Guide for Investors in Private Health Care in Emerging Markets

International Finance Corporation
World Bank Group

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This guide uncovers market opportunities in the health sector and addresses investors' knowledge gaps to stimulate greater interest and investment in this important high-growth sector.

Foreword

Always present in every health care system, the contribution of the private health sector has grown rapidly in emerging markets, in particular over the last two decades. Although it remains fragmented, rapid consolidation has occurred in recent years, resulting in the emergence of a more corporate health care sector in many countries. Investors and financial institutions—which should constitute the major financing sources for the health sector—often have limited knowledge of the opportunities and risks pertinent to the sector. As a result, health care organizations, particularly small and medium enterprises, have limited access to financing to expand and improve their operations.

The *Guide for Investors in Private Health Care in Emerging Markets* shares our understanding of this market opportunity. It also consolidates the lessons IFC and its partners have learned about providing financing to the health sector, and discusses success factors in entering the market and growing sustainable and impactful activities. This guide can be used by investors and financial institutions that are considering entering this growth market for the first time or by those that want to formalize and expand their health sector investment strategy. I hope that it will stimulate higher levels of interest and investment in this important sector.

IFC is the largest multilateral investor in private health care in emerging and developing economies. Since 2002, we have provided more than US$1 billion of mainly debt and equity financing to over 80 projects in more than 30 countries. This support has enabled over $3 billion of investment in the private health sector. We are proud of our leadership role in financing socially responsible private health care in emerging economies.

Guy Ellena

Director
Health and Education, IFC

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About IFC

IFC, a member of the World Bank Group, creates opportunity for people to escape poverty and improve their lives. We foster sustainable economic growth in developing countries by supporting private sector development, mobilizing capital for private enterprise, and providing advisory and risk mitigation services to businesses and governments. For more information, visit www.ifc.org.

Acronyms

ATM	Automated teller machine
BANPRO	Banco de la Produccion
CT	Computed tomography
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EIU	Economist Intelligence Unit
GDP	Gross domestic product
GNI	Gross national income
HMO	Health maintenance organization
IPO	Initial public offering
MFI	Microfinance institution
MRI	Magnetic resonance imaging
OECD	Organization for Economic Cooperation and Development
PAR	Portfolio-at-risk
SME	Small and medium-sized enterprise
USAID	United States Agency for International Development
WHO	World Health Organization

Introduction

The private health sector is growing rapidly in emerging market countries. Across the developing world, people increasingly rely on private health care organizations to address their health needs. This trend will continue due to the fundamentals that drive demand – population growth, increasing life expectancy, growing disease burdens, and patients' demand for treatment.

As a result the private health sector in emerging markets can offer attractive returns to investors – from both commercial and social perspectives.

The sector is not without its challenges. Consequently, financial institutions, that often are unfamiliar with its characteristics and dynamics, perceive it as risky. As a result, many private health care organizations in developing countries, particularly small and medium-sized enterprises (SMEs), remain underfinanced and constrained from achieving their full potential.

The *Guide for Investors in Private Health Care in Emerging Markets* is intended primarily for potential investors and financiers, such as commercial banks, investment funds, microfinance institutions (MFIs), leasing companies, and other types of financial institutions. Reflecting the typical profile of the sector, the guide focuses mainly on health care SMEs. It aims to reveal potential market opportunities, to promote understanding of the most common business models, and to assist investors in how to identify opportunities and evaluate potential projects. It also discusses the most common risks and barriers that face investors in the sector as well as ways to manage these risks and overcome barriers.

In order to achieve these aims, the guide makes extensive use of practical case studies which draw from real-life experiences. Other sources of relevant information, including sector data and website resources, are included in the annexes.

IFC hopes, by sharing this relevant market intelligence and key insights and experience, to encourage greater investment in this important sector.

Opportunities and Trends in Investing in the Health Sector

Overview

This section provides an overview for financial institutions interested in learning more about the health sector. It defines the private health sector and discusses growth patterns and key business drivers, trends by subsector, and future outlook. It also outlines factors to determine the private health sector's scale and viability in a given country so that investors may identify the risks and take advantage of opportunities in this rapidly growing and capital-intensive sector.

The Composition of the Private Health Sector

A country's health care system consists of both the public and private sectors, with the private one increasingly complementing public services. While the size and responsibilities of the private sector varies by country, it is usually diverse, representing a broad range of for-profit businesses and not-for-profit organizations. The private health sector includes, among other types of businesses

- **health service providers:** primary care, hospitals, clinics, hospices, elderly and residential care, psychiatric care, occupational health, alternative medicine, traditional medicine, ambulances, diagnostic services, and telemedicine models
- **retailers and distributors:** pharmacies, drug shops, and pharmaceutical distributors
- **medical education and training institutes:** medical schools, nursing and paramedical schools, and eLearning platforms [1]
- **financing entities:** health management organizations (HMOs), medical plans, insurance companies, and other risk-pooling entities
- **manufacturing:** manufacturers of pharmaceuticals, medical supplies, medical equipment, and biosciences

While providing a brief overview of the health sector, the focus of this guide is on health service providers, which represent the largest area of health care spending. Pharmaceutical retailers and medical education companies are also briefly discussed. (Manufacturing and health financing/insurance entities are not covered in this guide.)

Key Insight

The private health sector is diverse, with financing needs ranging from small-scale to large capital investments. Investors need to be able to segment the market.

Health Service Providers

The most common types of health service providers are individuals and small- or medium-sized enterprises (SMEs), which can be further described in the following ways

- **medical professionals:** such as physicians, dentists, nurses, midwives, pharmacists, and other clinical professionals, often collectively referred to as "clinicians." These may be individuals who are employed or those working as sole practitioners.
- **clinics:** for example standalone primary care or outpatient facilities employing a small number of staff. Typically medical professionals, either a sole practitioner or a small group or partnership, own these businesses, although they may be owned or managed by non-clinicians.
- **hospitals:** these are more sophisticated health care facilities that are capable of performing more advanced tests and procedures and admitting patients overnight. Most private hospitals in developing countries have fewer than 50 beds. Hospitals generally provide inpatient and outpatient care and surgery and may have diagnostic capabilities and a pharmacy on the premises. They may

[1] In this guide the terms medical education and medical schools refer to training institutes for doctors, dentists and pharmacists, whereas medical training institutes and nursing schools refer to training institutes for nurses, midwives, and others.

be physician owned but it is increasingly common to have non-physician owners of private hospitals such as property developers, other types of entrepreneurs, and publicly traded company ownership.

- **diagnostic facilities:** while these services often are integrated within a hospital structure, it also is common for the private health sector to include standalone laboratories or other diagnostic facility business models.

While recognizing that not all health care businesses fit neatly into these categories, for the sake of clarity these definitions will be used throughout the report.

The Health Sector is Fragmented but Consolidating

In many countries the private health sector is highly fragmented, consisting of many small practices that are owned by medical professionals. In recent years and across all regions and areas of health care provision, the sector is becoming more consolidated, organized, and corporate. Striking evidence of this trend is the recent rise in multinational health care companies that are based in emerging markets. A comparison of publicly listed health care companies from around the world is in Annex 1. A surprising large proportion are located in emerging markets and many (particularly hospitals, specialist clinics, and laboratory businesses) are demonstrating rapid growth. Although this guide is intended primarily for investors in SMEs in the health sector, it is worth noting that some major companies have emerged from developing and transitional economies in recent years (including some that have expanded internationally). For example Fortis Healthcare Limited was established in India in 1993 and now claims to be Asia's largest private health care provider with a network of 68 hospitals.[2] Netcare Limited, established in South Africa in 1994, is now the owner of the largest private hospital network in South Africa and the United Kingdom.[3] The factors underlying this type of growth are discussed in more detail later. Figure 1 shows some of the key areas of health care provision and, for each category, examples of some of these fast-growing companies.

Key Insight

Of all the publicly listed health care companies in the world, the majority are based in emerging markets and many are demonstrating rapid growth.

[2] www.fortishealthcare.com (May 28, 2010).
[3] www.netcareinvestor.co.za (May 28, 2010).

Figure 1: Key Areas of Health Provision and Examples of Well-Established Commercial Health Care Businesses

Types of health service providers	Commercial health care companies	Location
General hospital groups	Netcare, Life Healthcare, and Mediclinic	South Africa (and abroad)
	Apollo Hospitals, Max India, and Fortis Healthcare	India
	Acibadem and Medical Park	Turkey
	Saudi German Hospitals	Saudi Arabia, Egypt, Yemen
	Rede D'Or	Brazil
	Columbia Asia	Malaysia, India, Vietnam, Indonesia
	United Family Hospitals and Clinics	China
	MedLife	Romania
	Hygeia Nigeria	Nigeria
Specialist hospitals	Wuhan Asia Heart Hospital	China
	Andalusia Women and Child Hospitals	Egypt
	Nairobi Women's Hospital	Kenya
Polyclinics	Integramedica	Chile
	Medicover	Poland, Romania
	MediClub	Azerbaijan, Georgia
Specialist clinics	Aier Eye Hospital	China
	Dunya Eye Hospitals	Turkey
	Magrabi Centers (ophthalmology)	Middle East
	Jiamei (dental)	China
	Euromedic International (dialysis)	Eastern Europe
	Asia Renal Care (dialysis)	East Asia
Primary care clinics	Healthway Medical	Singapore and China
Diagnostic facilities and laboratories	Al Borg Laboratory	Egypt
	Fleury	Brazil
	Euromedic International	Eastern Europe
Telemedicine	Teleradiology Solutions	India
Pharmaceutical distributors/ retailers	Aversi	Georgia
	Mercury Drug Corporation	Philippines
	Farmacias Cruz Verde	Chile
Medical schools	University of Science and Technology	Yemen
	Batterjee Medical College	Saudi Arabia
Nursing schools	De La Salle Health Sciences Institute	Philippines
	Mayanja Memorial Training Institute	Uganda

Factors Behind Health Sector Growth

Worldwide the health sector is growing steadily – even in the face of the broader economic downturn. Strikingly, the sector is growing faster than gross domestic product (GDP) and population growth.[4] In countries belonging to the Organization for Economic Cooperation and Development[5] (OECD), between 1960 and 2006 the annual growth rate in the health care sector averaged 2 percent more than GDP.[6] And according to the World Health Organization (WHO), between 1995 and 2005 health expenditures worldwide doubled from $2.6 to $5.1 trillion.[7]

Despite the economic slowdown in 2009, total global health care expenditures continue to move upward, currently accounting for 10 percent of global GDP.[8] While regions the recession affected experienced a temporary decline in actual spending, the Economist Intelligence Unit (EIU) expects the sector to rebound quickly. Figure 2 shows forecasted health care spending by region between 2008 and 2014.

impacting demand for health care. For example, 80 percent of the world's smokers live in developing countries – a factor already having a profound affect on people's health. Developing countries already now account for 80 percent of worldwide deaths from chronic diseases (which in turn account for 60 percent of deaths globally).[10] And many are impacted by also facing increasing prevalence of infectious diseases such as HIV/AIDS and tuberculosis. Additional drivers of demand include increased income levels (and ability to pay for care), as well as increased expectations as a result of greater travel and access to media and information.

Growth of the Private Health Care Sector

While the health sector is growing as a whole, it is important for prospective investors to examine growth in the private health sector specifically. It is increasingly clear that many governments, particularly in low- and middle-income countries, lack the resources to meet their country's health care needs, resulting in unmet demand for health services.

Figure 2: Health Care Spending by Region (in U.S. dollars, billions)

	2008	2009	2010	2011	2012	2013	2014	Healthcare CAGR (%)
North America	2,487.2	2,463	2,525	2,615	2,725	2,855	2,999	2.7
Western Europe	1,767	1,648	1,718	1,756	1,848	1,937	2,018	1.9
Eastern and Central Europe	184	144	168	183	207	230	258	5.0
Asia and Australasia	866	902	1019	1116	1227	1352	1475	7.9
Latin America	277	247	280	293	317	345	376	4.5
Middle East and Africa	75	75	81	83	89	97	112	5.8
Worldwide [9]	5,655	5,478	5,788	6,045	6,410	6,813	7,235	3.6

Source: Economist Intelligence Unit, World Industry Outlook: Healthcare and Pharmaceuticals, 2010. CAGR: Compound annual growth rate.

Based on the EIU forecasts, Asia and Australasia region is expected to experience the most rapid growth, together with the transition economies of Eastern and Central Europe. Health care spending in the Middle East and Africa should continue rising consistently. The forecasts in Figure 2 indicate that in the transition economies of Eastern and Central Europe, health expenditures will increase by more than 50 percent (from $168 to $258 billion) between 2010 and 2014, more than 40 percent in the Middle East and Africa, more than 40 percent in Asia and Australasia, and by nearly 35 percent in Latin America.

An aging and growing global population places new demands on health systems worldwide. Changing lifestyles are also

Consequently private markets for health care are growing. The private sector in many countries is becoming patients' preferred choice because of greater accessibility, a higher perceived quality of services, the continuity of care it offers, and the availability of drugs. (In many places, people are known to bypass "free" public health facilities in order to access private facilities.)

One important indicator of the significance of an expanding private health care market is health expenditure data, which describe the volume of funds being channeled to the health sector from different sources, including private and out-of-pocket payments.[11] High out-of-pocket payments usually reflect a high level of market activity and private provision

[4] World Health Organization 2008b.

[5] Thirty countries comprise the OECD, most of which have high-income, developed economies.

[6] Henke and Simon 2009.

[7] The WHO is the directing and coordinating authority for health within the United Nations system. Among other responsibilities it provides leadership on global health, sets norms and standards, articulates policy options, provides technical support to countries, monitors and assesses health trends, and collects and assesses health system information (such as expenditures).

[8] Economist Intelligence Unit 2010a.

[9] Sum of the 60 countries the Economist Intelligence Unit's industry service covers.

[10] World Health Organization, 2008a.

[11] Total expenditure on health comprises the funds mobilized by the system, being the sum of government and private expenditure on health. Private expenditure on health is the sum of outlays for health by private entities, such as commercial or mutual health insurance providers, non-profit institutions serving households, corporations, and direct household out-of-pocket payments. Out-of-pocket spending is the direct outlay of households, including gratuities and payments in kind, made to public- and private-sector health practitioners and suppliers of pharmaceuticals and medical supplies.

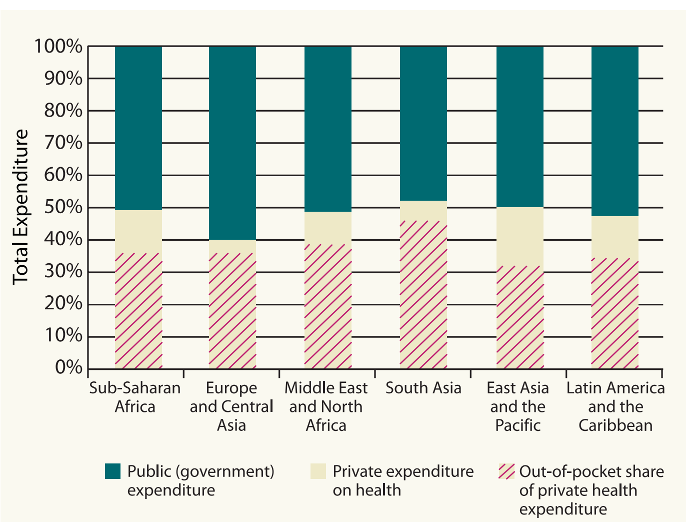
Key Insight

Health sector growth is driven by

- economic growth
- rising consumer incomes and a corresponding ability to purchase health care
- population growth worldwide
- extended life expectancy
- a shifting disease burden, which also is growing in some areas
- the emergence of advanced medical treatments and technologies

of health services, although user fees and payments also can be made to public-sector facilities.[12] As Figure 3 shows, in most regions private and out-of-pocket expenditures comprise around 50 percent of total health spending. And in many countries, private spending represents well more than 50 percent of total expenditures (see Figure 4). Out-of-pocket spending represents 80 percent or more of private health spending in some countries, including India, Nigeria, Georgia, Guatemala, and Vietnam. (See Annex 2 for a breakdown of health spending by country.)

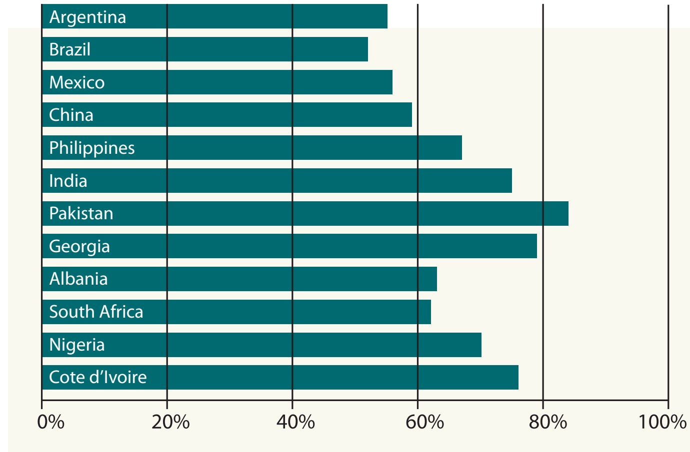
Figure 3: Private and Out-of-Pocket Expenditures Represent a Significant Share of Total Expenditures in All Regions



Source: World Health Organization, World Health Statistics Report, 2009.

[12] Lagomarsino, Nachuk, and Kundra 2009.

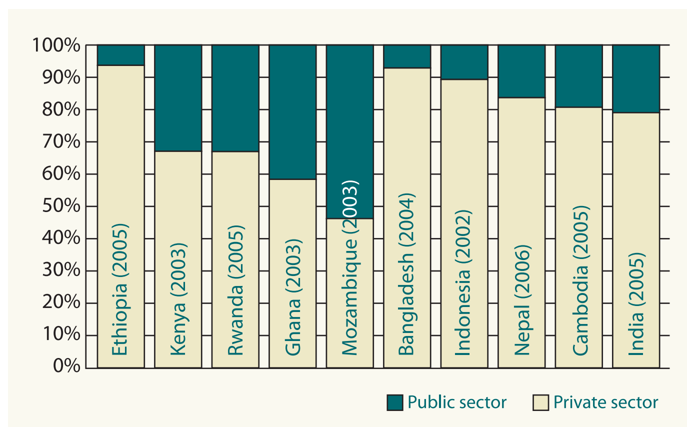
Figure 4: Private Health Expenditures Make Up More than 50 Percent of Total Health Expenditures in Many Countries



Source: World Health Organization, World Health Statistics Report, 2009.

Surveys about where people receive health services also reveal trends on the prominence of the private health sector. In a recent study of sub-Saharan African and Asian countries, more than 60 percent of women delivered a child in the private sector in most of the countries studied. (See Figure 5 for a selection of these countries.)

Figure 5: Percentage of Mothers Giving Birth in the Private Sector



Source: Limwattananon, Private-Public Mix in Woman and Child Health in Low-Income Countries: An Analysis of Demographic and Health Surveys, 2008.

Emerging Trends within the Private Health Sector

Potential investors should be aware that key subsectors within the health care industry present different types of opportunities. As previously mentioned, an overarching trend is that the industry is becoming more corporate, with dynamic, multinational health companies emerging from developing and transitional economies.

Given the increasing demand worldwide for health services, including diagnostic treatment and care, **health service providers** represent the largest investment opportunity within the industry (and accordingly are the focus of this guide). Growth opportunities exist throughout the spectrum of health service providers, including large facilities that use cutting-edge technology and promote medical tourism; medium-size, low-cost, high-efficiency hospitals that serve a range of income groups; and medical professionals in solo practice. Increasingly governments are outsourcing services to private health service providers, expanding their market share – and their need for financing. There are indications that compared to other actors in the health sector, health service providers, particularly those that offer local essential services (such as SME and nurse- and physician-owned practices), tend to be less affected by economic downturns.[13]

Although financial crises may affect the **pharmaceutical industry** more directly than other subsectors of the health sector, it appears to return to pre-crisis levels quickly.[14] The average global annual growth in pharmaceutical sales (an important marker of overall health care spending trends) is expected to reach 6 percent by 2014, resulting in sales worth $1.1 trillion.[15] The highest growth in this subsector is expected to occur in high-growth economies such as China, India, Brazil, Mexico, Turkey, and Russia—mainly as a result of rising disposable income in these countries, increased consumers' ability to pay (including the expansion of health insurance in these countries), as well as demographic and lifestyle changes.

Within the pharmaceutical industry, medical **supply distribution companies**, which ensure that medical products are accessible, show strong potential to absorb investments. The private sector is largely responsible for managing the sophisticated and efficient supply channels in OECD countries, which are characterized by wholesale and retail distribution firms, transportation companies, and retail outlets. In contrast, the private sector is undercapitalized in many low- and middle-income countries where distribution systems are inefficient, fragmented, and limited in scale.[16] Yet, these systems are vital carriers of products and may offer significant opportunities for investors. For example, it is estimated that more than $10 billion of donor-funded health commodities, such as drugs and other medical supplies, will flow through low- and middle-income countries during 2011.[17]

Medical education and clinical training in most low- and middle-income countries is lacking; without adequate infrastructure, public and private institutions are unable to produce a large, qualified health workforce to respond to emerging health care needs.[18] Increasingly, however, in many of these countries the private sector is taking a lead role in meeting demand for technical and vocational training, including medical education. Data from different regions demonstrate this trend.[19]

- In Argentina, Chile, and Peru there was a 60 to 70 percent increase in the number of medical schools between 1992 and 2000, resulting from a growing private sector.
- In India's state of Karnataka, 15 of 19 medical colleges are private. In the Philippines, as of 2004, 307 of 332 nursing schools were private institutions.
- In the Democratic Republic of the Congo, between 2001 and 2003 the number of medical and nursing graduates doubled, largely as a result of private-sector–led efforts.

With health professionals in most low- and middle-income countries in great demand, public-private partnerships in medical education are emerging and supporting this subsector's growth. In Uganda, the government funds tuition for approximately 40 percent of students who are enrolled in private not-for-profit medical training institutes. These institutes produce the majority of Uganda's primary health care staff.[20]

The Private Health Sector is Underfinanced in Many Markets

Stark Contrast Between Developed Markets and Developing Countries

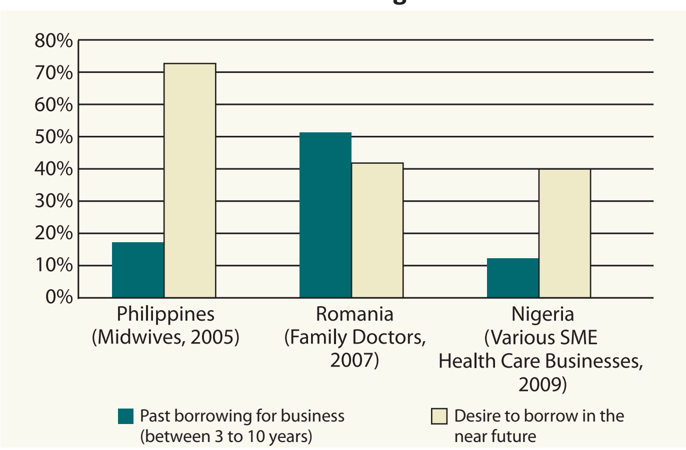
Despite its growth and potential, in most emerging and developing economies many private health sector entities struggle to obtain financing. In contrast, capital markets are well developed for the health care sector in Europe and other OECD countries.

13 Henke and Simon 2009.
14 Economist Intelligence Unit 2010.
15 Ibid.
16 The World Bank defines low-income countries as having gross national income (GNI) per capita of $975 or less. Lower-middle–income countries have GNI per capita of $976 to $3,855. Upper-middle–income countries have GNI per capita between $3,856 and $11,905. High-income countries have GNI of $11,906 and greater. The World Bank classifies all low- and middle-income countries as developing countries.
17 Ballou-Aares et al. 2008.
18 World Health Organization 2006.
19 Ibid.
20 Government of Uganda Ministry of Health 2009.

Referring to stock performances, *The Wall Street Journal Europe* reported "of the 45 European sponsor-backed initial public offerings (IPOs) since the start of 2007 there were seven health care companies in the top half of the list in performance terms, more than any other sector."[21] In the United States, health-sector stocks comprise 8 percent of the Dow Jones market value.[22] In emerging and developing countries, most financial institutions have yet to awaken to this market opportunity.

Across regions private health care business owners desire financing to expand their practices and upgrade their technologies, yet financial institutions are not meeting this demand. Data from the Philippines, Romania, and Nigeria (Figure 6) indicate that between 40 and 70 percent of surveyed private health care business owners intend to apply for a loan in the near future, with past borrowing particularly rare in Nigeria and the Philippines.[23] (See Annex 3 for resources on private health care markets in a select number of countries.)

Figure 6: Private Health Care Businesses' Past Borrowing and Intention to Access Financing



Source: Market research by the Banking on Health Project, 2004-2009.

Benefits of Investing in the Health Sector

There are many tangible benefits of investing in the health sector. These include:

Expansion into strong, high-growth market

The health sector presents a growing and untapped market opportunity for many investors. There is demand for financing by the full range of health care businesses–small and large in scale, local and regional in presence – signaling strong opportunities for investors of all sizes. For instance, in Sub-Saharan Africa financing needs of health service providers typically range from around $1,000 for working capital, medical equipment, and renovations for small clinics to $250,000 for starting a multispecialty hospital to $3 million for building state-of-the-art diagnostic laboratories.[24] There is room for commercial banks, MFIs, and private investors to enter this market by targeting their financial services to potential borrowers that best meet their financing goals.

Relationships with stable SME borrowers

For most health care businesses, their key asset is their clientele (especially for local service providers). The success of medical practitioners in solo practice and small and medium-sized health facilities usually depends on long-term client relationships and a strong local reputation. Typically, these businesses are run by health professionals, such as doctors, nurses, and midwives, who tend to have spent years investing in their training. Building local goodwill and respect is crucial to their business success. Experience suggests that these professionals are, in general, unlikely to abandon their practices and are ill-equipped for leaving for other businesses or professions. In practical terms, these factors imply that medical practitioners in solo practice and health sector SMEs are less likely than many other entrepreneurs to default on their loan obligations – and anecdotal evidence suggests that this is largely true.

Differentiation in competitive markets

Beyond growing their total portfolio, investments in the health sector can help financial institutions to differentiate their services from those of their competitors, giving them an important strategic advantage in highly competitive markets. (See the case study on Stanbic Bank in Uganda.)

Diversification of portfolios and institutional risk

A sizable health portfolio can help financial institutions to diversify their overall portfolios and manage their institutional risk. Traditionally most financial institutions have not invested in the health sector in a significant way. When financial institutions have done so, however,

21 Smiddy 2009.

22 Bloomberg.

23 In the Philippines the survey was administered to 513 midwives, in Romania it was administered to 1,215 family doctors, and in Nigeria it was administered to 1,773 private providers (including medical doctors, patent medical vendors, nurses and midwives, and pharmacists).

24 These estimates are based on market research surveys targeted to small-scale providers in Uganda (2006), Nigeria (2007), and Zambia (2009) by the United States Agency for International development (USAID)-funded Banking on Health project and drawn from IFC's research (2007) on the higher end of the market in sub-Saharan Africa.

their experiences have confirmed the credit-worthiness of individual borrowers – especially medical professionals and small clinics – and the broader risk-management function that a sizable health-sector portfolio can achieve, which can be useful during a financial downturn. (See the case study on managing portfolio risk in Romania.)

Case Study of Stanbic Bank, Uganda – Health Sector Asset-Financing Product Differentiates It from the Competition

Stanbic Bank in Uganda branded and marketed its asset-financing products for the health sector, in light of efforts by competitive banks to aggressively launch similar lease financing facilities. This initiative gave Stanbic Bank an early competitive edge on the equipment leasing market in Uganda.

Development impact

Private health care providers can make important contributions to the welfare of society. They increase access to health services and they often raise the standards of locally available health care. Private health care businesses provide employment and training for health professionals. It is common for health care businesses and medical professionals to be leaders in social and charitable endeavors. For many people in developing countries, private health care providers represent their only option, particularly when public health care provision is inaccessible. Investors supporting such providers with financing can enhance their reputation and social standing.

Key Barriers Facing Investors in the Health Sector

A number of factors constrain investment and increase investors' perceptions of risk in the health sector.

- **Lack of market information:** As many financial institutions have not invested in the health sector, they often have limited information on the size of the market; its financing needs; and the risks, opportunities, and trends. This guide is designed to help investors to address this information gap.
- **Fragmented nature of the sector:** Although consolidation and corporatization are expanding investment opportunities for investors, the private health sector in most emerging markets remains highly fragmented and is dominated by small health care businesses. (For example, while India has seen the emergence of several major world-class hospital groups, according to some estimates up to 85 percent of the country's hospital beds are still in small facilities of fewer than 30 beds.)

Case Study on Managing Portfolio Risk through High-Performing Health-Sector Loans in Romania

Four financial institutions in Romania expanded into the health sector and quickly experienced its risk-mitigation effect on their overall portfolios. These institutions received technical assistance from the United States Agency for International Development (USAID)-funded Banking on Health project that paved their entry to this market, including supplying market research on the needs of private health facilities and advice on tailoring their financial products. Between 2007 and 2008, the cumulative loan portfolio of these institutions grew from $19 million to more than $195 million. When the global financial crisis hit Romania in late 2008, these health portfolios helped the institutions to survive the downturn. Health care facilities have relatively constant demand for their services and are not reliant on external markets, which can make them relatively stable borrowers. When there is a dip in the economy, people may lose their health insurance and they have less to spend on health care. Yet there is a tendency for the sector to be more resilient than other sectors. Consequently borrowers in the health field in Romania continued to make repayments when most other sectors, from export-led businesses to real estate, faltered. [25]

[25] Tarantino and Doiciu 2009.

- **Lack of transparency:** The private health sector in many developing countries is characterized by low levels of transparency. For example, many businesses do not keep accurate financial records or even have clear ownership. Income (and expenditure also) is frequently unreported. Similarly, health professionals may rely on informal (or "under-the-table") payments, which usually are not declared. This is particularly the case in countries where there are high out-of-pocket payments.
- **Ethical concerns:** Unfortunately, the private health sector in some countries is characterized by uneven ethical standards. At its most basic level this encourages over-diagnosis, over-prescribing, over-treatment, and overcharging. Other illicit practices conducted by private health care providers may include sales of counterfeit drugs, organ trading, illegal gender selection, and female circumcision. Clearly, such practices discourage investors who value ethical practices and their reputation.
- **Limited business and financial management capacity:** Clinicians who do not have a business background often own health care businesses. Investors cite limited management capacity as a risk in the sector – and it is a key barrier to business growth.
- **Concerns about collateral:** Many investors complain about the type of collateral that health service providers offer, including facilities and specialized medical equipment. The next section of the guide will discuss this concern in more detail.
- **Long-term investments:** Due to the nature of the business, many health service providers require longer-term investments, particularly in the case of equity or project financing for larger organizations such as hospitals. Investors in emerging markets identify greater risk with longer-term investments.
- **High profile project failures:** There have been high-profile failures in the health sector. Investing in hospital infrastructure is costly and risky, particularly with large greenfield sites where there is a high failure rate. These publicized failures make investors cautious of the sector.

Before entering the market, potential investors should weigh these risks and consider risk mitigating strategies.

Factors Affecting Investment Opportunities in the Private Health Sector

Investors interested in the health care sector should look for these factors that signal market opportunities before investing.

- **Economic stability and growth:** A key determinant of the strength of the private health sector is the broader economic environment, including GDP, trading incentives or barriers, and the investment climate.
- **Human resources:** The availability of qualified staff is a key determinant in the size, viability, and growth rate of the private health sector.
- **Government policy toward the private health sector:** Regulations can support or hinder the growth of the private health sector. For example, tax incentives for new health care businesses, clarity of regulations, availability of licenses, and flexibility of hiring medical staff are conducive to the growth of the private health sector. Conversely, other regulations, such as unclear requirements for opening clinics, price controls, and ownership restrictions are likely to inhibit entry and competition. Government funding and contracts to the private health sector is an important indicator of its strength and potential. For instance, many governments are now contracting with the private sector to offer health services.
- **Private expenditures in the health sector:** High levels of funding from private sources, including employer contributions and user fees, are indicators of a strong private health care market. The availability and maturity of private health insurance is also a key indicator. (See Annex 2 for health expenditure data by country.)
- **Utilization of health services in the private sector:** The extent to which a community or population segment accesses health care in the private sector is a clear marker of its scale and potential. For example, the existence of overcrowded, small-scale health facilities and pharmaceutical retail outlets can signal an investment opportunity for expansion and consolidation.

This section of the guide has outlined trends in the growing health sector, discussed risks, and explored opportunities so investors can make informed decisions before entering the market. The remaining sections of the guide provide potential investors with the tools they need to market to and assess health-sector investments.

Key Insight

Prospective health sector investors should understand their local market. Defined local market characteristics determine the nature and scale of risks and opportunities in the private health sector.

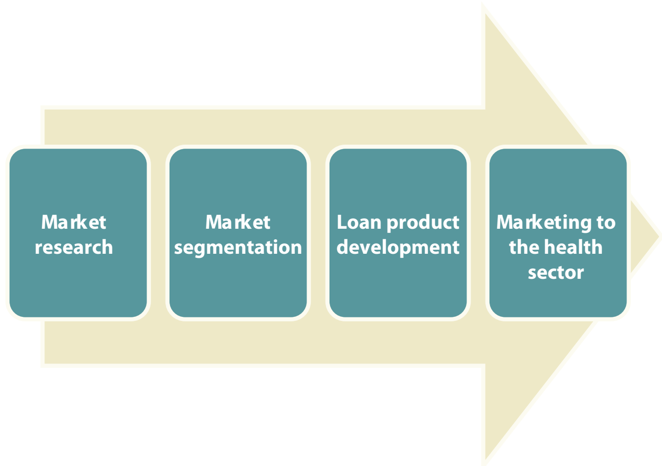
Marketing to the Private Health Sector

Understanding the Market is a Key to Success

This guide's previous section established that the private health sector is growing and offers attractive market opportunities for financial institutions looking to expand their market share, build a new and reliable client base, differentiate themselves from their competitors, and diversify their portfolios to better manage risk. This section provides investors with techniques to understand and market to the private health sector as a first step in expanding financing to it. Specifically it discusses market research, market segmentation, product development, and marketing techniques for reaching the private health sector.

Investors must consider their overall investment strategy, institutional capacity, and market factors before expanding into this new market. Strategic considerations for entering the health market often include profitability, market-penetration goals, risk diversification, corporate image, and social-welfare motivation. When assessing institutional capacity, an organization should look critically at its human resources, funding capacity, and delivery channels. Institutional strategy and capacity should be matched with market opportunities in the health sector. The figure below depicts the process a financial institution may take to approach the health care market.

Figure 7: Approaching the Health Care Market

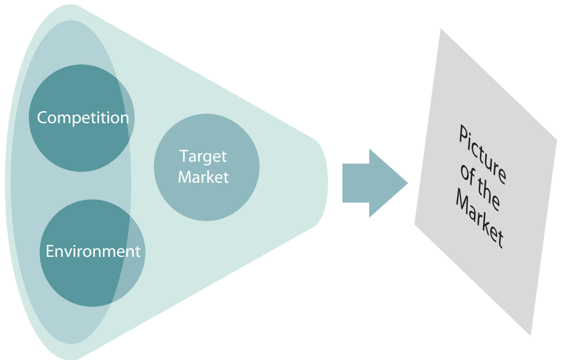


Market Research Techniques

Financial institutions should use market research as a first step to understanding the health sector. Market research is a systematic, objective collection and analysis of information to make decisions about marketing, product development, and entering a new market. Market research can help a new investor in the private health sector to

- make tactical and relevant decisions
- decide whether and how to enter the health market
- develop and refine a new product
- establish market share and profitability
- understand risks and develop mitigating strategies

Figure 8: Picture of the Market



Investors use market research to determine the three key pieces of information, depicted in the figure above, to form a useful picture of the health care market.

1. **Target Market** – What is the market size? What types of businesses characterize this new market? What are their needs and behaviors?

   Most financial institutions can begin their research by seeking **publicly available secondary sources of information** to understand the size and nature of the private health sector. Useful sources include business registration statistics found at commerce chambers or health authorities. There may be a public list of health care service providers working under contract with the government or that have been approved to participate in a government insurance scheme. Because government data often is incomplete or outdated, however, institutions may need to look for other sources. Professional and industry associations may be able to share information about their private-sector members. In addition a number of recent national market studies attempt to define the financing needs of the private sector. (See Annex 3: Resources for Market Information and Statistics.)

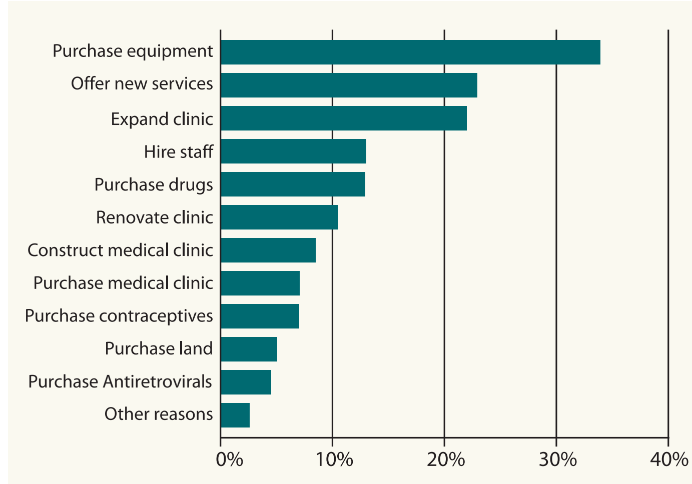
A second step in understanding the market is to seek primary sources of information, beginning with **qualitative research techniques** such as interviews with experts who work in the health care market. Commercial banks can scan their portfolios to identify private health care businesses and talk to them individually or in groups about their credit needs and trends in health care. Professional and industry associations can be excellent sources of information. While they may not have financial data, they may be able to describe business models, the size of the private sector in their field, trends in regulation and business practices, and the challenges and opportunities their members experience. These techniques can give institutions important soft information that indicates the risks and opportunities in the market as well as behavioral characteristics of potential borrowers.

Institutions considering a large investment in this market may choose to put money into **quantitative market research.** Quantitative research can give an institution a reading on the size of the market, nature of the businesses, financing needs, and repayment abilities among other information. The following charts are excerpts from the results of different types of surveys about private health service SMEs in low-income countries. Figure 9 shows the financing needs of health care SMEs in Zambia. Figure 10 shows the availability of collateral among private health care businesses in Nigeria.

2. **Competition** – What are competitors' strengths, weaknesses, and market positions?

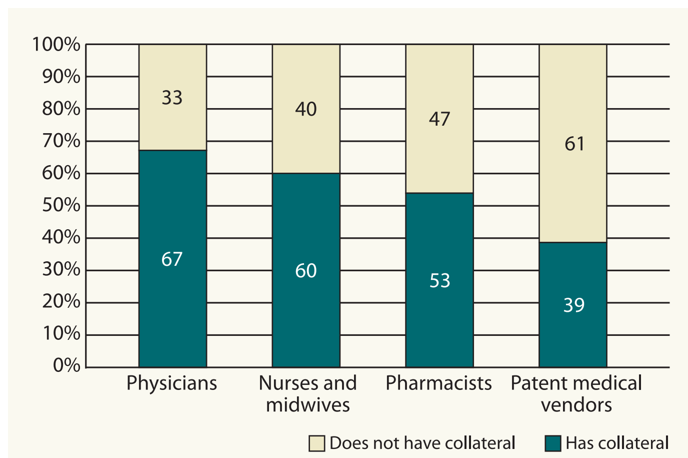
   In most markets health sector SMEs appear to be underfinanced. But financial institutions are beginning to penetrate the sector. Information on competition can be gathered using the qualitative and quantitative research described previously. It is likely, however, that in many instances health care businesses' main sources of financing are not commercial financial institutions but rather owners' equity, medical equipment leases, and supplier credit.

Figure 9: Intended Purpose of Future Loans Among Private Health Service SMEs in Zambia (2007)



Source: McKeon, Financing and Business Development Needs of Private Health Care Providers in Zambia: Market Research Report, 2007.

Figure 10: Private Health Care Businesses' Ability to Offer Collateral in Nigeria



Source: McKeon, The Banking on Health Project End of Project Report 2009.

3. **Environment** – What is the political and economic situation and what are the expected trends? What are the regulatory considerations? What are the growth expectations?

   Economic trends and political considerations can be assessed using publicly available information such as government statistics and public announcements on planned health reform. Information on regulatory considerations and other policy issues impacting the financing of health businesses also can be gathered in interviews with associations and government representatives and in discussions with private health care business owners.

Market Segmentation

The health sector consists of a broad range of different size businesses with diverse financing needs. After conducting market research, a financial institution should consider segmenting the market to identify priority subsectors and how to approach them. Market segmentation is the process of dividing a market into smaller groups based on certain criteria and defining potential customer groups to target.

Banks often segment a market to identify the most attractive subsector based on the market's financing needs and the institution's capacity and strategy. This technique allows banks and other investors to focus their marketing efforts. The health sector can be segmented according to business types, annual turnover, asset size, demographic characteristics, geographic location, behavioral characteristics, and buying behavior to name a few criteria.

Investors can segment the health sector market to

- identify financing needs
- align entry into the health sector with the institution's strategic direction
- develop financial products and identify existing ones that meet the health sector's needs
- employ effective marketing techniques

Figure 11 segments the SME health sector in Nigeria by business type and relates it to financing needs.

Key Insight

Investors may need to adapt their financial products to meet the needs of the health sector.

Product Development for the Private Health Sector

Private health care businesses, and service providers in particular, respond well to financial products designed and marketed to address their needs.

It is important for investors, once the target market is understood, to evaluate whether the financial institution's products meet the needs of the health sector (or subsector). It is possible that current products do, in which case minor adjustments, rebranding, or employing new marketing techniques may be all that is necessary to reach out to the health care market.

Often, however, the financing needs of the health care sector require a new product be developed or that an existing one be augmented. In these cases an institution should adhere to its current product-development techniques with a special eye on the needs of the market. In this section "financial products" refers primarily to loans. These principles of product development for the health sector, however, also apply to other important financial products such as equity products, leasing, and factoring.

Figure 11: Select Market Segments in Nigeria and their Financing Needs

	Physician Practices	Nurse / midwife Practices	Pharmacies	Licensed drug shops
Number who indicated interest in applying for loan	156	201	176	349
Median amount they would like to borrow for business	$15,385	$11,538	$6,154	$3,846

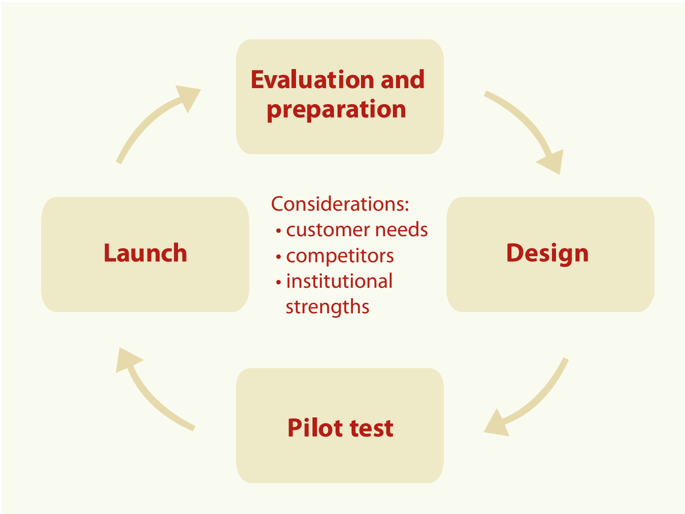
Source: McKeon, The Banking on Health Project End of Project Report, 2009.

Key Insight

Investors should segment the health market by size and business type to match their financial institution's capacity, strategy, and financial products to the most appropriate subsector.

The following figure depicts a typical product-development process for a financial institution.

Figure 12: The Financial Product Development Process

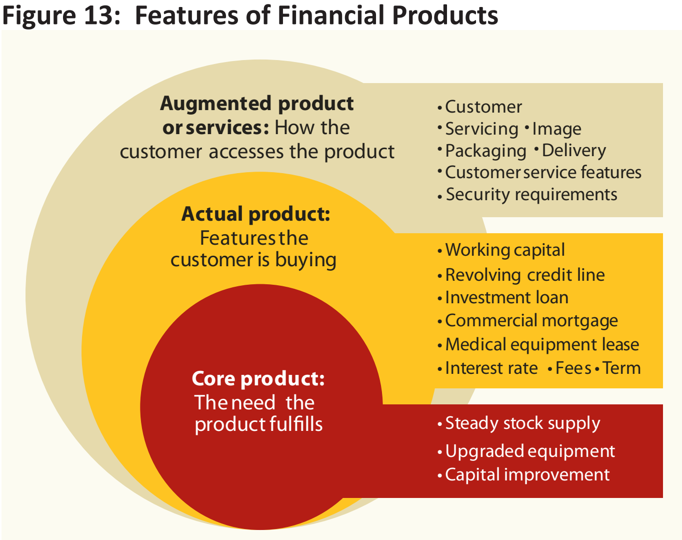


There are three components of a loan product:

- core product
- actual product
- augmented product or service

Figure 13 depicts these features as well as examples of health sector product features.

Figure 13: Features of Financial Products



Source: Banking on Health, Marketing and Product Development for the Small Scale Health Sector, 2007.

Core product – the reason why a business needs financing (the benefit and need it fulfills). In the case of health care businesses, needs vary. Examples include

- pharmacies – a steady supply of stock
- laboratories – upgraded equipment
- midwives – a vehicle to transport patients
- hospitals – a new wing to accommodate additional beds and surgeries

Actual product – the specific features of what the customer is buying (the basic product characteristics). It usually encompasses the product's features such as its pricing, terms, and name. In the case of health-sector businesses, the actual products needed could include

- working capital loans
- term loans
- commercial mortgage loans
- leasing
- factoring
- equity investment

Augmented product or service – how the customer accesses the product (the way in which it is packaged, delivered, and serviced, including its brand name). This component also may include special requirements that the customer must fulfill. For financial services it could include features such as the turnaround time for applications and disbursements, withdrawal conditions for deposits, guarantees required, ancillary services, marketing features (such as image), and customer service. Creative investors that are responsive to the health sector's characteristics and needs when thinking about augmented product features are likely to be successful.

Case Study of Fidelity Bank, Nigeria: Creating a Pharmacy Loan Product

Fidelity Bank developed a working-capital loan product for pharmacies that needed funds to augment poor credit terms from distributors. Fidelity Bank sought to market to this sector and mitigate its risk by partnering with the Community Pharmacists Association of Nigeria. The association vetted pharmacists applying for loans for their character and ability to repay and then provided recommendations for credit approval to Fidelity Bank. Association members perceived this process as a benefit of their membership. Approved pharmacies then obtained working capital loans up to a specified amount without collateral from Fidelity Bank. In the case of a loan default, the Community Pharmacists Association of Nigeria agreed to purchase back all of the pharmacist's supplies and otherwise repay the outstanding amount of the loan to the bank. In this case the core product was steady stock supply; the actual product was a working capital loan; and the augmented product feature was the marketing, delivery, and provision of security through the association affiliation.

Examples of augmented products or services for the health sector include

- branding with medical-sector references, such as "physician loans" or "pharmacy loans"
- using medical associations to market bank products, including distributing information and applications
- providing business advice with loans for solo medical professional practices and health care SMEs
- quick turnaround times and reduced collateral requirements for loans under a specified amount for certain types of health care businesses

Case Study of Banco Industrial e Comercial (BICBANCO) Brazil: Developing a Working-Capital Loan Product for Clinics and Hospitals Working with Brazil's Universal Health System

BICBANCO is a leading Brazilian midsized bank, which has a nationwide presence with 39 branches in all regions of Brazil. BICBANCO began lending to clinics and small hospitals contracted by the government to provide health services. By sharing the positive experience of lending to this underfinanced sector across its branch network, the business grew within the bank. Now BIC has a sizable portfolio of working-capital loans to clinics and small hospitals backed by government receivables. The government is a reliable payer, thus the loans are perceived as low-risk assets backed by strong receivables.

This type of product can be attractive to banks looking for low-risk, working-capital loan portfolio expansion. It also can be a good first step for investors to begin financing the market and gain experience with health-service-provider business models.

The case studies of Fidelity Bank on the previous page and BICBANCO on this page illustrate two different commercial banks' approaches to loan product development for the health sector."

Marketing Techniques for Reaching the Private Health Care Sector

In addition to developing loan products, financial institutions should consider a number of marketing techniques that have been effective for investors in the private health sector. Key techniques for marketing to the health sector are depicted in Figure 14.

Figure 14: Marketing Techniques for Financing the Private Health Sector

Specialized marketing channels

Provider associations, industry publications, and health-sector events can be ideal marketing venues and may yield more cost-effective results than mass marketing. Commercial banks can form alliances with provider associations by giving special terms for association and member accounts. Association meetings and other health-sector events can be opportunities to advertise or talk to providers in an environment where they are comfortable to ask questions and are thinking about the growth of their practices. Investors can sponsor events for the industry too, such as workshops on business planning or accessing financing. The photo on this page shows a banker discussing financial services with private health care business owners after a training session in Peru.

Customized marketing image

Market research has shown that private health care businesses believe it is important that their bank is trustworthy, is stable, and understands the needs of the health sector. Clinicians who own health-service SMEs often feel more comfortable with an investor that understands their sector. Pictured here are health-sector marketing materials from Opportunity Microcredit Romania and Edyficar, an MFI in Peru.

Marketing material, Opportunity Microcredit Romania, Romania

Marketing material, Edyficar, Peru

Investing in human resources

Financial institutions interested in entering the health care market should consider investing in the human resources necessary to meet the needs of this sector. Loan and investment officers need to "speak the language" of the health sector; they should have a basic understanding of the business models, common equipment and supply needs, and unique business environment in which health care businesses operate.

The following is a case study of how a bank in Nicaragua invested in human resources to reach the private health sector.

Case Study of Banco de la Produccion (BANPRO), Nicaragua: Invested in Training

BANPRO, a medium-sized bank in Nicaragua, became interested in financing the private health sector after health reforms resulted in the Social Security Institute contracting public and private institutions to provide health services. The bank had little experience in lending to the sector and was concerned about profitability, the risk of default, and its ability to value and take collateral. Even after the bank signed a partial loan-portfolio guarantee for the health sector, more than six months passed without it making a loan.

The executive director decided to enroll personnel in a three-day course entitled Lending to the Private Health Sector: Myths and Realities, which covered an overview of the Social Security Institute's capitated health care plan, hospitals that contract to provide services through the plan, risks and opportunities in the sector, financial analysis tools, benchmarking, market segmentation, and a site visit to a small hospital. Senior management participated, including the bank's executive director and head of credit, as did credit officers from several branches. Once upper management and staff had a better understanding of the sector, the risks and opportunities, and a deeper knowledge of the business models, its comfort level rose, as did its ability to communicate with private hospital managers and evaluate their businesses. Within a month of the training, the bank made its first loan to a health care business. With that training and continued dialogue with health-sector stakeholders, the bank stayed abreast of happenings in the sector and increased its portfolio to more than $5 million over the next four years. This expansion into the health sector proved to be a stable line of business for the bank.

Assessing Health Sector Investments

Overview

The previous section describes important techniques for understanding and marketing to the private health sector. This section provides investors with guidelines and customizable tools for assessing health-sector investment opportunities. These include the Five Cs of Credit for the health sector, benchmarking health-sector investments, guidelines and indicators for assessing quality, customized credit-analysis techniques, and site-visit guidelines. These considerations are not exhaustive, rather they highlight features for analysis that are important and unique to the health sector. Financial institutions should develop their own analysis techniques taking the following guidelines into account.

The Five Cs of Credit

Many financial institutions use the Five Cs of Credit (or an adaptation thereof) as the backbone for their SME credit analysis. This section reviews the Five Cs of Credit, focusing on unique characteristics of health care businesses.

Character

Definition: This attribute measures the integrity and trustworthiness of a potential borrower. Education; experience in business and in the sector; references; transparency; and willingness to discuss problems, risks, and concerns should be factored into the assessment.

The Five Cs of Credit

- ☑ Character
- ☑ Capacity
- ☑ Capital
- ☑ Conditions
- ☑ Collateral

Unique characteristics of health care businesses: Bankers often are surprised at how high their health care clients rank on character in the 5 Cs assessment, particularly medical professionals in solo practice and small clinician-owned clinics. Many health care businesses are owned by doctors or other highly educated professionals, who are well known and respected members of their communities. Health care business owners often are active in professional associations (such as a medical practitioners association or pharmaceutical society), which can provide a reference or background information on the prospective client.

In many countries clinicians are required to work in the public sector before going into private practice, giving them time to hone their clinical skills and make important connections in the community and in their sector. For many health care businesses, word of mouth is their most important source of new clients. These reputation-based businesses depend on their good name to market their services; as a result their owners generally cannot afford to shut them down and relocate to avoid repaying a loan.

Because of the nature of the services offered by these businesses, banks and other investors may have concerns about the risks of health care borrowers engaging in unethical or unsavory practices and the resultant reputational risk to their institutions. In these cases, investors may adopt a practice of asking borrowers to sign a code of conduct indicating commitment to ethical medical practices. See Annex 7: IFC Code of Conduct for Health Care Organizations for a sample agreement.

Key Insight

In assessing character for small facilities owned by medical professionals

- ask to see certificates of professional qualifications
- determine how long the owner has been qualified as a medical professional and how long he or she has been in private practice
- ask for references from professional associations
- during the site visit, talk to clients and people in the surrounding neighborhood about the reputation of the facility
- be mindful of any ethical and transparency issues that are pertinent to the local health sector; do some research to ascertain what is relevant in that particular area

Investing in the Health Care Market

An Interview with Guy Ellena, Director, Health and Education Department, IFC

Why do you think banks and investors should consider entering the health care market?

It is a good business proposition. The private health sector is growing fast as a result of innovations, population growth, epidemiological changes, and reform to name a few drivers. And health care is showing a strong resilience during the economic downturn, particularly in emerging markets. People spend money on health. We are seeing the emergence of stronger health care businesses that are better run with deeper management capacity. We believe that the growth of the sector is a stable long-term equation.

Are there specific factors that you think are necessary for a successful health-sector investment?

The health care market is different and financial institutions need to be able to adapt to it. It's a longer-term investment. Banks need to be able to offer longer-term products to meet the financing needs of this sector and investors need longer investment horizons. Financial institutions should consider hiring specialized staff that understands the health care market. Size matters. Consider the size of the market in your country and how the private health sector is segmented between large, medium, and small enterprises. Many health care businesses are relatively small and structured around professionals, like doctors and pharmacists. Look for local businesses with a solid track record, that present a good case, strong financials, and better-than-average governance and management structures.

How has IFC invested in the health care market?

IFC is the largest multilateral investor in the private health sector worldwide. Since 2003 we have provided more than $1 billion of financial support (primarily debt and equity financing) to more than 80 projects in 30 countries. We have not had a non-performing loan since 2004. Last year we launched the Health in Africa Initiative, which is mobilizing $1 billion over the next five years in investment and advisory services for the health sector in Africa. Our investments in the health sector are wide-ranging. We have financed the expansion of most of the leading health care companies across emerging markets – for example, we recently approved a $50 million financing package to India's Apollo Hospitals Enterprises that will expand a network of hospitals to less-developed population centers. And we have also supported smaller frontier businesses – for example, we financed the expansion of a small hospital in Kabul, Afghanistan and we have supported three hospitals (and a medical training college) in Yemen. We also provide indirect support through loans to local banks, including in Romania and Brazil, that are lending to health care SMEs. Our aim is to support sustainable and commercially viable health care organizations that also make a positive contribution to their societies. We are proud of our record in both of these regards.

Capacity

Definition: This attribute measures a potential borrower's ability (cash flow) to repay a loan and the probability (repayment history) that it will be repaid. Banks consider cash flow from the business, the timing of the repayment, and payment history on existing and past loans. They also consider other sources of repayment.

Unique characteristics of health care businesses: The revenue mix for health care businesses and its impact on cash flow varies by type of firm and the country of operations. During due diligence, a bank should assess the percent of revenue by source and understand the payment terms on private insurance and contracts with the government and companies. Be mindful of possible unreported income (and unreported expenditures).

In most countries pharmaceutical retailers have a high turnover and are cash-based businesses with payment at the point of sale. Pharmaceutical wholesalers often will extend credit to retailers from 30 to 90 days and may have contracts to serve the public sector.

Revenue for health service providers, laboratories, and diagnostic facilities in most countries may come from a mix of cash at the point of service, private insurance, government contracts and insurance, and contracts with private companies for employee health care. Generally speaking, the lower the income level of the country, the higher the proportion of out-of-pocket health spending.

Although private insurance often is limited, it can be an important source of revenue, particularly for higher-end facilities. Government-supported health insurance programs are also growing in many parts of the world.[26]

In some countries, government contracts expand the market for the private health sector and can bring a new source of revenue. These contracts can be reliable and secure sources of revenue as long as payments are timely. In some countries, such as Brazil and Ghana, government contracting has increased the appetite of private health care businesses for lines of credit to smooth cash flow. The credit risk of lending against these types of contracts depends heavily on whether or not the government of a particular country is a reliable payer.

Key Insight

In assessing capacity

- know the payment mechanisms, terms, and impact on cash flow
- understand the role of government contracts, potential risks, financing needs, and impact on private-sector market share
- look for both business and personal credit histories

In many countries with underdeveloped insurance markets, private companies contract health facilities to offer care to employees and their families. Company contracts can be an important and reliable source of revenue, particularly for larger facilities.

As previously discussed many private health care businesses do not have a credit history. Private health care business owners, however, often have a personal credit record that can be verified. Pharmaceutical wholesalers and retailers are important exceptions; on the whole they are more likely to have established relationships with banks.

Capital

Definition: This attribute measures the net worth of a business or the amount by which its assets exceed its liabilities. It indicates how much the business owner has at risk if the business fails.

Unique characteristics of health care businesses: As mentioned previously, health care businesses (with the exception of pharmaceutical distributors and pharmacies) often have less debt financing than other businesses. Compared with other sectors, health care businesses tend to rely on self-financing and loans from friends and family in their early years, demonstrating a personal commitment to and investment in their business.

Key Insight

In assessing capital

- understand how the business owner funded start up
- examine whether and how often profits are reinvested in the business

Conditions

Definition: This attribute refers to the economic and regulatory climate of the market in which the business operates.

Unique characteristics of health care businesses: Unlike most other sectors in an economy, the health sector includes not only commercial businesses but also not-for-profits and the public sector. Understanding how the market is segmented among these actors is important for any financial institution interested in expanding into the health sector. The government also has an important role in regulating the scope and scale of private practices and setting and enforcing certain standards. Before getting into the sector, banks and other investors must have a basic understanding of how the regulatory environment affects the market segment they are targeting. Banks often look negatively on the role of government and how the policy environment can impact a health care business.

While some of these concerns may be well founded, government regulation may also ensure that basic standards are being met. Verifying that a prospective borrower is meeting the government's licensing and accreditation requirements is an important component of the due

Key Insight

In assessing conditions

- understand how the market is segmented among the public, commercial, and not-for-profit sectors
- know the size of the private sector and its market share
- understand both the positive and negative impacts of the policy and regulatory environment on the private health sector
- become familiar with how policies and regulations are enforced
- verify that a prospective borrower is meeting government licensing requirements

[26] Example countries where the private sector participates in government contracting and/or government health insurances schemes include the Philippines, Brazil, Nicaragua, Georgia, Romania, Ghana, Nigeria, South Africa, and Turkey.

diligence process and will be discussed later. Health reform, the expansion of health insurance, and opportunities for public-private partnerships are causing the private health market to grow in many countries and may result in new financing needs. Please refer to the case study on increasing financing needs in Nicaragua following a change in accreditation standards.

Case Study: A Revision of Accreditation Standards in Nicaragua Led to Increased Financing Requests

Nicaragua's Social Security Institute revised its accreditation standards for private hospitals that it contracted. To meet the standards some hospitals needed to make significant investments in facilities and equipment. Several banks reported increased requests for financing for equipment, expansion, and the merger of three small hospitals.

Collateral

Definition: This attribute consists of assets a business pledges to secure a debt.

Unique characteristics of health care businesses: Financial institutions new to the health care market often question how private health care businesses secure their loans. Surveys conducted in a number of countries demonstrate that many health care businesses have collateral. For example, in Romania a survey of family doctors indicated that 74 percent of them would be able to offer a guarantee or collateral to secure a loan.[27] Smaller-scale practices, particularly those owned by other types of health care professionals (such as midwives or nurses), may not have land or property but can offer equipment or personal guarantees. For example, of the 53 percent of surveyed midwives in the Philippines that can provide security on a loan, only 30 percent can offer land or a building.[28]

Financial institutions also express concerns about the type of collateral that health care service businesses offer, citing the political risk of seizing a hospital or clinic if a loan goes into default and the lack of a secondary market for specialized medical equipment. In fact in many countries the market for used medical equipment is growing and in some cases medical equipment suppliers have signed agreements with banks to buy back medical equipment. Refer to the case study from Uganda on a medical equipment buy-back guarantee. Owners of health care businesses often have personal assets that can be used to supplement collateral requirements as well. Figure 15 is a summary of the Five Cs of credit for health care businesses.

Key Insight

In assessing collateral

- determine whether there is a secondary market for medical equipment by talking to suppliers, associations, and other health care borrowers
- explore the potential to negotiate a buy-back guarantee with medical-equipment suppliers
- examine both business and personal assets

Case Study: In Uganda a Medical-Equipment Supplier Provided a Buy-Back Guarantee

In Uganda a medical-equipment supplier signed a buy-back agreement with a financial institution. It agreed that if a health care borrower's loan went into default, it would buy back the equipment. This guarantee assured the bank that it would be repaid and would not be stuck with collateral that would be difficult to resell. This guarantee reduced the bank's risk and made it more interested in approving equipment loans.

27 Tarantino and Reynolds 2007.
28 El Zoghbi, Frankford, Castro, and Tarantino 2006.

Figure 15: The Five Cs of Credit for Health Care Businesses

	Definition	Unique Characteristics of Health Care Businesses
Character	Measures the integrity and trustworthiness of a borrower	• Many medical-professional health care business owners are well-educated, respected members of their communities and are active in professional associations. • These reputation-based businesses cannot be shut down and relocated easily. • Lack of transparency, poor clinical standards, and corrupt/unethical practices characterize much of the private health sector in some countries.
Capacity	The ability (cash flow) of a borrower to repay a loan and probability (credit history) that it will do so	• In many countries health services are provided on a fee-for-service basis (in cash). • Some health service providers offer services to some clientele on credit due to ethical obligations. The aging of accounts receivables and bad debt should be examined. • Health service providers may have contracts with companies, insurers, and the government that can impact cash flow. • Many health service businesses have limited experience with debt financing, although the owner(s) may have a personal credit record. • Pharmacies and retail drug stores tend to have high turnover and may be more experienced with banks than SME health service providers.
Capital	The net worth of a business (amount by which assets exceed liabilities)	• Health service providers often have less debt financing than other businesses. • Health service providers tend to rely on self-financing and loans from friends and family in their early years, demonstrating a commitment to the business.
Conditions	The state of the market, including the economy and policy and regulatory environment, in which the borrower operates	• There is evidence that the health sector displays some resilience in times of economic downturn. • Health reform, insurance, and other factors are growing the role of the private health sector in many countries. • The health sector has more government regulation than many other sectors and there are licensing requirements for facilities and personnel. • The health care market often includes the public sector, commercial businesses, and not-for-profit organizations.
Collateral	Assets pledged by a borrower to secure a debt, subject to seizure in the case of default	• Health service providers often have property and equipment to secure a loan, although some facilities and equipment may be unattractive collateral because of potential difficulties repossessing and reselling. • Some small-scale health care businesses may need to supplement collateral with guarantees.

Benchmarking

Benchmarking is the process of comparing the financial and performance metrics of one prospective borrower or investee to industry standards.

One of the challenges of working in a new and underfinanced sector, such as the health sector, is that country-specific industry benchmarks are rare and a financial institution may not have a large enough sample in its own portfolio to find meaningful data. This section discusses useful benchmarks for health care businesses and provides guidance for banks to begin collecting country and health-sector data they can use for benchmarking.

Useful Indicators for Hospital Businesses

In addition to examining the usual financial ratios that most banks use in benchmarking (such as debt to earnings before interest, tax, depreciation, and amortization (EBITDA); current ratio; and debt service coverage) financial institutions also should consider several health-sector–specific indicators that are discussed briefly herein. (Please refer to Annex 5 for a more extensive list of useful financial ratios with their definitions.)

Bed Occupancy Rate: The number of occupied beds expressed as a percentage of the total available beds during a given time period.

This is a key indicator of a hospital's asset utilization; a financial institution can also use this indicator to determine whether a hospital is operating at or near capacity. Occupancy rate also can be used in projections to help determine the revenue for inpatient services. This rate is expected to grow as a greenfield hospital or expansion project builds its market. Health service providers often are overly optimistic about growth in occupancy rate during the business-planning process, and financial institutions should be prepared to examine the assumptions behind these growth projections.

Average Length of Stay (AvLOS): This statistic is usually calculated by dividing the sum of inpatient days by the number of patients admitted during a defined time period.

This is an important indicator of hospital efficiency and affects asset utilization – for example, lowering the AvLOS increases the potential inpatient capacity (or "throughput" per bed). Many factors affect the AvLOS, including clinical practice, available technology, patient preferences, case mix and reimbursement mechanisms. For example, if patients are invoiced per day of stay, this may encourage longer average length of stay compared with a factor such as all-inclusive procedure package prices. The international trend is towards shorter hospital lengths of stay.

An investor should understand the incentives or disincentives of the local payment systems when examining the average length of stay and other key metrics.

Key Insight

Investors interested in entering the health care market should identify benchmarks and begin collecting data that can be compiled and analyzed. This step will help make the credit-analysis process more efficient and standardized, enabling more rapid expansion in lending to the sector.

Total staff to number of beds: This statistic measures the number of staff per bed in a hospital.

This ratio varies widely among (and within) countries and among types of hospital/inpatient facilities. It can indicate the health service providers' efficiency and ability to control costs. Salary expenses are often the largest expense for an SME health service provider. Staff-to-bed ratios are one way a bank can examine how the prospective borrower is managing this cost compared to its peers.

Guidance for Collecting Benchmarking Data

Benchmarking is an important way for a financial institution to compare a prospective borrower or investee to its competitors. Financial institutions interested in entering the health care market should identify important benchmarks and begin collecting data that can be compiled and analyzed. Sources of information include

- loan applications from health care borrowers
- the government
- providers associations

The bank may want to supplement these sources by conducting market research and interviewing private health care businesses. Refer to the Marketing to the Health Sector section for more details on market research. Figure 15 shows an example of benchmarks that banks in Nicaragua use. They were developed through interviews with a small sample of private hospitals that contracted with Nicaragua's Social Security Institute to offer a basic package of care to formal-sector workers. Banks used this data to initiate lending to the sector and then began adding to it as they collected data from new loan applicants.

Figure 16: Example of Benchmarking: Comparative Data from a Sample of Private Hospitals Contracted by Nicaragua's Social Security Institute

Indicator	Range	Average	Median
Current ratio	0.3–4.5	1.5	1.0
Debt to equity	0.3–7.5	2.4	1.0
Gross margin	18–72%	42%	38%
Net margin	3–19%	9%	6%
Return on assets	2–32%	13%	9%
Return on equity	17–43%	27%	25%
Percent of revenue from the social security institute/total revenue	52–94%	78%	85%

Source: Banking on Health, Evaluando las Empresas Médicas: Los Mitos y Las Realidades de Su Situación Financiera, 2005.

Guidelines for Assessing Patient Safety and Quality Assurance

Financial institutions should consider the safety of products and services their prospective client offers. Therefore, investors entering the health care market should be aware that assessing systems of safety (and service quality) is an important component of the due diligence process. Financial institutions that are new to the sector often cite concerns about the moral hazard and reputational risk of investing in a health care business that may engage in poor quality or unethical practices. Implementing guidelines to at least assess patient (and staff) safety during the due diligence process will help ease these concerns.

This assessment should examine how quality impacts the business's ability to

- comply with regulatory requirements so as not to risk fines or closure by authorities
- attract and keep customers
- operate profitably
- engage in ethical practices

Financial institutions generally do not have the in-house health-sector capacity to perform an in-depth quality assessment. Rather they develop basic proxy indicators to incorporate into the due diligence process that could include the following data.

Certification or Accreditation from National or International Bodies

As a minimum the clients should have license to operate (including fire safety certificates etc). Certifications of products, facilities, and professionals can be verified relatively easily and may provide investors with some comfort about a potential borrower. Financial institutions can request copies of the documents as part of the loan package or verify them during a site visit. Financial institutions should be familiar with the basic government licensing and registration requirements. There are now many forms of national and international accreditation options for health care providers – the best known are probably from Joint Commission International (JCI) which is health care specific and International Organization for Standardization (ISO) which is a more general quality standard.

IFC Quality Assessment

IFC considers the following traits when assessing quality

- governance and leadership
- quality measurement and improvement
- facility safety and emergency management
- ethics and patient rights
- patient safety

Current or Expected Customers

Another proxy indicator of the quality of a health care business is its current and/or anticipated customer base. Some customers demand a certain quality level and likely have their own inspection and qualification assessment criteria. Investors can flag the following customer indicators when assessing a health care business

- government contracts – government contracts in the health arena should be awarded on the basis of meeting a minimum quality criteria (often encompassing facility, equipment, and skills assessments) as well as cost considerations
- private or government insurance schemes – insurance schemes, particularly those provided by international

insurers, generally involve a list of preselected providers based on quality, breadth of services provided, and cost

- health management organization (HMO) – HMOs normally impose certain minimum standards of care on the providers in their networks, as well as external contracted providers
- international donors – these entities often require that products and services purchased from private health care businesses meet certain minimum standards
- corporate customers – corporations that provide health care to their employees may seek quality providers, in addition to considering cost and service provision
- number of patients/customers – health care providers that provide high-quality services are more likely to attract high numbers of patients, e.g. repeat clients and through word-of-mouth recommendations

Referrals or References from Provider Associations

A health care business' membership in a provider or industry association can give investors a measure of comfort, particularly if the association has the capacity to censure members. Investors may request a letter of reference from an association as part of the credit-appraisal process.

Customized Credit Analysis for the Health Sector

Investors are encouraged to tailor credit analysis and requirements for the health sector, which can lower the cost of analyzing health care businesses and help loan officers make appraisals. Customized credit analysis is most often a function of the health-sector financial products. Figure 17 is a customizable template for the credit analysis of a small- or medium-sized health care facility.[29] This template complements an investor's research, which should include financial analysis of an organization's ability to repay a loan or make a return on an equity investment. (See Annex 4 for a sample hospital project screening tool.)

One of the features of health service providers in many countries is the prevalence of informal and/or unreported income. This is particularly prevalent, although not confined to, smaller businesses. This issue clearly presents a major challenge to potential investors as

- it is difficult to ascertain true current earnings and earning potential based on financial statements (if these exist)
- there is a risk that future earnings may be undeclared, thus imperiling direct investors' equity
- businesses and individuals that do not properly declare income to tax authorities are at risk of fines and other penalties
- such practices can indicate a wider culture of substandard practices throughout the organization

Key Insight

Investors should be aware that in some countries informal and unreported income could be a significant portion of a health service business's total revenue.

[29] IFC defines a small- and medium-sized business as one that must meet at least two of three characteristics: to be considered small, a business must have fewer than 50 employees, $3 million in assets, and $3 million in annual sales; to be medium, it must have between 50 and 300 employees, $3 million and $15 million in assets, and $3 million and $15 million in annual sales. The loan size proxy for a small business is less than $100,000 and less than $1 million ($2 million in some advanced countries) for a medium-sized business.

Figure 17: Information Collection Template for SME Health Care Business Credit Analysis

Client information

Name of owner: ______________ Address: ______________

Name of business: ______________ Address: ______________

Provider type: ______________ Business type: ______________

Professional degree or certifications: ______________

Years in practice: ______________

Years in business: ______________

Membership in association: Yes / No Name of association: ______________

Personal references: ______________

Business references: ______________

Account history with institution

Accounts: ______ Since: ______ Balances: ______________

Loans: ______ Dates: ______ Outstanding balances: ______________

Business information

Inpatient ______ Outpatient ______ Mixed inpatient and outpatient ______________

Number of beds: ______________ Occupancy rate: ______ lengths of stay: ______________

Outpatients per day/week:

Collateral type: fixed ; auto; movable assets ___ Collateral value: ______________

Certifications/qualifications:

Investment request

Amount: ______________ Term: ______________ Grace period: ______ Interest rate: ______

Interest payment amount: ______________ Principle payment amount: ______________

Site Visit Guidelines

Site visits to health service provider businesses can be daunting for investors inexperienced in the sector. When appraising a credit or investment proposal, there are sector-specific aspects of the business that investors can investigate at the site of the business such as

- clearly displayed current licenses to provide services
- other certifications – e.g accreditations, compliances (health and safety, fire etc.)
- availability of key documentation – e.g organization chart, code of conduct, staff handbook, emergency preparedness/disaster plans etc.
- general standards of sanitation and cleanliness (including condition of toilets), equipment and supply requirements, facility layout and construction, staff qualifications, infection control, and record keeping
- patient numbers and "busyness"
- stock levels, and stock records for accordance with sales levels the applicant has reported
- pharmacies and distributors should have storage temperature controls, stock management controls to avoid drugs becoming outdated before the point of sale, and secure storage of dangerous drugs
- medical training institutes should have adequate practice areas, with tools, mannequins, current international medical/health journals and other materials on hand for students.

See Annex 6 for a site visit checklist for lenders and investors.

Case Study: Banca Transilvania, Romania

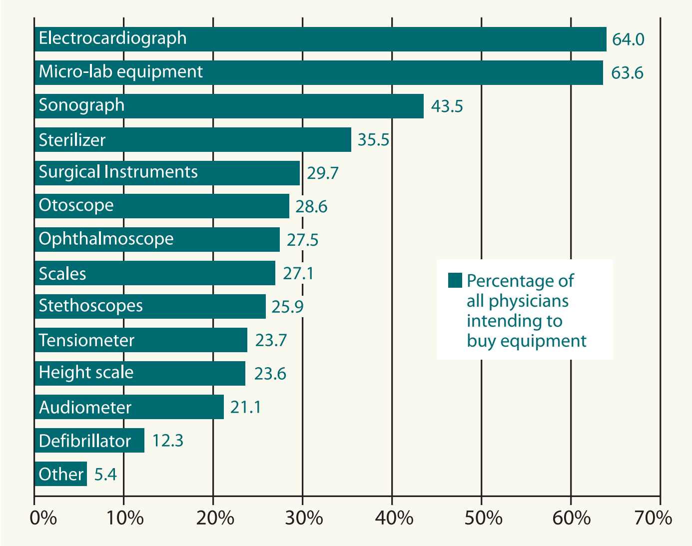
Introduction

Banca Transilvania, a commercial bank in Romania, has made a significant investment in the health sector in recent years, successfully employing most of the market- and credit-analysis techniques described in this guide.

Understanding the Market

In 2007 Banca Transilvania used market research to assess the size and characteristics of the health sector. The bank reviewed its existing portfolio and found that it already had a small number of health care borrowers. It then interviewed some of them to reassess their financing needs. Qualitative research findings, including focus groups with business owners, gave the bank a deeper understanding of the behavior and financing needs of distinct subsectors. Figure 18 is an excerpt from the quantitative market research Banca Transilvania used to assess the characteristics of the family doctor subsector. This figure describes the credit needs of the family doctors: 78 percent intended to purchase medical equipment. With information on the types of equipment they needed, in addition to earnings information, the bank could define the size of the market and the amounts and terms of financing needed.

Figure 18: Family Doctors' Equipment Needs, Romania 2007



Source: Tarantino and Reynolds, Financing and Training Needs of Small-Scale Private Health Care Providers and Distributors in Romania: Market Research Report, 2007.

Market Segmentation

Banca Transilvania identified a number of market segments with distinct credit needs that fit its strategy and capacity. Specifically, these included

- specialist physicians and dentists (employed and self-employed)
- small clinics (medical and dental)
- medical and dental students
- medical and dental technicians

Financial Product Development

Banca Transilvania developed a range of financial products to address the needs of its four target market segments (the products are described in Figure 19). These products were augmented with a unit delivery system: Banca Transilvania created a health care division with dedicated branches and branding to serve the health care sector. Automated teller machines (ATMs) in medical schools, physician-branded credit cards for physicians, and other special services and conditions for health care sector borrowers complement the bank's loan products.

Figure 19: Banca Transilvania Health Care Division Loan Products (2009)

	Resident	Specialist	Practice	Technician
Mortgage loan	≤ $98,000 ≤ 25 years ≤ 2 years grace	≤ $261,000 ≤ 20 years	≤ $654,000 ≤ 25 years ≤ 2 years grace	≤ $261,000 ≤ 25 years
Loan for medical equipment		≤ $65,000 ≤ 5 years	≤ $98,000 ≤ 5 years	≤ $26,000 ≤ 5 years
Car loan		≤ $39,000 ≤ 7 years	≤ $39,000 ≤ 5 years ≤ 3 months grace	≤ $39,000 ≤ 5 years
Loan for other business needs	≤ $7,000	≤ $26,000 ≤ 60 months	≤ $26,000 ≤ 60 months	≤ $20,000 ≤ 5 years

Source:Tarantino and Doiciu, Romania: Models for Commercial Financing of an Emerging Private Health Sector, 2009.

Marketing Techniques for the Health Sector

From its inception Banca Transilvania's health care division had the objective to offer the best overall service to the health sector, focusing on product delivery and communications. Consequently its management decided on a unique strategy for staffing the division: initially loan officers worked in pairs, one with a financial background was matched with one from a health-sector background. This approach enabled them to speak their clients' language, understand their needs, evaluate the quality of the practices, and identify and meet financing needs. The strategy evolved and the health staff became roving specialists who worked with a group of loan officers as advisors. The photo shows a team of Banca Transilvania health-sector lenders at the Romania Medical Exhibition in 2008.

Customized Credit Analysis

Banca Transilvania's market analysis determined that certain types of practices could be expected to have income in a predicable range. Using these findings the bank developed a standardized credit-analysis technique for each subsector in the health care market. For example, specialist physicians with an established practice could take a loan up to a predetermined amount without collateral depending on their specialty. If collateral was offered, a higher amount could be approved with extended terms, depending on the purpose of the loan. The data input sheet Banca Transilvania's loan officers used is in Figure 20.

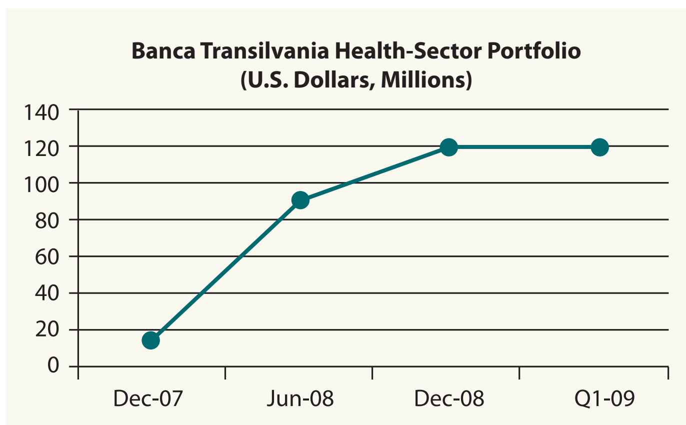
Figure 20: Loan Application Analysis Form for Health Care Division, Banca Transilvania

Source: Banca Transilvania Presentation, Banking on Health End of Project Conference 2009.

Results

Banca Transilvania's strategy proved to be very successful. The bank's private health-sector portfolio grew by more than $100 million in the first year of activities by using these techniques. Figure 21 illustrates its rapid growth. The health division became profitable in a relatively short amount of time. As a further benefit to the bank, the health sector proved to be a stable segment of the bank's portfolio through ensuing economic challenges in the country.

Figure 21: Banca Transilvania Health Care Division, Volume of Loans Outstanding to the Health Sector



Source: Tarantino and Doiciu, Romania: Models for Commercial Financing of an Emerging Private Health Sector, 2009.

Key Success Factors and Common Pitfalls for Health Care Businesses

Overview

Previous sections of this guide provide investors with tools for analyzing health-sector investment opportunities. This section deepens investor's knowledge of the sector by presenting key elements of different types of health care businesses, including hospitals, clinics, laboratory and diagnostic facilities, pharmaceutical retailers and distributors, and medical education and training institutes. Each is characterized by distinct factors to consider when appraising credit and investment worthiness. A discussion follows of success factors and common mistakes that investors see in financing requests from each of these types of businesses. The box on this page describes one banker's experience with health-sector borrowers in Uganda.

Hospitals

Key Elements for Analysis: Typically private hospitals earn revenue from inpatient and outpatient services, surgical procedures, diagnostic testing (laboratory and radiology), and drug sales. The number of beds defines the inpatient capacity, and bed occupancy rate and average length of stay are key metrics for determining inpatient numbers (a key revenue driver). Similarly, outpatient numbers and consultation fees drive outpatient revenue. Key profit centers are usually surgical procedures, diagnostic tests, and drug sales, rather than room rates and consultation fees.

Because of the equipment and facility requirements, hospitals are generally much more capital intensive than clinics and need to replace and modernize equipment regularly. Salaries tend to be a significant operating expense. Staffing-to-patient ratios can be indicators of quality, efficiency, and cost control. The text box on the next page lists some common benchmarks or rules of thumb for analysis of hospital investments. (In addition refer to Annex 4 for a sample hospital project screening template.)

Hospitals range very widely in terms of size, complexity, service mix, facilities, and business model. Worldwide, most private hospitals tend to have fewer than 100 beds, serve local populations, and provide routine/general services. Typically these services include maternity, gynecology, pediatrics, general surgery, and general medicine. (Of course, much larger and more specialized hospitals also commonly exist.)

Success factors: A local track record of success in the health sector, preferably in managing a hospital, is a key success factor. Engagement with the local medical community is important and can assist managers with staffing, licensing and – crucially – in patient referrals. Investors should look for business plans with adequate information on the market for the ongoing, new, or expanded business activity to be financed. Successful hospitals typically have an experienced management team and a good reputation. It can be beneficial for the institution to attract and cater to different market segments.

The lowest risk hospital projects are those that involve expansion of existing facilities, followed by those that involve constructing additional facilities nearby.

> "In my experience with health-sector lending, I have identified a number of success factors for health care borrowers. These businesses
>
> - **maintain focus** – successful businesses knew what they wanted to achieve and how to pursue it
> - **use resources properly** – they used the financing immediately per their loan agreement
> - **build confidence with the bank** – once the bank is confident, it is able to trust borrowers with more money
> - **demonstrate professionalism** – successful health care borrowers are professionals who have been in the field, at the top of what they are doing"
>
> Wilson Twamuhabwa, Head of Operations, Pride Uganda and former General Manager, Business Growth and Development, Equity Bank Uganda

Key Insight

Greenfield hospital developments tend to be high risk investments. Potential investors should seek companies and managers with a local track record of success in the sector.

Common Pitfalls: The most common pitfalls for new hospital developments include

- unexpected difficulties when expanding into new geographies – hospitals tend to be very local in nature, and even well-established and successful hospital operators commonly encounter difficulties in new areas. Cross-border expansions are particularly difficult and have a high failure rate
- over-optimistic projections (patient numbers, revenues, and profitability)
- misjudging local income levels and ability to pay (often based on small, but highly visible, local affluent groups)
- underestimating local competition – usually this happens because the competition consists of lower-standard facilities and, thus, perceived lower standards of medical skills
- low management capacity – investors should look for hospitals that have an experienced and capable management team
- staff recruitment and turnover issues – hospitals worldwide face human resources challenges, and many hospitals in emerging markets struggle to retain professional staff.

Clinics

Clinics are generally defined as standalone outpatient facilities offering a range of specialist consultation services, diagnostic tests, and drugs. They may also offer minor surgery services. Like hospitals, the spectrum of clinics varies widely – for example, from small, high-end specialized clinics (such as fertility clinics) to high-volume, low-cost clinics (such as those providing primary health care). Revenue is primarily driven by volume (the number of clients) and the price of services. As with hospitals, diagnostic tests and drug sales tend to be key profit centers.

Staffing expenses tend to be the largest operating expense and retaining qualified staff can be one of the biggest challenges. Typically, clinics require less investment in facilities and equipment and are less capital intensive than hospitals, although clinics are increasingly offering more sophisticated diagnostic imaging such as computed tomography scans (also known as CT or CAT scans) and magnetic resonance imaging (MRIs).

Some Rules of Thumb for Private Hospital Investments and Loans

IFC has developed several indicators to initially screen prospective projects. These are used as a "rule of thumb," recognizing that indicators vary widely across countries and types of service models. These indicators were developed based on investments and loans to private hospitals over several years. They are provided here as an example of the types of indicators that can be useful in the benchmarking process. (See Annex 5 for definitions of financial terms and ratios.)

Financial Indicators

- Debt/earnings before interest, taxes, depreciation, and amortization (EBITDA): Less than 3.0
- Total revenue/total assets: 0.7 to 1.2 (greater than 1.0 is good)
- Current assets/current liabilities: Greater than 1.0
- Debt/equity: At or below 1.0
- EBITDA margin: 20 to 25 percent

Bed Occupancy Rates*†

- Typically peak at 65 to 75 percent
- Greenfield hospitals typically take 5 years to ramp up to full occupancy†

Total Staff: Beds: In the range of 4–6 : 1*

Average Length of Stay: 2.5 to 3.5 days *

Breakeven†

For a greenfield hospital with 100 to 200 beds, typically expect a three-year breakeven. An expansion project (e.g., of an existing hospital) will usually break even in less time.

* These rates vary widely and must be understood and analyzed on a case-by-case basis.

† Over optimism by the investee or borrower in business plans and financial projections is common.

Success factors: Clinics often are successful based on the reputation of the clinicians and the referrals they receive from patients and colleagues. An appointment at a local medical university or part-time position in the public sector can be an important source of patients. Also it is important for the clinic to be well positioned in the market. Managers should know what services the market demands and be able to articulate or promote their value-added.

Common pitfalls: Providers may be interested in the most technologically advanced equipment, but their needs and those of their clients may be met with something more basic and affordable. Lenders should beware of clinics with unrealistic growth plans, particularly those currently operating at less than capacity.

> "Often we meet doctors who want to buy the newest medical equipment. We know that in 80 percent of the cases it is an emotional decision and we try to find out if the medical equipment is really going to be used at its full potential or whether the doctor could use a cheaper one and thus the investment becomes more profitable and less risky."
>
> *- Fady Chreih*
> *Head of Healthcare Division, Banca Transilvania*

Diagnostic Facilities

Key Elements for Analysis: Broadly speaking, there are two types of diagnostic services: laboratory (or "lab") and radiology (or "imaging"). These may be integrated within a hospital or clinic, or may be standalone. Although often categorized together, each has very different characteristics. For example, an increasing proportion of laboratory work is now automated, requiring relatively low numbers of technical staff. Radiology, on the other hand, tends to be time intensive with "images" (X-rays, CT scans etc.) requiring analysis by highly qualified radiology staff.

Laboratory services in particular offer potential for consolidation and several major international lab companies exist – e.g., Unilabs and Quest Diagnostics. More are emerging from developing countries; these include Al Borg (Egypt) and Fleury (Brazil). Radiology companies, which rely heavily on local professionals, tend to be less consolidated – although many SME imaging and "scanning" companies exist.

Diagnostic facilities depend on equipment that can be expensive and may be difficult to service, particularly more complex radiology equipment such as CT, MRI, and positron emission tomography (PET). Salary expenses are a significant operating expense for radiology companies. Supplies and reagents are an important cost for laboratories.

Maintenance of equipment, procurement of supplies, importation of equipment, power supply, and availability of qualified staff are issues that can impact a diagnostic facility's ability to operate and generate profit.

Success Factors: Crucially, diagnostic facilities rely on referrals from local doctors working in local clinics and hospitals (which may be in the government or private sectors). Undersupply in these local hospitals and clinics can offer market opportunities.

Common Pitfalls: A common pitfall is over-investment in radiology equipment, which can be highly expensive. Potential hazards may include excessive competition, as laboratory services have relatively low barriers to entry. And, in common with many other areas of health care provision, competitors paying kickbacks to referring doctors can distort the market and lead to unexpected changes in demand. Maintenance or importation of equipment (including parts) may be a problem, particularly for complex radiology equipment, and in some countries obtaining reagents and other supplies on a regular basis may be an issue. Also, there may be shortages of trained technicians and specialist radiologists in the local market.

Pharmaceutical Retailers and Distributors

Key elements for analysis: Pharmacies are retail health care businesses, similar in some aspects to other retail businesses. Revenue is earned from the sale of products, and there should be a relatively high turnover of stock. Pharmacies often get drugs on credit for 30 to 90 days and typically are paid in cash at the point of sale. Pharmacies can be highly profitable, with net margins ranging up to 50 percent in some places.[30] There also are important growth trends in the sector. In many countries, there appear to be significant opportunities for consolidation for single-outlet operations and a growing trend toward pharmacy chains. Drug inventory is one of their biggest expenses. Staffing expenses also can be significant.

Unlike most other retail businesses, pharmacies often must meet certain more onerous conditions, including

- a license to operate as a pharmacy
- certified, skilled staff (such as a pharmacist)
- certain infrastructure requirements for accreditation or licensing, such as space, refrigeration, and security for narcotics and other scheduled drugs
- being open during certain hours and days of the week
- import duties and trade regulations, as a large proportion of drugs are often imported

30 Ibid.

- adherence to safety and quality standards, as many drugs need to be stored in certain conditions, are normally date-restricted, and may be dangerous
- price controls – for example, governments may regulate markups on drugs.

Distributors are wholesale businesses that specialize in health products or supply health products along with other commodities. They resemble other wholesale businesses that rely on supplier credit and trade finance, and they may have issues with currency risk if they are importers.

Success factors: As with many types of retail businesses, location and retail marketing skills can be essential to success or failure. The reputation of the pharmacist, who may be relied upon by customers for medical advice, is important. Clearly, pharmacies with relationships with other providers (such as the government or private facilities) are likely to have an increased market share. Distributors that demonstrate efficiencies in supplying different types of products, health care ones among them horizontal platforms, may be more successful than others. Vertical platforms (distributors that specialize in health) may work well in larger markets at a national or regional level or when combined with exclusive rights to distribute certain products.

Common pitfalls: It may be difficult to hire and retain qualified staff, depending on the market, and pharmacies may rely too much on the main pharmacist. Many pharmacies can struggle with getting reliable and steady supplies of stock. Counterfeit and substandard drugs are a major problem in many developing countries. While there is no reliable accounting of the amount of fake drugs in circulation, according to some estimates they account for between 10 and 50 percent of supply in some areas. Infrastructure and facilities should be adequate for safe storage and distribution for distribution platforms.

Medical Education and Clinical Training Institutes

Key elements for analysis: The number of students multiplied by the cost of tuition typically determines the revenue for medical and nursing education facilities. As well as enrollment numbers, the student dropout rate is another factor that should be considered when evaluating revenue projections. Most education facilities charge tuition once or twice a year, and this clearly impacts cash flow. Education institutes must be able to provide students with practical medical training and often are affiliated with hospitals.

Typically, major expenses for medical and nursing education institutes include staffing costs and room and board, if they are provided. Private medical schools tend to be much more difficult to establish than nursing schools because they require higher startup costs and are more heavily regulated.

Success Factors: In many countries there is tremendous demand for medical and nursing education. Globally there is an estimated shortage of 4.3 million qualified health service personnel.[31] The best medical and nursing training facilities provide accredited degrees and have practicum relationships with clinics or hospitals so that students may access required practical pre-service experience. A key success factor relates to the value of the qualification awarded; for example, a qualification that is internationally recognized and offers the prospects of overseas employment is likely to attract much more interest than vague or little-known certificates.

Common Pitfalls: The regulatory environment for private medical and nursing education may be unclear or restrictive, so registration and certification should be verified. In addition, one of the biggest barriers to the expansion of private medical and nursing education is students' inability to make lump-sum payments, exacerbated by the lack of student loan options.

[31] Ibid, page 47.

Moving Forward

The private health care markets in emerging and developing economies worldwide are increasingly stable and growing—and also largely underfinanced. Commercial banks and large private equity firms have begun to make notable forays into the health sector on several continents.

Investors can position themselves to enter the market by recognizing key success factors and managing risk through market research, development of appropriate products, and sound credit analysis and structuring. This high-growth, capital intensive market for commercial financing can provide investors with stable cash flows, healthy profitability, and a more resilient portfolio in times of economic volatility.

This guide shares key lessons for investors, based largely on the experiences of financial institutions and equity investors that have expanded financing to the private health sector in emerging and developing markets. Many of these institutions have made significant strides and reaped the benefits of market expansion, differentiation, and portfolio diversification.

The following is a summary of key lessons learned and strategies for successful entry into the health care market.

- **Appoint an internal champion**

  As with any new initiative, it is important for an investor, particularly larger institutions like commercial banks or MFIs, to appoint an internal champion charged with leading the expansion into the health sector. This person should have authority to interact with the upper management, credit department, legal department, human resources, and marketing and product-development teams and to advise the strategic, financial, and operational decisions necessary to invest in the market.

- **Assess and understand the market to develop an appropriate investment approach**

  When assessing the health sector investment climate, the ideal environment is characterized by:

  - economic stability and growth
  - a supportive regulatory framework
  - patients' ability and willingness to pay for health services
  - the maturity and development of private medical insurance
  - availability of qualified staff

  Market research is an important tool for understanding the private health sector, developing the best approach to investing, and matching market opportunities with an investor's strategy and capacity. Segment the market to help refine the marketing approach.

- **Consider specialized marketing methods and financial products**

  The private health-sector market, particularly health-service providers, responds to customized marketing. Products that fit their financing needs are essential. Financial institutions benefit from an image of stability, strength, and understanding the health sector's unique needs.

- **Invest in human resources**

  Lending or investing personnel should have training or qualifications to serve health-sector clients.

- **Tailor credit and investment analysis techniques**

  Credit- and investment-analysis techniques designed for health-sector businesses, incorporating an institution's knowledge of the sector, assists investors in making timely and effective investments.

IFC has found the private health sector in emerging markets to offer positive commercial returns, high growth, and social and developmental rewards. Although there are risks pertinent to investing in the private health sector, well-prepared investors can benefit similarly. IFC aims to attract other investors into emerging markets to support the further development of socially responsible private health care.

It is IFC's intent that investors will profit by increasing finance to socially responsible private health care organizations. By doing so they will also support the expansion of high quality health care provision and the improvement of health outcomes in the countries and communities where the IFC works.

Annexes

ANNEX 1: Listed Health Care Company Statistics

Company	Country	Annual Data	Total Assets (US $ M)	Revenue (US $ M)	EBITDA	Gross Profit Margin	Ebitda Margin	Net Profit Margin	Financial Debt/ Equity	Financial Debt/ EBITDA	Current Ratio	No. of Employees
ACIBADEM SAGLIK HIZMETLERI	TURKEY	2008	373	332	51	16.8%	15.4%	-8.1%	3.5	5.4	0.8	433
AIER EYE HOSPITAL GROUP CO-A	CHINA	2008	58	61	19	53.8%	31.0%	14.5%	0.2	0.5	1.4	
AIKCHOL HOSPITAL PUBLIC CO	THAILAND	2008	28	26	4	20.1%	14.9%	7.5%	0.3		1.4	1,083
AL BELAD MEDICAL SERVICES	JORDAN	2008	34	13	2	37.9%	15.9%	8.0%	0.0	0.3	1.4	522
AMIL PARTICIPACOES SA	BRAZIL	2008	1,067	2,398	151	28.9%	6.3%	5.0%	0.1	0.3	1.5	
APOLLO HOSPITALS ENTERPRISE	INDIA	2008	561	302	46		15.2%	6.3%	0.4	3.0	2.8	15,927
ASIRI HOSPITALS PLC	SRI LANKA	2008	67	23	8	46.6%	34.1%	2.3%	1.5	4.6	0.9	
ASIRI SURGICAL HOSPITAL PLC	SRI LANKA	2008	23	8	3	51.3%	38.4%	13.7%	1.0	3.4	0.4	
BANGKOK CHAIN HOSPITAL PCL	THAILAND	2008	127	127	35	33.7%	27.7%	14.3%	0.2	0.5	0.9	
BANGKOK DUSIT MED SERVICE	THAILAND	2008	804	641	142	44.4%	22.2%	7.8%	0.9	2.4	0.8	
BANMEDICA SA	CHILE	2008	631	1,181	117	24.4%	9.9%	4.9%	0.9	2.1	0.8	
BUMRUNGRAD HOSPITAL PUB CO	THAILAND	2008	233	259	57	38.3%	22.1%	13.8%	0.4	1.0	0.5	
CHIANG MAI RAM MEDICAL BUSIN	THAILAND	2008		45				-0.6%				
CHINA HEALTHCARE HOLDINGS LT	HONG KONG	2008	25	368	(2)	0.9%	-0.5%	-0.9%	-1.4		1.7	130
CLINICA LAS CONDES SA	CHILE	2008	249	171	36	23.1%	21.1%	8.3%	0.2	1.3	3.1	
COMMUNITY HEALTH SYSTEMS INC	UNITED STATES	2008	13,818	10,840	1,490		13.7%	2.0%	4.5	6.0	1.7	55,579
DHANVANTRI JEEVAN REKHA LTD	INDIA	2008	1	1	0		29.8%	8.6%	0.1		1.5	
DIAGNOSTIC & THERAPEUTIC	GREECE	2008	1,275	415	73	19.0%	17.7%	7.5%	1.0	7.3	0.7	
DYNACQ HEALTHCARE INC	UNITED STATES	2008	82	60	11		17.5%	14.0%	0.0	0.1	4.6	199
EMC INSTYTUT MEDYCZNY SA	POLAND	2008	25	35	5	100.0%	14.1%	4.1%	0.7	2.2	0.9	733
EUROMEDICA SA	GREECE	2008	939	337	58	20.8%	17.1%	-6.2%	1.7	8.7	1.0	2,525

FORTIS HEALTHCARE LTD	INDIA	2008	424	124	3		2.4%	-11.1%	0.3	31.3	1.0	
GENERALE DE SANTE	FRANCE	2008	2,980	2,918	338		11.6%	4.4%	1.8	3.9	0.6	20,519
GENOLIER SWISS MEDICAL NETWO	SWITZERLAND	2008	160	110	10		8.9%	0.1%	0.2	2.0	0.9	523
GULF MEDICAL PROJECTS	UAE	2008	231	77	25	41.1%	33.1%	12.0%	0.7	3.4	0.9	
HEALTH MANAGEMENT INTL LTD	SINGAPORE	2008	60	31	5	28.2%	16.0%	3.3%	0.4	2.9	1.8	
HEALTH MGMT ASSOCIATES INC-A	UNITED STATES	2008	4,556	4,452	641		14.4%	3.8%	10.5	5.1	2.1	32,700
HEALTHSCOPE LTD	AUSTRALIA	2008	1,653	1,318	175		13.3%	4.4%	0.7	3.1	0.6	
IASO S.A.	GREECE	2008	481	271		26.2%		11.8%	0.9		1.1	1,659
INDRAPRASTHA MEDICAL CORP LT	INDIA	2008	68	78	10		12.8%	5.1%	0.6	1.6	1.2	2,802
INTEGRATED HEALTHCARE HOLDIN	UNITED STATES	2008	136	368	4	100.0%	1.1%	-10.8%	-2.1		0.4	3,075
KOVAI MEDICAL CENTER AND HOS	INDIA	2008	22	22	3	83.6%	15.8%	6.0%	1.5		1.2	
KPJ HEALTHCARE BERHAD	MALAYSIA	2008	369	381	47	29.1%	12.3%	6.8%	0.6	2.4	1.7	
KRUNGDHON HOSPITAL PCL	THAILAND	2008	10	10	(0)	18.6%	-3.7%	-1.2%			4.9	
LIFEPOINT HOSPITALS INC	UNITED STATES	2008	3,680	2,701	466		17.3%	4.2%	1.0	3.3	2.4	15,700
LOTUS EYE CARE HOSPITAL LTD	INDIA	2008	7	3	1		37.4%	12.1%	0.4		2.5	
MEDCATH CORPORATION	UNITED STATES	2008	653	614	76		12.3%	3.4%	0.4	2.0	1.9	3,147
MEDIAL SAUDE SA	BRAZIL	2008	405	1,026	35	27.3%	3.4%	0.0%	0.0	0.2	1.1	
MEDICA SUR S.A.-SER B	MEXICO	2008	180	141	39	34.9%	27.4%	12.5%	0.3	0.9	1.0	1,912
MEDICAL FACILITIES CORP-IPS	CANADA	2008	334	199	81		40.5%	9.9%	2.0	2.5	3.1	
MEDICARE GROUP	QATAR	2008	228	38	0	28.9%	1.2%	13.8%	0.0	1.6	1.1	
MEDI-CLINIC CORP LTD	SOUTH AFRICA	2008	5,114	1,348	290	43.8%	21.5%	6.4%	2.4	11.4	1.7	12,476
NAWALOKA HOSPITALS PLC	SRI LANKA	2008	27	20	4	45.2%	18.2%	-3.2%	0.9		0.8	1,670
NETCARE LTD	SOUTH AFRICA	2008	6,592	2,924	634	40.9%	21.7%	4.0%	3.8	7.2	1.0	19,681
NEW AMER HEALTHCARE CORP	UNITED STATES	2008	220	172	15		9.0%	0.3%	1.3		2.0	2,350
NOIDA MEDICARE CENTRE LTD	INDIA	2008	9	6	2		28.4%	5.0%	0.2		0.9	

NONTHAVEJ HOSPITAL PUB CO	THAILAND	2008	31	38	9	31.0%	23.7%	13.6%	0.1	0.3	0.8	
NOZHA INTERNATIONAL HOSPITAL	EGYPT	2008	6	6	1	20.7%	18.7%	11.4%			1.9	
OMAN MEDICAL PROJECTS	OMAN	2008	46	17	2		11.6%	-3.3%	0.6		0.8	
OPTIMUMCARE CORP	UNITED STATES	2008	2	6	(1)	12.3%	-12.0%	-14.0%	0.1		2.5	45
PACIFIC HEALTHCARE HOLDINGS	SINGAPORE	2008	59	57	5		9.6%	-14.8%	0.4		1.3	
PARKWAY HOLDINGS LTD	SINGAPORE	2008	2,043	669	96		14.3%	3.7%	0.9	9.1	2.5	
PRIMARY HEALTH CARE LIMITED	AUSTRALIA	2008	4,597	582	133		22.9%	1.2%	1.2	14.8	0.5	11,288
PULSE HEALTH LTD	AUSTRALIA	2008	34	7	(1)		-15.6%	-14.7%	1.5		0.2	514
RAFFLES MEDICAL GROUP LTD	SINGAPORE	2008	216	142	32		22.5%	15.5%	0.1	0.6	1.1	
RAMKHAMHAENG HOSPITAL PUB CO	THAILAND	2008	114	77	21	29.5%	27.0%	17.2%	0.8	2.3	0.2	
RAMSAY HEALTH CARE LIMITED	AUSTRALIA	2008	2,877	2,340	288		12.3%	3.5%	1.5	4.3	1.1	
RHOEN-KLINIKUM AG	GERMANY	2008	2,987	3,133	389		12.4%	5.5%	0.8	2.7	0.9	33,679
SAMITIVEJ PUBLIC CO LTD	THAILAND	2008	164	173	36	42.9%	20.9%	8.2%	0.4	1.2	0.6	
SELECT MEDICAL HOLDINGS CORP	UNITED STATES	2008	2,579	2,153	268	16.8%	12.5%	1.0%	5.2	6.7	1.3	21,300
SHIFA INTL HOSPITALS	PAKISTAN	2008	34	26	7		26.2%	9.4%	0.7		1.2	
SIKARIN PUBLIC CO LTD	THAILAND	2008	35	36	7	32.1%	19.3%	8.4%	0.3	1.1	1.1	1,112
SUNLINK HEALTH SYSTEMS INC	UNITED STATES	2008	112	158	11	97.1%	6.9%	1.0%	1.0		1.3	1,370
SWISSMED SA	POLAND	2008	18	13	2	17.7%	12.3%	-7.5%	1.3	6.7	1.0	
TENET HEALTHCARE CORP	UNITED STATES	2008	8,174	8,663	732		8.4%	0.3%	46.4	6.5	1.4	60,297
THAI NAKARIN HOSPITAL PCL	THAILAND	2008	16	30	7	30.2%	22.4%	12.8%			0.8	902
TRISTEL PLC	BRITAIN	2008	11	12	3	67.3%	26.4%	17.6%	0.0	0.1	1.5	39
UNIVERSAL HEALTH SERVICES-B	UNITED STATES	2008	3,742	5,022	606		12.1%	4.0%	0.6	1.6	1.4	39,500
VIBHAVADI MEDICAL CENTER PCL	THAILAND	2008	53	32	8	32.6%	23.9%	11.8%	0.1	0.7	0.3	
WAKEFIELD HEALTH LTD	NEW ZEALAND	2008	87	59	14		23.7%	9.2%	0.2	1.0	1.4	
WATTANA KARNPAET PUB CO LTD	THAILAND	2008	11	5	0	21.3%	8.4%	0.8%	0.3		0.5	
Total Boomberg Weighted Averages			5,607	851	605	8.5%	13.0%	3.1%	9.0	4.7	1.4	30,010

Source: bloomberg.net, November 18, 2009.

ANNEX 2: Health Expenditure in Select Countries[32]

	Total expenditure on health as a percentage of gross domestic product	Private expenditure on health as a percentage of total expenditure	Private expenditure on health (in millions of 2009 U.S. dollars)	Out-of-pocket expenditure on health as a percentage of private expenditure
Sub-Saharan Africa				
Angola	3	13	176	100
Benin	5	50	116	95
Botswana	7	24	185	28
Burkina Faso	6	43	149	92
Burundi	9	91	75	57
Cameroon	5	80	718	95
Cape Verde	5	22	13	100
Central Africa Republic	4	62	37	95
Chad	5	46	145	96
Comoros	3	45	5	100
Congo	2	28	43	100
Cote d'Ivoire	4	76	528	88
Democratic Republic of Congo	7	81	498	49
Equatorial Guinea	2	20	38	76
Eritrea	4	54	28	100
Ethiopia	4	41	249	81
Gabon	5	27	129	100
The Gambia	5	43	11	71
Ghana	5	66	420	78
Guinea	6	86	165	100
Guinea-Bissau	6	74	14	56
Kenya	5	52	584	80
Lesotho	7	41	44	69
Liberia	5	74	23	66
Madagascar	3	37	61	53
Malawi	13	31	127	28
Mali	6	50	176	100
Mauritania	2	31	17	100
Mauritius	4	49	126	81
Mozambique	5	29	103	41
Namibia	5	33	132	16
Niger	6	45	98	97
Nigeria	4	70	4,112	90
Rwanda	11	58	181	39
Sao Tome and Principe	6	15	1	100
Senegal	6	43	242	77
Seychelles	6	25	15	63
Sierra Leone	4	64	36	56

32 The health expenditure data is drawn from the WHO World Health Statistics Report 2009, reporting data from 2006.

	Total expenditure on health as a percentage of gross domestic product	Private expenditure on health as a percentage of total expenditure	Private expenditure on health (in millions of 2009 U.S. dollars)	Out-of-pocket expenditure on health as a percentage of private expenditure
Somalia	-	-	-	-
South Africa	8	62	12,783	18
Sudan	4	63	917	100
Swaziland	6	34	54	41
Tanzania	6	42	361	54
Togo	6	79	105	84
Uganda	7	75	523	51
Zambia	6	39	250	67
Zimbabwe	9	51	157	50
Europe and Central Asia				
Albania	7	63	401	95
Armenia	5	59	188	81
Azerbaijan	4	74	621	86
Belarus	6	25	554	69
Bosnia-Herzegovina	10	45	552	100
Bulgaria	7	43	953	97
Croatia	8	14	549	92
Czech Republic	7	12	1,195	96
Estonia	5	27	222	93
FYR Macedonia	8	29	148	100
Georgia	8	79	491	92
Hungary	8	29	2,622	78
Kazakhstan	4	36	1,166	98
Kyrgyz Republic	6	57	97	94
Latvia	7	41	572	97
Lithuania	6	30	542	98
Moldova	9	53	163	98
Montenegro	8	28	60	100
Poland	6	30	6,150	85
Romania	5	23	1,410	97
Russian Federation	5	37	18,326	82
Serbia	8	30	733	88
Slovak Republic	7	29	1,133	80
Slovenia	8	28	871	43
Tajikistan	5	78	110	97
Turkey	5	28	7,419	84
Turkmenistan	4	34	140	100
Ukraine	7	45	3,394	89
Uzbekistan	5	50	426	97
Middle East and North Africa				
Afghanistan	9	68	501	79
Algeria	4	19	885	95
Bahrain	4	32	203	68

	Total expenditure on health as a percentage of gross domestic product	Private expenditure on health as a percentage of total expenditure	Private expenditure on health (in millions of 2009 U.S. dollars)	Out-of-pocket expenditure on health as a percentage of private expenditure
Egypt	6	59	3,805	95
Iran	7	49	7,645	95
Iraq	4	22	111	100
Jordan	10	57	846	76
Kuwait	2	22	447	92
Lebanon	9	56	1,116	76
Morocco	5	74	2,429	77
Oman	2	18	129	58
Pakistan	2	84	2,139	98
Saudi Arabia	3	23	8,987	13
Tunisia	5	56	867	82
United Arab Emirates	3	30	1,470	69
West Bank and Gaza	-	-	-	-
Yemen	5	54	515	95
South Asia				
Bangladesh	3	68	1,263	88
Bhutan	4	28	10	100
India	4	75	27,447	91
Maldives	8	20	15	98
Nepal	5	70	318	85
Sri Lanka	4	53	600	87
East Asia and the Pacific				
Cambodia	6	74	324	85
China	5	59	78,407	83
Indonesia	3	50	5,469	70
Lao P.D.R.	4	81	117	76
Malaysia	4	55	3,441	73
Mongolia	6	26	49	44
Pacific Islands	-	-	-	-
Papua New Guinea	3	18	30	42
Philippines	4	67	3,150	84
Thailand	4	36	2,860	77
Timor Leste	18	14	8	37
Vietnam	7	68	2,848	90
Latin America and the Caribbean				
Argentina	10	55	11,783	44
Bolivia	6	37	254	81
Brazil	8	52	45,305	64
Caribbean	-	-	-	-
Chile	5	47	3,449	55
Colombia	7	15	1,705	44
Dominican Republic	6	63	1,359	64

	Total expenditure on health as a percentage of gross domestic product	Private expenditure on health as a percentage of total expenditure	Private expenditure on health (in millions of 2009 U.S. dollars)	Out-of-pocket expenditure on health as a percentage of private expenditure
Guatemala	5	62	938	91
Haiti	8	32	127	90
Honduras	6	52	336	87
Jamaica	5	47	282	64
Mexico	7	56	37,195	94
Nicaragua	10	52	276	98
Panama	7	31	372	81
Paraguay	8	62	460	88
Peru	4	42	1,551	76
Uruguay	8	57	913	31

Annex 3: Resources for Market Information and Statistics

Global Health Observatory (GHO)	According to its website, "The Global Health Observatory (GHO) is the World Health Organization's (WHO) portal providing access to data and analyses for monitoring the global health situation. It includes data and analyses for key health themes, as well as direct access to the full database." Information of importance to investors includes data on health expenditures, demographics, socioeconomic status, the health workforce, infrastructure, essential medicines, and specific health-related information. The WHO's annual World Health Statistics can be accessed through the GHO. These documents present the most recent health data for the WHO's 193 member states. Download these reports in Adobe PDF or Excel at http://www.who.int/gho/en/
The Organization for Economic Cooperation and Development	(OECD)'s health statistics provides information on health status, determinants of health, health care activities, and health expenditure and financing in OECD countries. They are accessible at http://stats.oecd.org/Index.aspx
Demographic and Health Surveys (DHS)	DHS provides information and data from comprehensive studies of populations, health, and nutrition. Country-specific data is available. The database has a STATcompiler that provides quick facts and country comparisons, allowing investors to build customized tables from hundreds of surveys and indicators. The STATmapper creates maps from STATcompiler data in more than 75 countries. For more information, visit http://www.measuredhs.com/aboutdhs/.
World Bank	World Bank Data is a searchable database of more than 300 indicators from 209 countries, available in English, French, Spanish, and Arabic. http://data.worldbank.org/.

Country-specific market research

Dalberg Global Development Advisors. 2009. *Improving Access to Finance for the Private Health Sector in Tanzania: Extracts from Final Report*. IFC.

Tarantino, Lisa, and Makaria Reynolds. 2007. *Financing and Training Needs of Small-Scale Private Health Care Providers and Distributors in Romania: Market Research Report*. Bethesda, MD: Banking on Health, Abt Associates.

McKeon, Kimberley. 2009. *Financing and Business Development Needs of Private Health Care Providers in Nigeria: Market Research Report*. Bethesda, MD: Banking on Health, Abt Associates.

McKeon, Kimberley. 2007. *Financing and Business Development Needs of Private Health Care Providers in Zambia: Market Research Report*. Bethesda, MD: Banking on Health, Abt Associates.

Country-Specific Economic, Health, and Health Care-Related Information

The ministry responsible for business registration will have information about the number of registered health care businesses.

The ministry of health will have statistics on certified and registered health businesses, the policy and regulatory environment, and standards and requirements for health-related businesses.

The ministry of the economy or labor will have national economic statistics and information, as well as data on businesses.

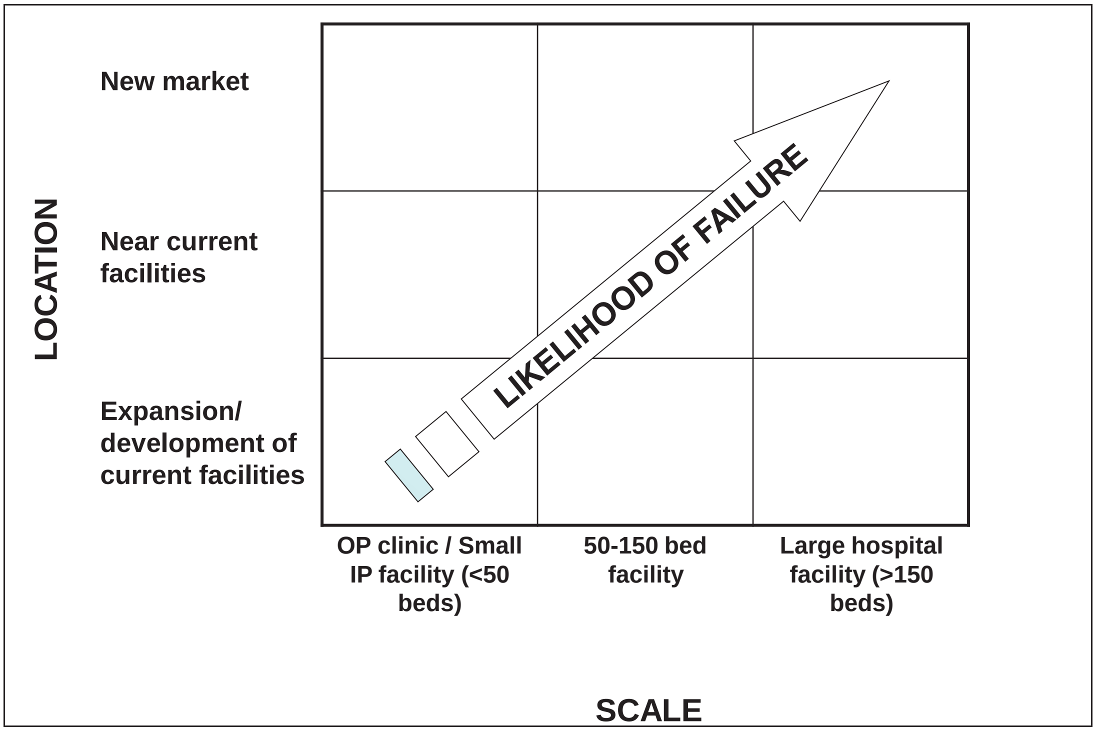
Professional and industry associations will have information related to the policy and regulatory environment for health care businesses.

The local chamber of commerce may have information on the number of private health care businesses and types in that specific location.

Annex 4: Sample Hospital Project Screening Template

Project

Project scale and phasing



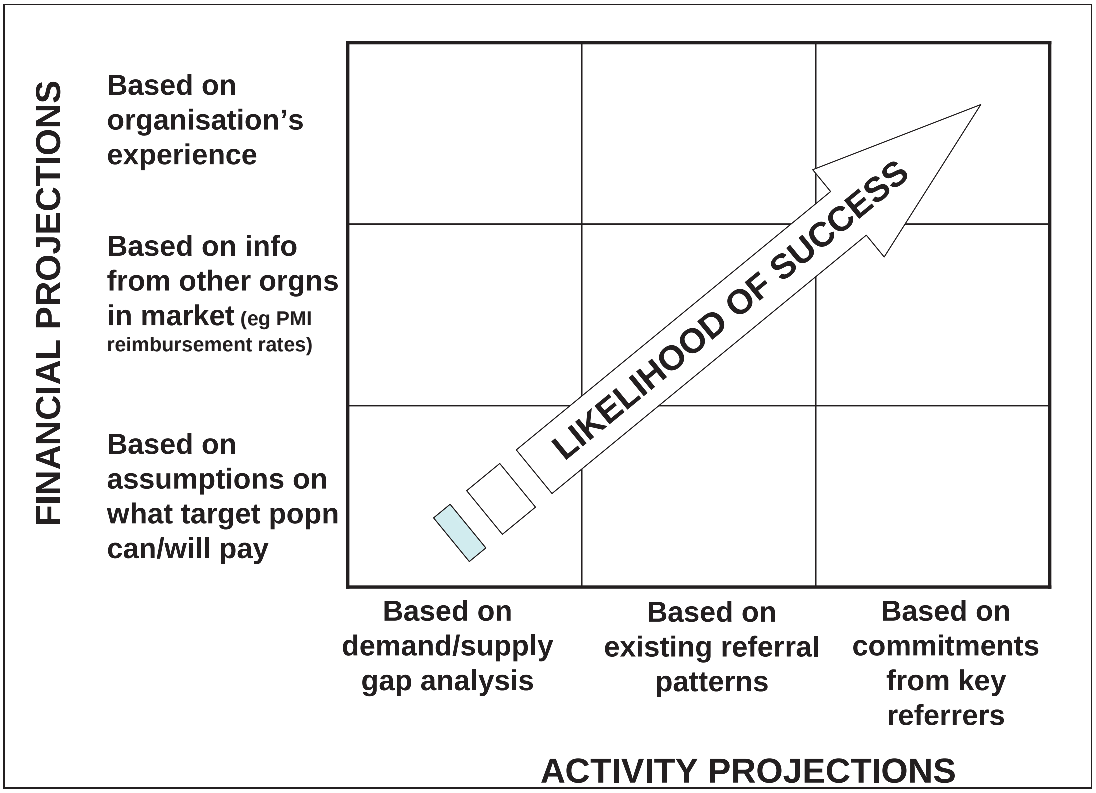
Note: Most successful health care businesses start small and phase expansion as demand increases.

Robustness of Projections

Aggressive/optimistic								**Prudent**
☹	☹	☹	😐	😐	😐	☺	☺	☺

Projections based on:
- Rapid project completion
- Early "ramp-up" of patient numbers
- Peak utilisation rates (eg >70% bed occupancy)
- Demand assumptions
- Epidemiological analysis

Projections based on:
- Previous experience of opening new facilities
- Evident patient referral volumes
- Commitment from key referring doctors/clinics
- Contingencies for:
    - project cost over-runs,
    - early year losses, and
    - unexpected events.



Other factors

Strength of management team								
Weak/inexperienced								Strong/experienced
☹	☹	☹	😐	😐	😐	☺	☺	☺
- Little experience in private health sector - Unclear governance structure - Little evidence of management systems - Inconsistent view of organisation strategy and project rationale					- Track record of success in private health sector. - Clear governance structure - Well developed management systems - Consistent view of organisation strategy and project rationale - Clear understanding of business drivers and key profit centres			

Annex 5: Financial Ratios, Metrics, and Definitions[33]

Asset turnover ratio: Calculates the total revenue for every dollar of assets a company owns. It is calculated by dividing total revenue by average assets for the period.

Current ratio: A liquidity ratio that measures a company's ability to pay short-term obligations. It is calculated as current assets/current liabilities.

Debt/EBITDA: Measures a debt's pay-back period. The longer the payback period the larger the risk.

Debt/Equity ratio: A measure of a company's financial leverage calculated by dividing its total debt by total equity. It indicates what proportion of equity and debt the company is using to finance its assets.

Debt service coverage: It is the amount of cash flow available to meet annual principal and interest payments on debt.

EBITDA (earnings before interest, taxes, depreciation, and amortization): Shows a company's profitability, but not its cash flow.

EBITDA margin: Refers to EBITDA divided by total revenue. It measures the extent to which cash operating expenses use up revenue.

Gross margin: Assess a firm's financial health by indicating the proportion of money left over from revenues after accounting for the cost of goods sold. The gross profit margin serves as the source for paying additional expenses and future savings. Gross margin = (revenue – cost of goods sold)/revenue.

Net margin: The ratio of net profits to revenues for a company. It shows how much of each dollar the company earns is translated into profits. It is calculated by dividing net profit by revenue.

Return on assets: Calculated by dividing annual earnings by total assets. It indicates how efficient management is at using its assets to generate earnings.

Return on equity: Measures the amount of net income returned as a percentage of shareholders' equity. It is calculated by dividing net income by shareholder's equity.

33 Source: http://www.investopedia.com/terms, April 25, 2010.

Annex 6: Site Visit Checklist

☐ Verify the address and location of the business

☐ Site conditions: Compare the cleanliness and orderliness with other businesses of the same type

___Very good ___Good ___Average ___Poor

☐ Stock

___ Drugs are stored in temperature-controlled environment as appropriate

___ Stock levels verified in stock records

___ Stock levels tallied and value verified with applicant

☐ Equipment and supplies

___ Applicant has all of the equipment needed to run the current business

___ Equipment offered as collateral is present and ownership, condition, and value are confirmed

___ Applicant has adequate medical supplies to conduct business

☐ Business conditions

___ Client(s) activity or sales are witnessed that match the applicant's description of business flow (note the number or value of clients or sales witnessed during the site visit: _____)

___ Applicant or employees appear to be performing services or providing products as described in the loan or investment application

☐ Business location

___ Easily accessible for clients

___ Business is marked by a sign

___ Facility is owned

  ___ Facility will be offered as collateral (value: _______)

  ___ Ownership documents verified

___ Facility is rented

☐ Certifications

___ Applicant has the required business certifications for current business operations

___ Applicant has the required up-to-date professional certifications to perform services and dispense products for current business operations

___ Applicant has the required business certifications for new, planned business operations

___ Applicant has the required up-to-date, professional certifications to perform services and dispense products for new, planned business operations

☐ Market information and competition

___ Business is located in or near a sizable market of clients.

Market opportunities perceived, described by applicant: ____
___ ____

____

Possible threats to business in the market: ____
__ ____

____

☐ Competition

Competitors in the area or market consist of	Applicant's advantage over competitors
1.	
2.	
3.	

☐ Bookkeeping

___Client keeps records that confirm cash-flow information

___ Records of past and current loans were collected and verified

___ Past paid bills collected and verified

___ Bank account information collected and verified

___Client does not keep formal records, but has receipts and other information to confirm cash-flow information collected

___Client does not keep any records of financial or business activity

☐ Financial records

___Audited financial statements collected for past __ years

___ Tax records from the last period collected

___ No tax records are submitted by this business

___ Management's balance sheet collected

___ Management's income statement collected

___ Management's informal financial records collected

☐ Other documentation

___ Tax documents for property collected or verified

___ Ownership documents for property collected or verified

___ Ownership documents for other assets verified

___ Other: ____

☐ Cash-flow information

___ Accounts receivable information collected

___ Accounts payable information collected

___ Typical payment terms of clients: ____________________

___ Typical payment terms of suppliers: ____________________

___ Payment terms for employees, if applicable: ____________________

___ Payment terms of any outstanding debts: ____________________

___ Home or personal cash inflow and outflow information collected

☐ Other information specific to business type

___ Applicant is member of local professional association (name of association and contact person: ________ ____________________)

☐ Personal information about applicant (if sole proprietorship)

___ Family information verified

___ Spouse is supportive of the loan and business

___ Other: ____________________

☐ Management capacity

___ Applicant has a personable, appropriate manner with clients and employees

___ Applicant appears organized, comfortable in business

___ Applicant has well-conceived plan for business

☐ Employees

___ Number of employees by professional type seen at site visit:

Type: *(for example, nurses)* ________ Number: ____________________

Type: ____________________ Number: ____________________

___ Employees appear busy, content

___ Employees appear to be performing duties aligned with their qualifications

☐ Character and business references

___ Confirmed character, length of time in neighborhood with neighbor or client

Number of personal references collected: _____ Number still needed: ____________

___ Collected name and contact information of relevant supplier(s)

Number of business references collected: ____ Number still needed: _____________

___ Collected local government official name and contact information as a reference

Annex 7: IFC Code of Conduct for Health Care Organizations

PURPOSE

To establish a culture of openness, trust and integrity in business practices. This document will serve to guide behavior to ensure ethical conduct based on the values of the International Finance Corporation (IFC).

POLICY

Organizations receiving funds from the IFC are expected to maintain high standards of professional and business integrity, to comply with all applicable laws, rules and regulations, deter wrongdoing and to avoid situations and behaviors that could reasonably be foreseen to reflect negatively on the integrity or reputation of IFC.

Prior to financing agreements, officers of the organization are to receive this document and are required to execute a Code of Conduct Statement. This statement will indicate that the document has been read and understood, that the organization will conduct business to the expectations outlined, that prohibited conduct will be avoided, and any relevant conflicts will be disclosed.

The intent of these guidelines is not to attempt to foresee or define each situation that does or might involve a breach in ethics. The intent is rather to focus on situations that are viewed as likely to pose actual or potential concerns or to reflect negatively on the integrity or reputation of IFC. The intent is also to focus on IFC's expectation that, in questionable or unforeseen situations, timely disclosure will facilitate satisfactory resolution before any such situation becomes problematic.

During and, as applicable, subsequent to the agreement with IFC, the following issues shall be disclosed and avoided or managed as appropriate:

1. Compliance with laws and regulations

The organization will ensure all activity by or on behalf of the organization is in compliance with applicable laws and regulations.

2. Adherence to ethical standards

Organizations will accurately and honestly represent their services and will not engage in any activity intended to defraud any individual or organization of money, property or honest services.

3. Client focus

The organization has the responsibility to ensure that there are no compromises in delivering the highest standard of services and that every aspect of their operations promotes and reflects these standards. No one is to take unfair advantage of anyone through manipulation, concealment, abuse of privileged information or misrepresentation of material facts.

4. Non-discrimination

Discrimination or harassment on the basis of race, color, religion, gender, nationality, age or disability is not tolerated.

5. Confidentiality

The organization shall maintain the confidentiality of clients and that of their service users and other confidential information in accordance with applicable legal and ethical standards.

6. Records

All organizational records, documents and reports must be accurate, complete, and un-tampered.

7. Avoidance of conflicts of interest

Executives, managers, employees, and Board members owe a duty of loyalty to the organization. Persons holding such positions may not use their positions to profit personally or to assist others in profiting in any way at the expense of the organization.

8. Business relationships

Business transactions with vendors, contractors and other third parties shall be transacted appropriately, without offers, solicitation or acceptance of gifts and favors or other improper inducements in exchange for influence or assistance in a transaction. Business activities must be conducted on the basis of fair competitive practices. All purchases of services and supplies must be from qualified and reliable sources and be based upon objective factors, consistent with the organization's policies and procedures.

9. Occupational safety

The organization abides by all laws and regulations regarding occupational safety. This requires an active participation in maintaining a safe working environment and includes observance of established safety procedures and making recommendations for changes where they are needed.

10. Organ donation and transplant

The organization complies with the WHO Guiding Principles on Human Organ Transplantation.

Organ retrieval from living persons is not undertaken where there are reasonable grounds to suspect that the donation is coerced or that a financial consideration is expected by the donor.

The organization permits the allocation of organs on the basis of morally relevant criteria only.

Transplantation is prohibited when the chance of success is insufficient to justify the risks.

The buying and selling of organs are not performed or condoned by the organization.

The harvesting of organs without prior consent from dead patients (or their legal representative) is not performed or condoned by the organization.

11. Clinical research

The organization has a committee or other mechanism to oversee all research within the organization. Any person enrolled in clinical research is fully informed of the risks and benefits and their right to refuse to participate or drop out of the activity without risk of reprisal.

12. Gender selection

Sex selection, by selectively terminating a pregnancy for non-medical reasons, is not performed or condoned. This encompasses a number of related practices, including pregnancy ultrasound scanning, where there are reasonable grounds to suspect a risk of termination of pregnancy dependent upon the determined sex of the embryo.

13. Assisted reproductive technologies

Interventions of human procreative processes [e.g. invitro fertilization (IVF), gamete intrafallopian transfer (GIFT), artificial insemination by donor (AID)] are carried out with due consideration to issues including donor confidentiality, parental age limits, same sex couples, ownership of donated sperm/eggs, multiple embryo transfer and genetic testing. All such procedures are carried out within the laws and regulations of the country.

Exploitation of clients seeking reproductive assistance (e.g. non-required testing procedures or procedures unlikely to yield results), or of egg donors is prohibited.

Harvesting of stem cells must be done with the express permission of the donor under the laws and regulations of the country.

14. Female genital mutilation

Female circumcision is not performed or condoned by the organization.

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