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UGANDA'S PRIVATE HEALTH SECTOR: *OPPORTUNITIES FOR GROWTH*

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UGANDA'S PRIVATE HEALTH SECTOR: *OPPORTUNITIES FOR GROWTH*

Submitted by:

Cardno Emerging Markets USA, Ltd.

Prepared by:

Banyan Global

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ACRONYMS

ANC	Ante Natal Care
APR	Annual Percentage Rate
ART	Antiretroviral Therapy
CERUDEB	Centenary Rural Development Bank
CT	Cathode Ray Tube
DCA	Development Credit Authority
FGD	Focus Group Discussion
HIPS	Health Initiatives in the Private Sector
HIV/AIDS	Human immunodeficiency virus infection/ Acquired immunodeficiency syndrome
HMIS	Health Management Information System
IP	Implementing Partner
MoH	Ministry of Health
MRI	Magnetic Resonance Imaging
OPD	Out Patients Department
OVC	Orphans, Vulnerable Children
PACE	Programme for Accessible Health Communication and Education
PEPFAR	The U.S. President's Emergency Plan for AIDS Relief
PFP	Private for-profit
PHP	Private Health Providers
PMTCT	Prevention of mother to child transmission
SIDA	Swedish International Development Agency
STI	Sexually Transmitted Infection
TB	Tuberculosis
UHMG	Uganda Health Marketing Group
USAID	United States Agency for International Development
VHT	Village Health Team

I. EXECUTIVE SUMMARY

Introduction

Uganda's health system comprises public, private-not-for-profit (PNFP) and private-for-profit (PFP) providers as well as traditional and complementary medicine practitioners. Private providers are considered to play a major role in health care delivery in Uganda, reaching a wide client base.¹ Although Uganda's Ministry of Health does not have accurate numbers on PFPs², reliable estimates put the number at over 2,000 with the vast majority being in Kampala and the central region.³ Based on opinion surveys and reports, there is a sense among the general population that private health providers are more readily accessible and provide a higher quality service than the public sector.

Uganda's private health sector plays an important role in delivering services to Ugandan citizens, however, critical gaps still remain. Significant numbers of Ugandans do not have access or cannot afford health services⁴; lack of health services is particularly acute in rural areas due to the dearth of health facilities in more remote locations.⁵ PNFPs play a critical role in the delivery of health services to rural areas but face significant challenges to hire, employ and retain qualified staff. Compounding these challenges is Uganda's 3.2% annual population growth rate which puts continued strains on its current health system. Uganda's health system faces challenges to not only expanding its health care coverage but to improve its quality and efficiency, lowering costs and improving health outcomes. Private sector health delivery systems will be critical to meeting these challenges.

Methodology and Study Objectives

This study seeks to determine the constraints and opportunities to support Uganda's private sector health's growth, specifically examining issues related to lack of access to financing and business support/training services. The report was carried out through the following steps: (1) review and summary of existing literature; (2) gathering primary data sources; (3) draft report writing, a stakeholder workshop, and vetting of report findings and finalization of the report.

Four primary data sources funded by the USAID/Uganda Private Health Support Program were used in Step II, including (i) a 2013 Baseline Report; (ii) a 2014 Development Credit Authority (DCA) Baseline Report; (iii) a 2014 Compuscan (Credit

¹*Private and Public Health Delivery in Rural Areas of Uganda*, BMC Health and International Human Rights, 2010.

²This is a result of PFPs not reporting under the government's health management information systems, as noted in the *Uganda Health System Assessment*, USAID, 2011.

³*Survey of Private Health Facilities in Uganda*, Partners for Health Reform Plus, September 2005.

⁴*Health in Africa Initiative Market Studies: Uganda Report*, International Finance Corporation, 2010.

⁵Approximately 70% of Uganda's PFPs are located in central Uganda, most of which are serving the urban population of Kampala, as noted in *Fiscal Space for Health in Uganda*, World Bank Working Paper No. 186, 2010.

Bureau) report entitled *Health Sector Borrowing in Uganda*; and (iv) data collected in 2014 from direct interviews with 140 private health clinics from across Uganda.

Private Health Sector Profile

The majority of the private health sector (76%) is composed of facilities providing outpatient services to address common diseases like malaria along with somewhat larger clinics that offer delivery and laboratory services. Twelve percent of the sector are Health Centre IV facilities, operating as ‘mini hospitals’ with inpatient care and surgical capabilities. Most private clinics tend to cluster around urban areas resulting in limited rural healthcare coverage. A wide variety of services are offered through Uganda’s private health clinics ranging from obstetrics and gynecology, family planning, TB treatment, child health immunizations, sexually transmitted infection (STI) treatments, and safe male circumcisions. Based on interviews with private health clinic staff, malaria prevention and treatment, HIV/AIDS counselling/testing, and general health education are the most commonly offered services.

Financing of the Healthcare Sector

Financing Needs

Uganda’s health sector relies on its own savings (retained earnings) or informal borrowing to manage its operations.⁶ This fact was verified by a recent survey of health facilities in Uganda, see Table 1, which found that only 16% of health businesses had borrowed from a bank for business purposes.⁷ Health businesses recognize that their reliance on retained earnings impedes their ability to grow. In a 2014 survey of healthcare businesses in Uganda, 78% noted that their major constraint to running operations was lack of financing, specifically to purchase new equipment and for working capital needs.⁸

Table 1: Healthcare Sector Sources of Financing

Types of Financing	Percentage
Retained Earnings	62 %
Commercial Bank	16 %
Friends or Family	12 %
Supplier Credit	6 %
Money Lenders	4 %

Uganda’s private health sector requires additional funding to grow and meet the population’s demand for health services. Based on one estimate made by a Deloitte study in 2010, there is a potential \$427 million financing gap for short- and long-term

⁶ USAID/Uganda Private Health Support Program, health sector survey.

⁷ Both the USAID/Uganda Private Health Support Program’s 2013 original baseline survey of 90 health clinics and its subsequent survey of 140 clinics in 2014 drew the same conclusions.

⁸ *Baseline Survey of DCA Borrowers*, USAID/Uganda Private Health Support Program, 2014.

borrowing from this sector making it a significant market opportunity for Uganda's commercial banks and microfinance institutions.

Financing the Health Care Sector

Based on data from Uganda's Credit Bureau, Compuscan, the financial sector has been gradually increasing lending to the health sector for the last three years (2011-2013).⁹ Since 2009, there have been 1,682 loans disbursed to 534 health sector businesses. The value of current loans outstanding to health sector businesses (as of March 2015) is 222 billion shillings. This lending is driven mostly by commercial banks, representing 96% of loans disbursed and 98% of the loan values to health sector businesses. Forty-eight percent of health sector borrowers have loan sizes ranging from 8 million–129 million shillings. While these trends reveal positive growth in health sector lending, the value of overall health lending represents only 1% of Uganda's commercial bank total loan portfolios¹⁰.

The Compuscan Credit Bureau assessment of health sector loans between 2009–2013 indicated that they performed slightly worse than the banking sector's small and medium sized (SME) lending portfolio. In this period, the value of delinquent health loans was around 4%, compared to 2.8% - 4.1% for general SME borrowers. When disaggregating the Compuscan data, it was determined that hospitals and pharmacies have the best credit history, with historically less than 1% delinquency.

Constraints to Access Financing

Demand side: Health care facilities face many of the same constraints in accessing financing as do other small and medium-sized (SMEs) businesses in Uganda. This includes a general lack of financial acumen and understanding of the formal financial sector; many also complain of the sector's high interest rates and bank's lack of proactive outreach to the health care sector. Health care businesses have equally negative and positive impressions of the banking sector. Based on a 2013 survey of 91 health facilities, 37% had a negative or very negative attitude of banks and borrowing along with an equal percentage with a positive attitude. A 2014 survey of 32 Development Credit Authority (DCA) loan recipients noted that their biggest challenge after receiving their health business loan was the high interest rates (54%) charged by Centenary Bank and the inability to obtain long-term fixed asset financing (47%).

Supply side: According to the 2010 *Health in Africa Initiative Market Studies: Uganda Report*, the key reasons banks do not lend to healthcare facilities include: (1) a lack of business and financial management expertise—which can result in the health business's poor management of funds, lack of financial records, and lack of understanding of the importance of basic documentation needed to acquire financing; (2) lack of acceptable collateral security; (3) poor infrastructure (physical premise and

⁹Health Sector Borrowing in Uganda, Compuscan (Credit Bureau), 2015.

¹⁰Ibid.

equipment) and limited staff skills to serve as the basis of expanding operations; and (4) need for fairly small loan sizes—which is less attractive to bank loan officers who often receive bonuses based on the value of their monthly disbursements. Banks also perceive the health sector as having limited demand in terms of volume and loan size. Compared to other sectors, health businesses do tend to be smaller and these businesses have a limited absorptive capacity. For example, in the 2014 survey of 140 health clinics, 43% of clinics were earning a profit of approximately 2 million UGX (\$830) a month, with another 25% earning up to 6 million UGX (\$2,500), and with about 11% earning up to 20 million UGX (\$8,300) a month. This same survey did go on to note that 57% of clinics experienced increased profits in the past year. So while the health sector is growing and there are significant financing needs, individual loan sizes will be relatively small.

Conclusions and Challenges

Financing Opportunities

This study provides new insight on the need for short-, medium-, and long-term financing of Uganda's health sector. Based on an estimate made by the 2010 IFC study, there is a potential \$427 million need for financing for short- and long-term borrowing in this sector, making it a significant potential market segment for Uganda's commercial banks. While a large portion of this demand is from hospitals (84%), a projected \$30 million is needed by Uganda's private health clinics to meet their growth and expansion goals for the coming period.

However, there is a mismatch between what health providers want (e.g., longer-term, larger loans for construction and equipment) with what their revenue can support. Surveys indicate that health clinics in particular have fairly small profit margins and need loans with smaller installments spread out over longer periods of time. In general, banks could expand lending to this sector by offering more flexible terms and conditions, e.g., longer loan terms with fewer collateral conditions.

Developing loan products more tailored for this sector will require an improved understanding by the banking industry of the healthcare market. An investment must be made to more fully understand and disaggregate this sector's financial needs vis-à-vis its financial capacity to absorb funding to grow. Issues around collateral need to be evaluated and creative solutions derived for clinic owners who lack ownership of land or property. For example, one innovative African commercial bank developed a series of graduated loans to enable expanded lending to female entrepreneurs that could also work for the health sector. In this case, the bank offered female borrowers 'entry level' loans to purchase land that could later be used as collateral.

Business Advisory Services

One of the most critical ingredients to addressing the gap between health sector demand and commercial bank supply is the provision of business advisory services to

the health sector to improve their overall financial acumen. Banks are often uncomfortable working with doctors who do not have much business management experience and often cannot show loan officers the true profitability of their businesses. Doctors and clinic owners recognize this weakness and are very open to financial management training and support. In fact, the USAID/Uganda Private Health Support Program is presently supporting an initiative to provide a network of 190 private health clinics around the country with intensive business management training, accounting support, and business mentoring.

Health businesses also noted that there is a significant need across the sector to better utilize newly purchased medical equipment. Although equipment suppliers usually provide a one-year warranty with free maintenance, including technical training on the functionalities of the equipment and clinical training on the use of the equipment, Uganda's health businesses have found that securing qualified clinical technicians to use the equipment and analyze the results can be a significant challenge. Without the ability at the health clinic level to fully utilize its medical equipment, the business loses the full benefit of equipment—both medically and financially.

II. INTRODUCTION

Uganda spends more on health as a share of GDP than its comparator countries; its spending is higher than average for sub-Saharan Africa, and about average for its income level.¹¹ However, almost 30% of the country's health care spending is funded by external sources and almost 40% comes from individual out-of-pocket expenditures.¹² That means that the government is contributing too only about 30% of the country's total health expenditures, reflecting the important role the private sector plays in delivering health care in Uganda.

Uganda's health system comprises public, private-not-for-profit (PNFP) and private-for-profit (PFP) providers as well as traditional and complementary medicine practitioners. Private providers play a major role in health care delivery in Uganda, reaching a wide client base.¹³ Although Uganda's Ministry of Health does not have accurate numbers on PFPs,¹⁴ reliable estimates put the number at over 2,000 with the vast majority being in Kampala and the central region.¹⁵ Over 90% of PFP facilities are small and provide only outpatient curative services, and many lack up-to-date equipment and staff.¹⁶

There are approximately 2,000 private health service providers in Uganda.

The health sector is also an important employer in Uganda, employing approximately 13% of all medical professionals in Uganda.¹⁷ At least 9,500 health professionals, including 1,500 doctors, are employed in the private-for-profit health care sector as of 2006 according to a 2010 Uganda Ministry of Health report.

70% of Uganda's PFPs are located in central Uganda, most of which are serving the urban population of Kampala.

Based on opinion surveys and reports, there is a sense among the general population that private health providers are more readily accessible and provide a higher quality service than the public sector. A recent survey in three districts of Eastern, South-Western, and Central Uganda found that more Ugandans visited private facilities (53%¹⁸) for their health care needs than public sector facilities (37%), with the rest utilizing traditional health practitioners (10%).¹⁹ Of those visiting private facilities, the

¹¹ *Fiscal Space for Health in Uganda*, World Bank Working Paper No 186, 2010.

¹² *Health in Africa Initiative Market Studies: Uganda Report*, International Finance Corporation, 2010.

¹³ *Private and Public Health Delivery in Rural Areas of Uganda*, BMC Health and International Human Rights, 2010.

¹⁴ This is a result of PFPs not reporting under the government's health management information systems, as noted in the *Uganda Health System Assessment*, USAID, 2011.

¹⁵ *Survey of Private Health Facilities in Uganda*, Partners for Health Reform Plus, September 2005.

¹⁶ *Fiscal Space for Health in Uganda*, World Bank Working Paper No 186, 2010.

¹⁷ *Health in Africa Initiative Market Studies: Uganda Report*, International Finance Corporation, 2010.

¹⁸ This includes 40% using PFPs and 12% using PNFPs.

¹⁹ *Private and Public Health Care in Rural Areas of Uganda*, Konde-Lule et al., 2010.

vast majority seek primary health care services. These numbers are further validated by the IFC 2010 study, *Health in Africa Initiative Market Study: Uganda Report*, which noted a strong preference among Ugandans to use private clinics over public clinics in all income quintiles except the lowest quintile.²⁰

Uganda's private health sector plays an important role in delivering services to Ugandan citizens, however, critical gaps still remain. Significant numbers of Ugandans do not have access to or cannot afford health services²¹; lack of health services is particularly acute in rural areas due to the dearth of health facilities in more remote locations.²²PNFPs play a critical role in the delivery of health services to rural areas but face significant challenges to hire, employ, and retain qualified staff. Compounding these challenges is Uganda's 3.2% annual population growth rate which puts continued strains on its existing health system.

Uganda's health system faces challenges to not only expanding its health care coverage but to improving its quality and efficiency, lowering costs and improving health outcomes. Private sector health delivery systems will be critical to meeting these challenges. The Uganda government recognizes the importance of the private health sector in delivering services to the general population. The Government's Health Sector Strategy and Investment Plan (HSSIP), implemented over 10 years and currently in its third phase (2010/11-2014/15), includes reforms to "promote the private sector involvement in health care service delivery to reach more Ugandans."²³ There are also a variety of donor funded programs supporting the improved outreach and efficiency of Uganda's public and private health care system.

²⁰“The preference for government health services in the lowest quintile may either be attributed to government health centers providing services targeted to low income groups as well as facilities most easily accessed by low income, or a consequence of the fact that this cadre of the population cannot afford private healthcare”, *Health in Africa Initiative Market Studies: Uganda Report*, International Finance Corporation, 2010.

²¹*Health in Africa Initiative Market Studies: Uganda Report*, International Finance Corporation, 2010.

²²Approximately 70% of Uganda's PFPs are located in central Uganda, most of which are serving the urban population of Kampala, as noted in *Fiscal Space for Health in Uganda*, World Bank Working Paper No. 186, 2010.

²³*National Report on the Progress of Implementation of the Rio Commitments on Sustainable Development in Uganda*, National Government, 2012.

III. METHODOLOGY AND STUDY OBJECTIVES

Study Objectives and Approach

This study seeks to determine the constraints and opportunities to expand Uganda's private sector health care system, specifically examining issues related to its lack of access to financing and business support/training services. The report was carried out through the following steps:

Step I – Review and summary of existing literature

Step II – Gathering primary data

Step III – Draft report writing, stakeholder workshop, and vetting of report findings and finalization of the report

Four primary data sources funded by the USAID/Uganda Private Health Support Program were used in Step II, including (1) a 2013 project Baseline Report; (2) a 2014 Development Credit Authority (DCA) Baseline Report; (3) a 2014 Compuscan (Credit Bureau) report entitled *Health Sector Borrowing in Uganda*; and (4) data collected in 2014 from direct interviews with 140 private health clinics from across Uganda.

Survey and Data Gathering

The three USAID/Uganda Private Health Support Program reports were compiled over a 16 month period (2013-2014), representing four key sources:

- A 2013 Baseline Report—this summarizes interviews with 118 private health clinics from across Uganda regarding their current services (quality and quantity), plans to expand, constraints to expansion, and experience in accessing formal sector finance.
- A 2014 DCA Baseline Report—conducted with 32 DCA health sector borrowers supported through the USAID Development Credit Authority (DCA) loan guarantee. These businesses were questioned about their current lending and future borrowing requirements.
- The Ugandan Credit Bureau (Compuscan) report entitled *Health Sector Borrowing in Uganda*—which drew on all Ugandan bank loan registrations for the past five years to obtain lending patterns to the private health sector. This analysis considered 217,676 loan accounts that had been reported to the Credit Bureau between 2009-2013.
- The USAID/Uganda Private Health Support Program funded the gathering of primary data from 140 private health clinics in 2014. These are a representative sample of Uganda's private health sector (see table 1, below). These clinics were drawn from functional and viable private healthcare businesses, many belonging to one of the following three franchises: Marie Stopes/Blue Star, PACE/Profam, and UHMG/Good Life. An accurate representation of Uganda's healthcare geographical coverage was considered, selecting clinics from a representative sample of districts. A detailed protocol was developed to determine each clinic's current service offering, affiliations with hospitals and associations, the numbers

and socio-economic conditions of clients, the method of client payments, current staffing and future staffing requirements, historical borrowing patterns, current interest in borrowing, types of financial requirements (loan size, loan type and term), and training and advisory needs. The survey also asked questions regarding future opportunities and challenges to growth and the diversification of service offerings.

Stakeholder Workshop

In December 2014, a stakeholder workshop was held in Kampala to share this study's findings and obtain insight from experts and specialists. Participants were invited from the financial and health sector, including donor representatives and academics.

The study was distributed to participants at the workshop and key findings were presented by its authors. Small group sessions were held to allow individuals time to comment on all aspects of the report, which were consolidated and integrated into the final report.

The final report reflects Uganda's current outlook on health sector lending, as agreed upon by workshop stakeholders. It serves as a guide for donors, health practitioners and bankers to better understand the country's private health sector and its challenges and opportunities for growth.

IV. HEALTH SECTOR PROFILE

This section of the report provides the reader with an overview of Uganda’s private health sector, including a general overview of typical clients, services rendered, and general business operations.

General Overview

As noted in the introduction, Uganda has a robust private healthcare sector with approximately 2,000 private clinics scattered across the country. Based on a 2014 survey carried out by USAID/Uganda Private Health Support Program of 140 health clinics (see table 2), the majority of these facilities (76%) are either Health Centre II or Health Centre III (see textbox) category providers. Twelve percent represent Health Centre IV facilities, which operate as ‘mini hospitals’ with inpatient care, are managed by a senior medical officer, and often conduct surgeries. Most clinics tend to cluster around urban areas resulting in limited rural healthcare coverage.

Health Centre II provide outpatient services and can be led by a registered nurse; these health facilities handle common diseases like malaria and offer antenatal care. **Health Centre III** conducts deliveries (has a maternity ward) and is led by a senior clinical officer and have a functioning laboratory.

Table 2: Distribution of Private Health Clinics Surveyed

District	Number	District	Number
Arua	10	Kyankwanzi	1
Bugiri	2	Lamwo	1
Bushenyi	1	Lira	6
Gulu	6	Lyantonde	2
Hoima	6	Manafa	3
Ibanda	3	Masindi	7
Iganga	8	Mbale	6
Isingiro	3	Mbarara	6
Jinja	4	Namutumba	1
Kabale	6	Nebbi	2
Kabarole	5	Ngora	2
Kaliro	2	Ntungamo	4
Kamuli	4	Pakwach	1
Kasese	1	Rakai	1
Kibaale	1	Rukungiri	6
Kibale	2	Sironko	4
Kitgum	2	Soroti	6
Kitgum	2	Tororo	6
Koboko	1	Kumi	5

As shown in table 3, a wide variety of services are offered through Uganda’s health clinics ranging from obstetrics and gynecology, family planning, TB, child health immunizations, sexually transmitted infection (STI) treatments, and safe male circumcisions. Based on interviews with health clinic staff, malaria prevention and treatment, HIV/AIDS counselling/testing and general health education are the most commonly offered services.

Table 3: Health Clinic Services²⁴

Services Offered	No. of Clinics
Malaria (prevention, diagnosis and treatment)	132
HIV/AIDS Counselling and Testing	125
Health Education	124
Laboratory Services	122
Family Planning and Reproductive Health	116
STI Treatment and Prevention	112
Obstetrics and Gynecology	96
Safe Male Circumcision	72
Surgeries	83
TB Diagnosis and Treatment	63
Child Health Immunization	37
X-Rays	25

Fifty-seven percent of the private health clinics interviewed by the USAID/Uganda Private Health Support Program for this report indicated that the quality of their service delivery has been increasing over the past year. Reasons for these increases were due to new equipment purchases (laboratory equipment and ultra sounds), more skilled doctors, and training of nurses and clinic officers in specialized areas such as cancer screening, diagnosis processes, and laboratory services. Some of these facilities had also expanded their businesses to new sites and renovated their premises; for example, several had added a maternity and/or labor wing. Clinics also noted that clients greatly appreciated increased diversification and availability of on-location pharmaceutical products.

The same 2014 survey noted that these representative health clinics serve a wide range of socio-economic clientele. The definition of socio-economic status was considered to be a combination of education, income and occupation. The following proxies were used to indicate socio-economic status, based on data from the Uganda Bureau of Statistics:

Lower—refers primarily to the rural population whose income is derived from agricultural activities such as farming and has fairly low educational levels. Average monthly income is approximately 222,600 UGX (\$87).

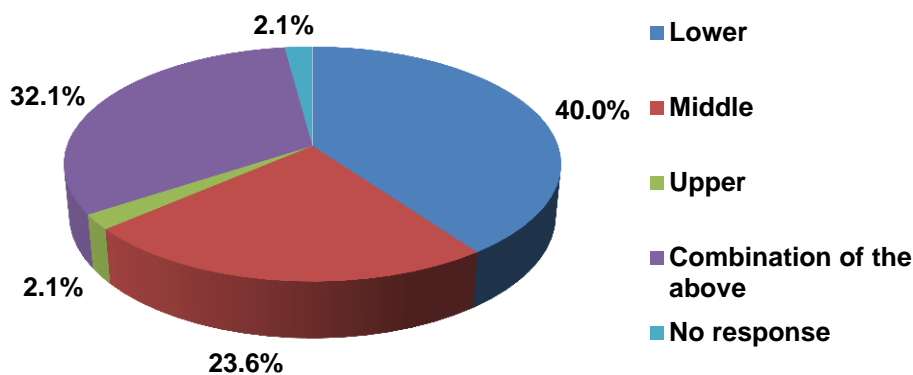
²⁴These numbers were generated from interviews with 140 health clinics across Uganda.

Middle—This includes many citizens from both rural and urban areas. In urban areas, this might include workers from both formal and informal employment such as petty trading, domestic help. It would also include a relatively small number of individuals engaged in formal employment in the service and manufacturing industries, e.g., security guards, factory workers. The average educational level is the O-Level secondary school. Average monthly income was considered to be 441,300 UGX (\$173).

Upper—This includes the middle class, predominantly living in urban areas and includes professionals such as teachers, doctors, government workers and skilled workers. Their average educational level is A tertiary level diploma. Their average monthly income is 660,000 UGX (\$260).

As shown in Graph 1, around 40% serve clients from a lower socio-economic group and around 24% from a middle class groups; around 32% serve a mix of lower, middle and upper level income groups. Very few clients come from the very poor or well off (around 2%).

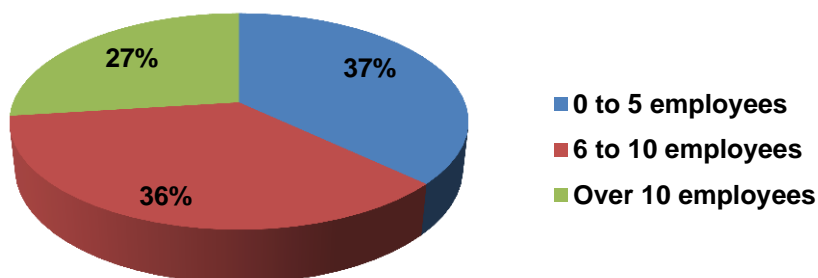
Graph 1: Social-Economic Status of Clients



Business Profile

The majority (85%) of the facilities visited for this study has been operational more than five years and are recognized in their respective communities as reliable providers. Sixty-one percent of the clinics are run through property rentals and 37% clinic managers own their premises. Uganda's health sector also serves as an important employer. As seen in Graph 2, the 140 health businesses interviewed by USAID/Uganda Private Health Support Program in 2014 employ approximately 925 full-time employees, averaging 7 employees per clinic. These numbers are corroborated by the 2013 USAID/Uganda Private Health Support Program-funded baseline survey which found that approximately 73% of Uganda's health clinics maintain between 1-20 employees and an additional 27% employ between 21-50 employees.

Graph 2: Percentage of Full-Time Professional Staff



It is difficult to determine the level of financial management of most health clinics. Though many claimed (during surveys carried out for this report) to have financial statements, this was not verified. The USAID/Uganda Private Health Support Program's ongoing work with 200 private health clinics across the country demonstrates that the majority of health clinics do not track day-to-day income and expenses nor do they maintain a proper income statements or balance sheets. Only the larger clinics and hospitals maintain audited financial statements which are often a basic requirement for acquiring loans from local providers—such as EcoBank.

Financial Statements
As a result of few clinics maintaining financial documents or statements, small to medium-sized clinics rarely have a sense of their profitability which impedes their ability to approach banks for loans.

Private clinics generate the majority of their income from three key services. These services are malaria prevention and treatment, family planning, and health education (related to sexually transmitted diseases, HIV/AIDS, etc). As a result, most clinics focus their resources around these three types of service provision.

Sixty-one percent of health clinics interviewed for this study accept only cash payment for services, while approximately 30% take some form of insurance. Most health businesses undertake limited marketing and 84% claim to use word of mouth and the delivery of high quality services as the key means to attract and retain clients. Only 3% use any type of referral from a public health facility. On a positive note, the majority (52%) of health businesses do belong to some association or business support organization, including some of the following the Uganda Healthcare Federation (UHF), the Uganda Private Medical Doctors Association (UPMDA), the Association of Private Hospitals, the Uganda Private Midwives Association, and the Uganda Medical And Dental Practices.

V. HEALTH SECTOR FINANCING PROFILE

This chapter of the report is divided into three distinct sections discussing financing needs of the health care sector, current levels of financing to the health sector from commercial banks, and the constraints to financing health businesses (from a health service provider and financial sector perspective).

Financing Needs

Uganda's health sector relies on its own savings (retained earnings) or informal borrowing to manage its operations.²⁵ This fact was verified by a recent USAID/Uganda Private Health Support Program survey of health facilities in Uganda, see table 4, which found that only 16% of health businesses had borrowed from a bank for business purposes.²⁶

Table 4: Healthcare Sector Sources of Financing

Types of Financing	Percentage
Retained Earnings	62 %
Commercial Bank	16 %
Friends or Family	12 %
Supplier Credit	6 %
Money Lenders	4 %

Health businesses recognize that their reliance on retained earnings impedes their ability to grow. In a 2014 survey of healthcare businesses in Uganda, 78% noted that their major constraint to running operations was lack of financing, specifically to purchase new equipment and for working capital needs.²⁷ And, of the 8,000 health businesses²⁸ interviewed for a 2010 IFC study, only 8 had access to financing through commercial banks, with loan amounts ranging from \$100,000-\$4,000,000 for 3-5 year terms, and paying annual interest rates between 16-20%.

Uganda's private health sector requires additional funding to grow and meet the population's demand for health services. Based on one estimate made by a Deloitte study in 2010, there is a potential \$427 million financing gap for short- and long-term borrowing from this sector making it a significant market opportunity for Uganda's

²⁵ USAID/Uganda Private Health Support Program, health sector survey.

²⁶ Both the USAID/Uganda Private Health Support Program's 2013 original baseline survey of 90 health clinics and its subsequent survey of 140 clinics in 2014 drew the same conclusions.

²⁷ *Baseline Survey of DCA Borrowers*, USAID/Uganda Private Health Support Program, 2014.

²⁸ The majority of these were hospital and clinics (51%) in addition to pharmacies, pharmaceutical manufacturers, medical equipment suppliers, and medical training facilities.

commercial banks and microfinance institutions. Table 5 breaks down financing needs by business type²⁹.

Table 5: Health Sector Demand for Financing

Category	Value of Financing (U.S. Dollars)
Hospitals	\$ 358 million (84%)
Clinics	\$ 30 million (7%)
Laboratories	\$ 4.7 million (1.1%)
Pharmacies and Pharmaceutical Distributors	\$ 6 million (1.4%)
Medical Equipment Suppliers	\$ 23.5 million (5.5%)
Medical Education Facilities	\$ 4.3 million (1%)
TOTAL	\$427 million

Uganda's hospitals are driving the majority (84%) of the demand from the health sector. Still, private clinics remain a significant opportunity for financial institutions reflecting 7% of Uganda's health sector financing needs, amounting to \$30 million, with medical equipment suppliers another almost \$24 million.

The health sector's financing needs are predicated on steady and increasing demand for health services. Based on the primary data gathering done by USAID/Uganda Private Health Support Program in a 2014 survey of 140 health clinics, 90% claimed that demand for their services has been increasing in the past two years and the same number claimed to have explicit plans to expand. Specific areas of growth include:

- Expansion of general services (child health, dental services, maternity wards and delivery support)
- Increased specialization of services (cervical cancer screening, surgeries)
- Diversifying clientele (reaching a wider spectrum of clients, including middle class)
- Partnerships with other health clinics/hospitals (to serve as a local referral after surgeries, deliveries, or specialized treatments)

These expansion plans will require the upgrading of facilities, the building of new axillary wings and improving staff capacity. Health businesses want to build permanent residence facilities for their staff, offer ultra sound and x-ray services, provide laboratory tests and diagnostic services, and open small drug shops. Table 6 presents more detail on how health businesses plan to expand, diversify and growth their businesses in the coming years.³⁰ These will all require additional funding in the shape of short-, medium-, and long-term financing from Uganda's formal financial sector. Of note, USAID/Uganda Private Health Support Program's 2013 baseline survey of health clinics noted that 38% of all businesses interviewed had recently invested into the growth of their business; an

²⁹These figures are extrapolated from the IFC *Health in Africa Initiative Market Studies: Uganda Report* from 2010.

³⁰ These numbers are derived from the USAID/Uganda Private Health Support Program's 2014 survey of 140 health clinics across Uganda. Interviewees were allowed to select more than one response.

additional 32% had plans to borrow funds in the near future to support their health business's growth.

Table 6: Health Clinics Growth Plans

Upgrade	Percentage	Loan Type
Purchase new equipment	82%	Medium-Term
Purchase new, diversified supplies (medicine)	15%	Short-Term
Diversify services	45%	Medium-Term
Expand space/construction	33%	Long-Term
Purchase land or construct new facility	32%	Long-Term
Hire and train new staff	15%	Medium-Term
Establish an accounting system	10%	Medium-Term
Enroll with private health insurance providers	6%	Medium-Term

Health businesses also noted that they mostly managed their cash-based operations through a bank account and save their profits in banks and savings institutions. This is an important first step to working with the formal financial sector and being comfortable with drawing on commercial banks or microfinance institutions (MFIs) for additional services in the future.

Financing the Health Sector

Based on data from Uganda's Credit Bureau, Compuscan, the financial sector has been gradually increasing lending to the health sector for the last three years (2011-2013).³¹ Since 2009, there have been 1,682 loans disbursed to 534 health sector businesses. The value of current loans outstanding to health sector businesses (as of March 2015) is 222 billion shillings. This lending is driven mostly by commercial banks, representing 96% of loans disbursed and 98% of the loan values to health sector businesses. Forty-eight percent of health sector borrowers have loan sizes ranging from 8 million–129 million shillings. While these trends reveal positive growth in health sector lending, the value of overall health lending represents only 1% of Uganda's commercial bank total loan portfolios³².

Health clinics represented only 1.6% of loans to the health sector since 2009.

³¹Health Sector Borrowing in Uganda, Compuscan (Credit Bureau), 2015.

³²Ibid.

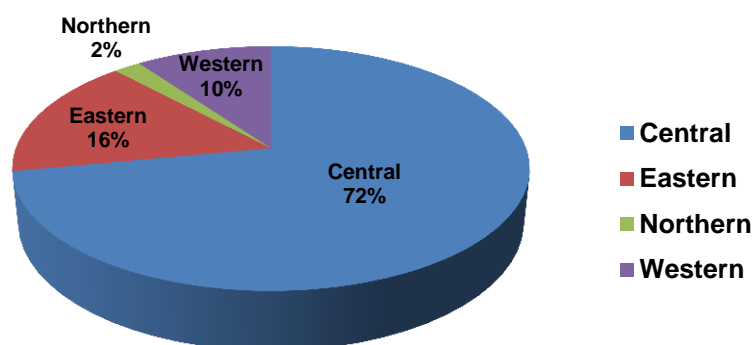
Table 7: Total Loans Disbursed by Business Type

Business Type	Number
Health Services	415
Pharmacy	75
Hospital	18
Drug Shop	17
Clinic	8

The Compuscan survey concluded that 93% of all health sector business lending was done in the Central region, following by Eastern (1.85%), Western (3.6%), and Northern (1.5%); loan values reflect the same pattern with only 7% of all lending being done outside the Central region. This is similar to the conclusions of the 2014 USAID/Uganda Private Health Support Programs survey of 32 Centenary Bank DCA health sector borrowers, the Central Region absorbs the majority of loans (72%), with the Eastern Region coming in second (16%); see Graph 3. The Northern region represents only 2% of the total amount disbursed. Average loan sizes from the 2014 DCA survey were as follows:

- Central Region borrowers had average loan amounts of 137,000,000 Ugandan Shillings (US\$ 53,725)
- The average loan amount taken by borrowers from the Eastern Region was 80,033,333 Ugandan Shillings (US\$ 31,385)
- Loans taken out in the Northern Region averaged 32,500,000 Ugandan Shillings (US\$ 12,745)
- Average loans amounts in the Western region were 26,750,000 Ugandan Shillings (US\$ 10,490)

Graph 3: Centenary DCA Borrowers



The Compuscan report provides a snapshot of trends in loan sizes. Table 8 summarizes this data and reveals that 55% of health sector loans range from 8 million–129 million shillings.

Table 8: Average Loan Sizes

Loan Size (shillings)	Number of Loans
< 1 million	94
1–2 million	31
2–4 million	52
4–8 million	83
8–16 million	106
16–32 million	116
32–64 million	123
64–128 million	102
128–256 million	89
256–512 million	68
512 million–1 billion	40
>1 billion	35

Based on the Compuscan data, Uganda’s commercial banks lend to mostly young, male, repeat health business borrowers for secured loans and overdraft facilities:

- *Female Borrowers.* Approximately 14% of all *business* loans are disbursed to female-owned health businesses or used by individual women borrowers for health-related business purposes.
- *Borrower Ages.* Fifty-one percent of individuals that borrowed for health purposes were between the ages of 31–40 years old.
- *First Time Borrowers.* Twenty-eight percent of health borrowers between 2009–2013 borrowed (from a commercial bank) for the first time.

The Compuscan Credit Bureau assessment of health sector loans between 2009–2013 indicated that they performed slightly worse than the banking sector’s small and medium sized (SME) lending portfolio. In this period, the value of delinquent health loans was around 4% compared to 2.8%–4.1% for general SME borrowers. A more current snapshot of health sector lending from Uganda’s Centenary Bank (which maintains 11% of commercial bank lending to the health sector) reveals a more robust health sector portfolio. Through the USAID Development Credit Authority (DCA) health sector guarantee, Centenary has lent to 56 private health businesses, including clinics, pharmacies, and small hospitals. Centenary Bank currently has 3 DCA client delinquencies amounting to 43.8 million Ugandan Shillings, which is approximately .4% of its current outstanding SME portfolio. When disaggregating the Compuscan data, it was found that hospitals and pharmacies have the best credit history, with historically less than 1% delinquency.

Lending to Individuals for Health Purposes: Loans to individuals for health purposes has doubled (in value) since 2009. In the last 5 years, 613 loans were disbursed to individuals for health sector purposes; 50% of these borrowers were under the age of 35. An example of a typical loan would be a doctor borrowing for his/her clinic's working capital needs. Health sector individual loan values are much smaller than business health loans, averaging 425,000 Ugandan shillings (\$180). Female individual borrowers between the ages of 31–40 comprise 50% of those borrowing for health purposes. The delinquency rate for individual health loans is slightly worse than for businesses, averaging between 5–7%.

Who Lends to Individuals

Commercial banks disburse 78% of the value of loans to individuals borrowing for health purposes in Uganda.

Constraints to Accessing Financing

Health Sector Perspective

Health care facilities face many of the same constraints in accessing financing as do other small and medium-sized (SMEs) businesses in Uganda. This includes a general lack of financial acumen and understanding of the formal financial sector; many also complain of the sector's high interest rates and banks' lack of pro-active outreach to the health care sector.

Health care businesses have equally negative and positive impressions of the banking sector. Based on USAID/Uganda Private Health Support Program's 2013 survey of 91 health facilities, 37% had a negative or very negative attitude of banks and borrowing along with an equal percentage with a positive attitude. USAID/Uganda Private Health Support Program's 2014 survey of 32 Development Credit Authority (DCA) loan recipients noted that their biggest challenge after receiving their health business loan was the high interest rates charged by Centenary Bank (54%) and the inability to obtain long-term fixed asset financing (47%). Clearly, there is still work to be done to create more positive impressions of the formal financial sector and to design products suitable to the health sector's financing needs.

Health businesses also admit that while many plan to expand their practices (90%), most also recognize that they need additional training and technical assistance to turn these plans into reality. Types of training and assistance most often requested by health businesses include:

- How to access financing
- General business management skills
- Financial management and how to establish an accounting system
- Improving clinical quality of services
- Registering with private health insurance providers

On a positive note, many private health clinics claim to access business and advisory assistance. These include assistance from Ugandan-based franchises (e.g., Marie

Stopes, PACE), the national drug authority, and various donors; one facility received support to participate in an exchange visit from Barclay's Bank and one had paid an accounting firm to establish more formalized financial systems. Overall, technical assistance to Uganda's private health sector has focused on improving the quality and availability of medical services and much less on the business and financial management skills the health businesses specifically identify as a systemic weakness.

Financial Sector Perspective

According to the 2010 *Health in Africa Initiative Market Studies: Uganda Report*, the main reasons banks do not lend to healthcare facilities include:

- Lack of business and financial management expertise—can result in the health business's poor management of funds, lack of financial records, and lack of understanding of the importance of basic documentation needed to acquire financing. For example, a PFP owner's inability to document their business's profitability makes it difficult for financial institutions to assess their financial viability.
- Lack of acceptable collateral security—health sector businesses often have limited sources of collateral given that the majority (61%) rent their premises and banks prefer not to accept equipment as a movable form of collateral as they feel they cannot sell equipment easily on the market in cases of default. Many health clinics do not have alternative security such as land.
- Poor infrastructure (physical premise and equipment) and limited staff skills to serve as the basis for expanding operations.
- Need for fairly small loan sizes—this is less attractive to bank loan officers who often receive bonuses based on the value of their monthly disbursements.

Banks perceive the health sector as having limited demand in terms of volume and loan size. As a result, they do not set health sector targets nor do they incentivize staff to lend to the health sector. An exception to this trend is Ecobank's recent decision to set a 5% health lending target for 2015.

Banks offer no incentive to their staff to lend to health sector

And while the Compuscan data reveals that health sector loan sizes range between 6-8 million Ugandan shillings (\$2,500- \$3,300), DCA loan recipients loan sizes are significantly higher (\$12,000-\$300,000). Still, compared to other sectors, private health businesses do tend to be smaller and these businesses have a limited absorptive capacity. For example, in the 2014 survey conducted by USAID/Uganda Private Health Support Program of 140 health clinics, 43% of clinics were earning a profit of approximately 2 million UGX (\$830) a month, with another 25% earning up to 6 million UGX (\$2,500), and with about 11% earning up to 20 million UGX (\$8,300) a month. This same survey did go on to note that 57% of clinics experienced increased profits in the past year. So, while the health sector is growing and there are significant financing needs, individual loan sizes will be relatively small, making it this a less attractive market for commercial banks.

VI. CONCLUSION: OPPORTUNITIES AND CHALLENGES FOR THE FUTURE

This report concludes that there are unfounded perceptions on the supply and demand side of the health sector equation that need to be rectified. More information is needed, more sharing of realities is required, and better data must be exchanged between banks and the health sector; this is foundational to Uganda's health sector's growth. Below are the three most salient points we believe must be addressed to make this happen.

Financing Opportunities

This study provides new insight on the need for short-, medium-, and long-term financing of Uganda's health sector. Based on an estimate made by the 2010 IFC study, there is a potential \$427 million in financing needed for short- and long-term borrowing from this sector, making it a significant potential market segment for Uganda's commercial banks. While a large portion of this demand is from hospitals (84%), a projected \$30 million is needed by Uganda's private health clinics to meet their growth and expansion goals for the coming period.

However, there is a mismatch between what health providers want (e.g., longer-term, larger loans for construction and equipment) with what their revenue can support. Surveys indicate that health clinics in particular have fairly small profit margins and need loans with smaller installments spread out over longer periods of time. In general, banks could expand lending to this sector by offering the following types of financing at flexible terms and reasonable collateral conditions:

- Long-term fixed asset loans to purchase new medical equipment
- Long-term (10 years +) to purchase land and renovate facilities
- Short-term working capital loans to purchase supplies
- Medium-term loans to recruit and train staff with new skill sets
- Medium and long-term financing to support health business start-ups that seek to operate in areas of Uganda currently unserved by existing facilities or to launch operations in less competitive markets, e.g., rural areas.

Developing loan products more tailored for this sector will require an improved understanding by the banking industry of the healthcare market. An investment must be made to more fully understand and disaggregate this sector's financial needs vis-à-vis its financial capacity to absorb funding to grow. Issues around collateral need to be evaluated and creative solutions derived for clinic owners who lack ownership of land or property. For example, one innovative African commercial bank developed a series of graduated loans to enable expanded lending to female entrepreneurs that could also work for the health sector. In this case, the bank offered female borrowers 'entry level' loans to purchase land that could later be used as collateral. Once those initial loans were repaid, clients were offered larger, longer-term loans for construction and equipment purchase. This graduated approach to serving female entrepreneurs could also work to address some of the constraints faced with expanding financing to Uganda's health sector.

Uganda's commercial bank loan officers also need better training on how to assess health businesses in terms of their cashflow and viability. These skills will assist banks to better understand the risks associated with lending to the health sector, such as low turnover and possible delinquency. Partnerships can be developed with medical equipment suppliers, such as Philips/Uganda, to develop co-guarantee arrangements as well as standardized maintenance contracts. These partnerships could address bank concerns over using equipment as collateral (i.e., the issue of who will repurchase used equipment) along with building the health sector's ability to use the full capacity of new equipment.

Interviews for this report conclude that many financial institutions are interested in accessing advisory services to assist them to better understand and assess the viability of lending to the healthcare industry as well as develop products specifically geared for the sector. This is an important next step for donors and others interested in supporting Uganda's health sector growth.

Business Advisory Services

One of the most critical ingredients to addressing the gap between health sector demand and commercial bank supply is the provision of business advisory services to the health sector to improve their overall financial acumen. Banks are often uncomfortable working with doctors who do not have much business management experience and who often cannot show loan officers the true profitability of their businesses. In general there is poor financial management as a result of limited business management experience, financing record keeping, and oversight of the business's cash/flow.

Doctors and clinic owners recognize this weakness and are very open to financial management training and support. In fact, the USAID/Uganda Private Health Support Program is presently supporting an initiative to provide a network of 190 private health clinics around the country with intensive business management training, accounting support, and business mentoring. This will be implemented as part of USAID/Uganda Private Health Support Program's Business Training and Mentoring program, which will include the delivery of a mini MBA course for private health clinic staff.

Health businesses also noted that there is a significant need across the sector to better utilize newly purchased medical equipment. Although equipment suppliers usually provide a one-year warranty with free maintenance, including technical training on the functionalities of the equipment and clinical training on the use of the equipment, Uganda's health businesses have found that securing qualified clinical technicians to use the equipment and analyze the results can be a significant challenge. Without the ability at the health clinic level to fully utilize its medical equipment, the business loses the full benefit of equipment—both medically and financially.

Supplier Networks & Drug Storage

Most Ugandan clinics and hospitals offer their clients access to drugs and some even have mini pharmacies. Smaller facilities often pay significantly more for their pharmaceutical goods due to their inability to purchase in bulk and lack of strong networks and contacts among drug suppliers.

Marie Stopes and PACE offer their franchisees access to bulk purchased drugs at lower than market rates.

Health businesses recognize the need for improved relations with suppliers and many rely on them for supplier credit. One area of opportunity for additional donor support could be to establish buying groups to lower the overall cost of buying drugs for the small and more isolated health clinics that have difficulty accessing these inputs at competitive prices. Clinics interviewed for this study indicated their receptivity to receiving support on gaining direct access to accredited suppliers. Clinics and hospitals also need assistance with market information on suppliers and drug availability.

Health businesses also commented on the need for improved storage and warehousing of commodities, supplies, and stock. This includes physical facilities for handling, transporting, packaging, distributing, and storage of drugs, which is often a capital investment that is beyond the reach of the average clinic or drug store. While this has been something supported by the Ministry of Health, these interventions need to be expanded to support a wider network of clinics and hospitals across the country.

ANNEX A: INVESTMENT MATRIX

On December 9, 2014, in Uganda, a group of 50 bankers, donors, health care providers/clinics, and health associations came together to discuss the draft report findings. Following the presentation of the draft findings by Janice Stallard, participants were asked to provide their thoughts on interventions and strategies to address existing opportunities and constraints to the growth of the health sector. Small, homogenous groups of bankers, donors, and health care providers were formed and asked to complete an investment matrix by answering the following questions:

Donors & Government — What should be the investment priorities to support Uganda’s private health sector growth in 2015?

Banks — What are some specific interventions that financial institutions can undertake to support Uganda’s private health sector growth in 2015?

Health Sector — What type of support would have the greatest impact to best serve Uganda’s growing need for healthcare services?

The matrix below is a summary of the participant inputs.

OPPORTUNITY/ CONSTRAINT	INTERVENTION/INVESTMENT/ ACTIVITY	WHO WILL IMPLEMENT
BANKS		
High interest rates	Seek to find lower cost of funds and longer-term sources of investments.	Central Bank
Tenor of loans	More flexible loan terms	IFC and other programs will provide commercial banks with longer-term financing, enabling the banks to extend longer tenors.
Financial literacy	Training and TA on financial literacy to potential health care businesses	Donors, government, NGOs Association, universities can provide this training and mentoring in collaboration with the banks
Lack of health sector specific products	Design sector specific products	Banks must do this; can be done through partnerships with equipment providers and suppliers. Donors can also support this work by acting as a ‘bridge’ between the formal financial system and other private sector players in the health space.
Lack of collateral	Can be linked to the development of health specific products that have more flexible collateral conditions	Banks

DONORS		
Improve the regulatory environment	Make sure regulation of the healthcare sector is no longer compartmentalized	Donors and government
Coordination among stakeholders	Improve the coordination between the public and private sector. The public sector needs to have a better understanding of what the private sector is doing. Build the capacity and skills of the government to gather this information and develop partnerships.	Donors and government
Investment pipeline	Garner a better understanding of where the best investment opportunities are in the health sector; what would have the biggest impact. There is a lot of data but assistance is needed in sorting it and prioritizing investment opportunities. Education to banks on the health care market and its opportunities for growth.	Donors, banks, associations and government working together.
HEALTH SECTOR		
Expand availability, especially in the rural areas	Creation of new health facilities	Banks, government, donors and associations working collaboratively.
Need for good governance, and financial and business management skills	Training programs and technical assistance	Donors, associations, NGOs, and government
Inability of clients to pay user fees	Health insurance	Public and private sectors
Lack of infrastructure	Building of roads, power plants, water treatment facilities	Government
High interest rates	Equipment leasing, interest rate caps, better education on the banks regarding the impact of their high interest rates on health businesses.	Banks and government
Technical competence at health clinics; staying up-to-date	Capacity building on health quality and delivery of effective services. Attend trainings	Health sector; donors and governments
Misperception of the private health sector	Better market research; need for the health sector to pay its taxes.	Health sector
Advocacy for the health sector	Increased awareness and understanding of the economic and social contributions the health sector makes to Uganda	MOH, Associations