deployment of emerging technologies – has enormous potential to shape the next.

Expanding health coverage – a qualified success

There is a growing consensus across Africa's political leadership that government-sponsored health insurance is a critical tool for arriving at the holy grail of Universal Health Coverage.

Ghana, Kenya, Nigeria, and Rwanda

have joined South Africa – five countries with a combined population of 338 million – in declaring their intent to provide basic health insurance to every citizen through public health insurance schemes financed through a combination of government funding and individual contributions.

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It is estimated that at least 60 million people in these countries have some form of health insurance, a number projected to grow exponentially over the next decade.

This change in the role governments see for themselves in healthcare, from being a provider of care to a financier is a seismic shift.

Smart implementation of these national

insurance plans could reap numerous benefits such as equity in healthcare outcomes irrespective of ability to pay, more risk pooling, and increased ability to leverage private capital to build much-needed healthcare delivery infrastructure. It also has the potential to lower overall healthcare system costs.

Some of these benefits have begun to accrue. For example, in Kenya, the National Hospital Insurance Fund (NHIF) expanded by 70% between 2014 to 2018 to cover an estimated 25 million individuals – 50% of the country's population.

The NHIF paid out close to US\$370m in medical costs in 2018 compared with US\$100m in 2014. It is fast becoming a bulwark protecting Kenyans against catastrophic health events as well as a catalyst for spurring growth in the sector. As a result, private investors and entrepreneurs are crowding in to invest in healthcare infrastructure nationwide.

Despite these commendable efforts and progress, however, Sub-Saharan Africa still has a long way to go to attain sustainable, universal health insurance.

Two major hurdles need to be overcome. First, there is much room for improvement when it comes to the quantity as well as the quality of health insurance penetration.

Ghana, for instance, the first country in the region to legislatively mandate universal health insurance in 2003, only managed to attract 11 million subscribers in its scheme's first decade or about 38% of the population. Rwanda has, by comparison, achieved near-universal penetra-



tion – more than 90% – but the services the Rwandan scheme covers are confined mostly to primary healthcare. While primary healthcare coverage is important and has likely played a role in Rwanda significantly improving on health indices such as lifespan, maternal mortality and infant mortality, it is not enough.

As the population ages, access to tertiary healthcare will become necessary and the absence of it could result in catastrophic economic impacts and push families into destitution.

Second, several of these national insurance plans have become plagued by high overheads and medical costs, inefficiencies, and allegations of delayed payments and corruption, casting a long shadow over their financial and operational sustainability.

Ghana's scheme, for instance, took in US\$437m in revenue from premiums in 2013 but doled out US\$484m in medical costs and overheads the same year, creating a net operating deficit of US\$47m. This has precipitated a fiscal crisis, an alarming prospect for healthcare providers who depend heavily on insurance pay-

ments that risks destabilising the sector.

If governments are willing to learn the lessons of these growing pains and build on the progress that has been made, universal health insurance in Sub-Saharan Africa could be within reach.

Technology and the private sector can and should lend a helping hand. For example, smart utilisation of emerging technologies like data science, biometrics, mobile payments, and telemedicine by government health insurance schemes can significantly reduce inefficiencies and costs and dramatically improve the patient experience. These technologies are already being deployed by several innovative private players, including CarePay in Kenya and Nigeria and Discovery Health in South Africa. Government-funded health insurance schemes should consider how best to deploy these innovations.

Consolidation is the name of the game

Healthcare in Sub-Saharan Africa was traditionally dominated by fragmented

mom-and-pop establishments. This created some market dysfunctions, notably poor economies of scale, inconsistent quality – and some of the highest healthcare prices in the world paid by some of its poorest people. The last decade has seen the emergence of market consolidators in several countries.

In Nairobi, hospitals such as Ladan, Metropolitan, Avenue, and Nairobi Women's, each of which used to be a doctor or family-run establishment, have been consolidated by a private equity owner. The result is an emerging network of service providers encompassing eight hospitals and sixteen clinics across seven cities in Kenya. Ciel Healthcare Limited, a Mauritius-based healthcare platform originally set up as an operational partnership with Fortis, India's second-largest healthcare group, has acquired two hospitals in Mauritius and one in Uganda to become the first for-profit, multinational hospital network in the region.

We see this trend repeated in retail pharma with entities like Goodlife, the largest retail pharma network in East Africa, and HealthPlus, the largest pharma

retailer in Nigeria. Both these enterprises have scaled rapidly through organic and inorganic growth. The recent acquisition of Lancet's diagnostic business in Africa by Cerba, a global network of medical laboratories owned by the Partners Group, suggests that a wave of consolidation continues to spread across the industry and continent. Ophthalmology, optical retail, and dialysis sectors could be next.

I believe this trend is here to stay, albeit with some additional characteristics.

For example, having focused on acquisitive inorganic growth in recent years, market consolidators will likely begin investing in organic growth through brownfield and greenfield developments of hospitals as well as the expansion of existing hospitals into new specialities. This will potentially be done through partnerships with global players. These entities will also increasingly focus on operational excellence, cost efficiencies, and the buttressing of their clinical and managerial talent.

While the first growth phase fueled by acquisitions was not easy by any stretch, this second phase will be even harder, faced with such stubborn structural problems as low insurance penetration, clinical and managerial talent shortages, and insufficient economies of scale in the absence of integration across economic blocks.

Consolidators are also well positioned to deploy emerging technologies in their platforms to dramatically magnify their

reach, improve customer experience, enhance quality, better utilise scarce medical talent, and reduce costs.

The applications could range from basic interventions such as better electronic medical records and virtual consultations to more cutting-edge innovations such as drone-based logistics, just-in-time inventory management across their platform, and data science-enabled personalised medicine.

The healthcare platforms which demonstrate vision and celerity in this regard hold the potential to grow exponentially and dominate their respective markets.

Long overdue arrival of private equity

For far too long, a major constraint to the growth of private healthcare in Sub-Saharan Africa was the scarcity of institutional equity capital – and the expertise that typically comes with it. The last decade has seen a significant shift for the better in this area, with vehicles like the Africa Health Fund (AHF) and Investment Fund for Health in Africa (IFHA) emerging as pioneers. AHF and IFHA together invested about US\$200m in the region.

More importantly, they generated the momentum and interest that enabled successor funds totalling US\$1.1bn, approximately US\$400m of which was directed to Africa.

Last November, IFC led the largest health equity deal concluded in Sub-Saharan Africa outside South Africa, the US\$1.15m Hospital Holdings Investment project, with IFHA and several European development finance organisations partnering with us on the deal.

Their success has encouraged other fund managers to raise healthcare-focused capital and invest in healthcare companies through their generalist funds.

Whereas in 2005, African healthcare-focused funds raised a minuscule US\$0.1m, by 2015 this amount had increased a whopping twenty thousand-fold to top US\$2bn, ushering in an unprecedented opportunity for healthcare companies to access private equity capital.

This development has had several positive spinoffs such as an improvement in financial management and governance and the attraction of high-quality management talent to the healthcare industry. It has also catalysed the previously mentioned market consolidation wave.

So far, we are seeing a healthy track record of profitable exits in this space. Coupled with an increasing demand for healthcare fuelled among other factors by the accelerating drive for universal health insurance by many countries, this should guarantee continued strong interest in the sector from the global private equity world. Recent transactional evidence of this includes The Carlyle Group's acquisition from AfricInvest of Abacus, a large



East African pharma manufacturer and distributor, and the creation of the Lancet Cerba platform referenced earlier.

It is especially heartening to see the platform companies that some of the early funds invested in returning to the market for secondary investment rounds, and generating interest from global players like TPG, Carlyle, and the Partners Group.

This is, of course, great news for the industry as many of these General Partners come with significant experience in the healthcare sector and can pair this global expertise and networks with the local insights of African health entrepreneurs and management teams.

Technology – the fourth element

As I turn my gaze toward the next decade, I believe that all three trends – universal insurance coverage, market consolidation, and institutional equity – will continue shaping Africa’s fast-evolving healthcare systems. A fourth element likely to emerge and impact the first three is technology.

As mentioned earlier, health insurance can leverage technology to reduce costs, improve quality, and magnify reach. Market consolidators like Goodlife are well-positioned to use technology to dramatically ramp up scale and improve customer experience. The accelerating development of disruptive technologies is making deployment more feasible than ever.

Technology increasingly allows healthcare to be provided over a distance, leverages scarce human and physical capital, and enables continuous monitoring and analysis of vast amounts of data generated by consumers and providers, making medicine more personalised and preventive.

These shifts are especially relevant and game-changing in this relatively resource-poor region where there is only one doctor per 5,000 people, 1.2 hospital beds per 1,000 people, and US\$9bn spent on healthcare, a small fraction of the estimated US\$37bn needed.

The following three innovations will, I predict, have special relevance to Africa over the next decade:

Big data analytics

As the adoption of electronic health records by healthcare companies in the

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continent grows and an increasing array of biosensors starting with the humble mobile phone make themselves ubiquitous, a wealth of data related to health will be generated.

According to Intel, 1.7 megabytes of data will be generated per person per second by 2020. Mining this data will allow better analysis and early diagnosis of diseases and holds the potential to shift the spectrum of care towards the preventive end. This can not only reduce costs for the system but, more importantly, improve the health and life of the patient. Discovery Health – a South African health insurer – is a global pioneer of this approach through its widely-feted Vitality initiative.

Telemedicine

While telemedicine in some shape or form has been available for decades, what’s new is the ubiquity of smartphones, the reduction in the cost of these phones and the data they generate, the emergence of 5G mobile technology, and the drastic improvement in augmented reality and virtual reality technologies.

All of this makes it easier for continent’s scarce medical talent to be projected across boundaries, creating the potential

to greatly improve access to medical care and medical education, particularly in underserved and remote areas.

Several healthcare providers and insurance companies could scale up exponentially by rolling out virtual consultation solutions.

Point-of-care imaging and diagnostics

Most African countries are hampered by a scarcity of laboratory capacity, imaging tools, and pathologists and radiologists.

New techniques in molecular diagnostics and microfluidics, successful convergence of high-quality imaging into small devices including smartphones, and the emergence of artificial intelligence tools for analysis of pathological specimen and diagnostic images are creating point-of-care diagnostic solutions.

These can be used to test patients where they are and provide rapid results of comparable quality to tests conducted using large instrumentation in a centralised lab system.

Again, consolidated networks are best placed to deploy these exciting, emerging innovations.

Overall, while there is much to be done over the next decade to achieve the goal of equitable healthcare across Sub-Saharan Africa, I am cautiously optimistic.

The building blocks are being laid as we speak of health systems funded primarily by the continent’s governments and peoples through universal health insurance schemes, supported where necessary by international and local private institutional capital and in selective areas, by development aid.

This is a long way from where we were a decade ago when I first arrived, a time when healthcare in Africa was still primarily funded by development aid and out-of-pocket payments of individuals.

We are admittedly still a fair distance away from fully reaching the goal.

But, if the governments, private sector, and international actors continue to work together and public health policy keeps apace with private capital flows and technological innovations, it is only a matter of time before we get there.