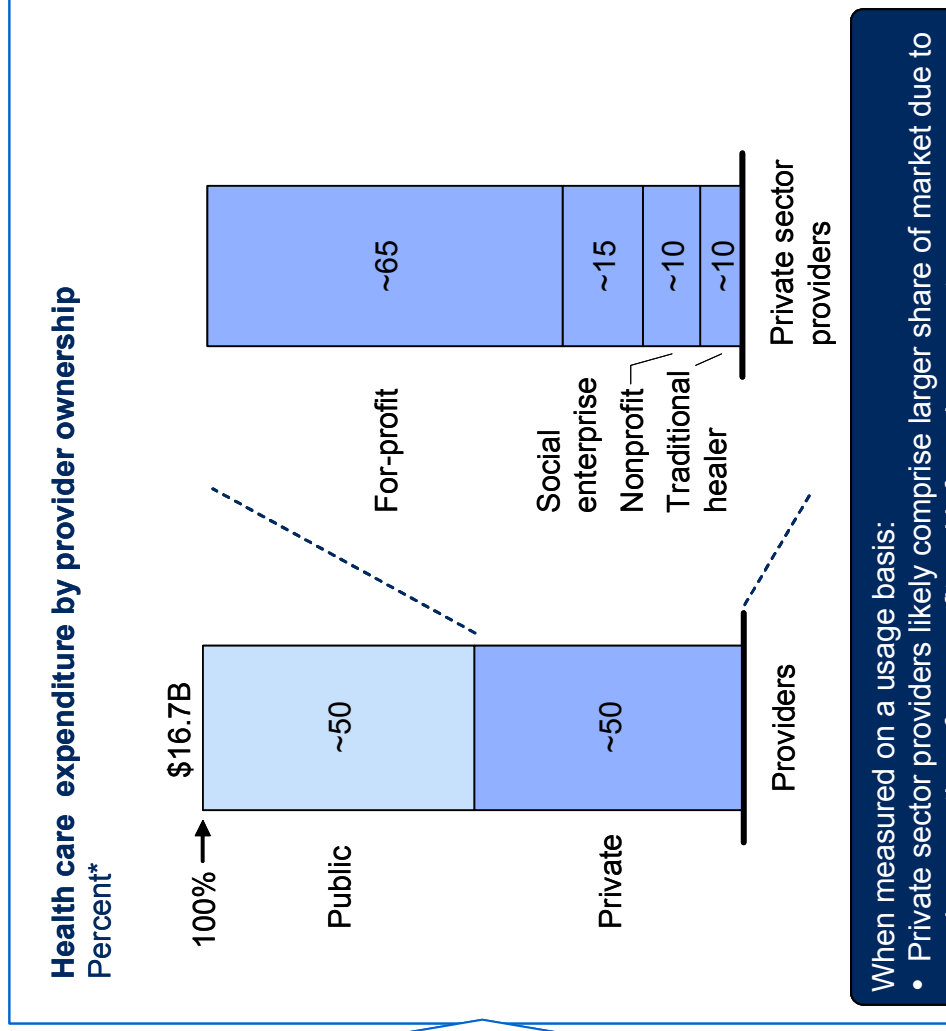
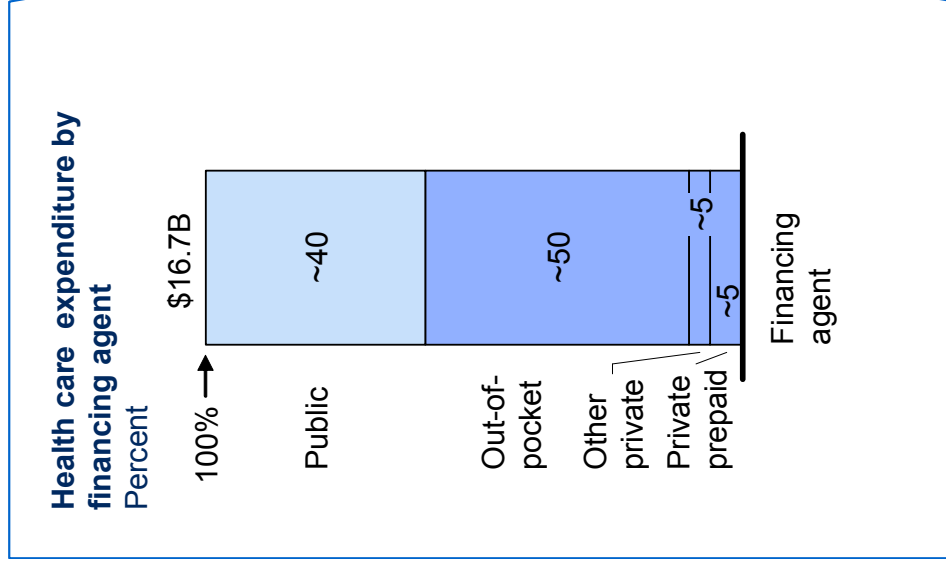
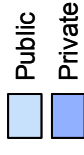


The Private Sector as Service Provider: The Business of Health in Africa

Emmett Moriarty
Senior Health Sector Specialist
Brussels, September 16, 2008

In Health, the Private Sector Plays a Dominant Role



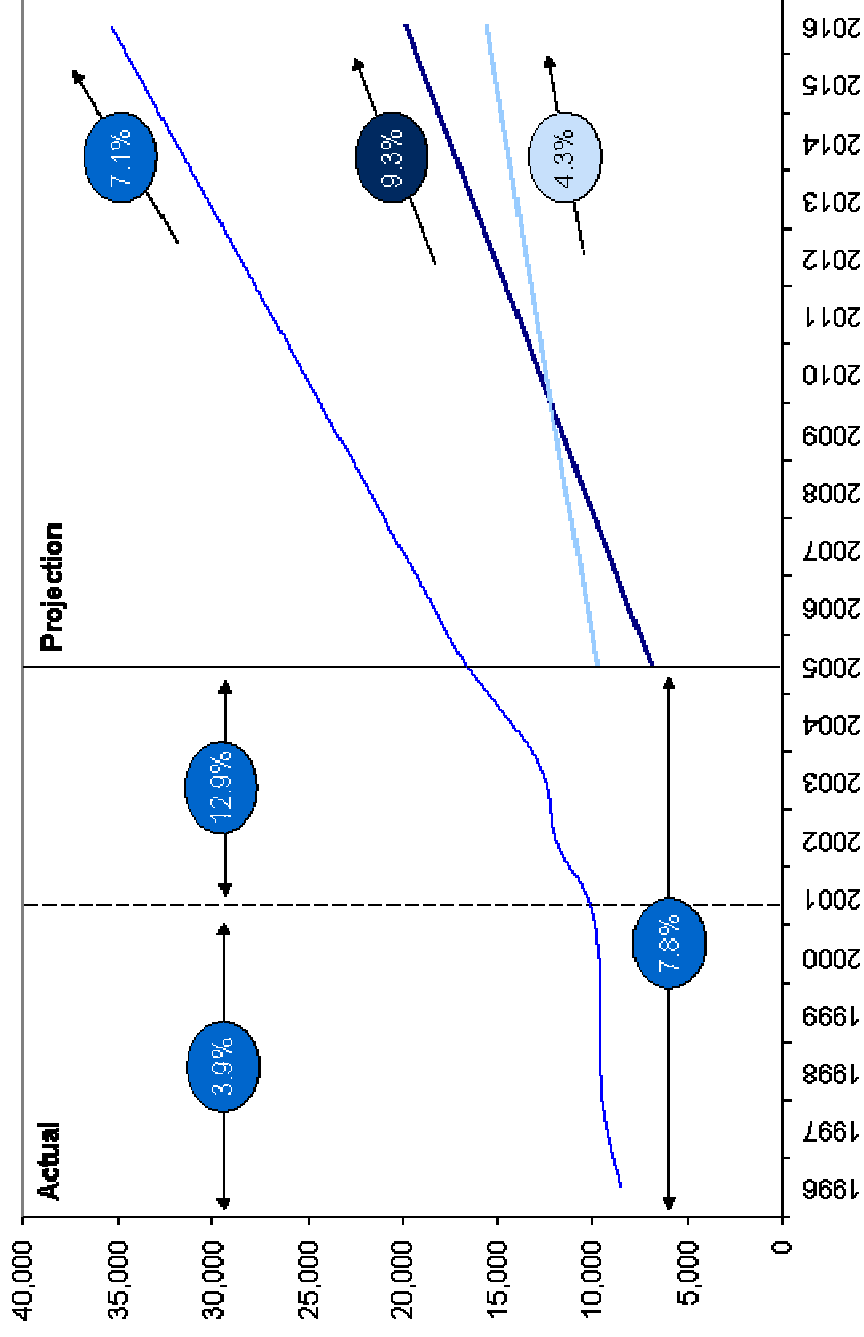
When measured on a usage basis:

- Private sector providers likely comprise larger share of market due to under-reporting of non-profit and informal segments
- Social enterprises, non-profit and informal segments comprise larger share of private sector due to smaller user fees and under-reporting

Health Expenditure is Expected to Grow

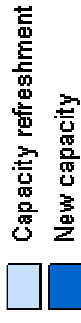
THE
PHE
GHE
CAGR

Total Health Expenditure (THE), Private Health Expenditure (PHE) and Government Health Expenditure (GHE), Sub-Saharan Africa; actual figures for 1996 - 2005, projections for 2005 - onward
\$ million

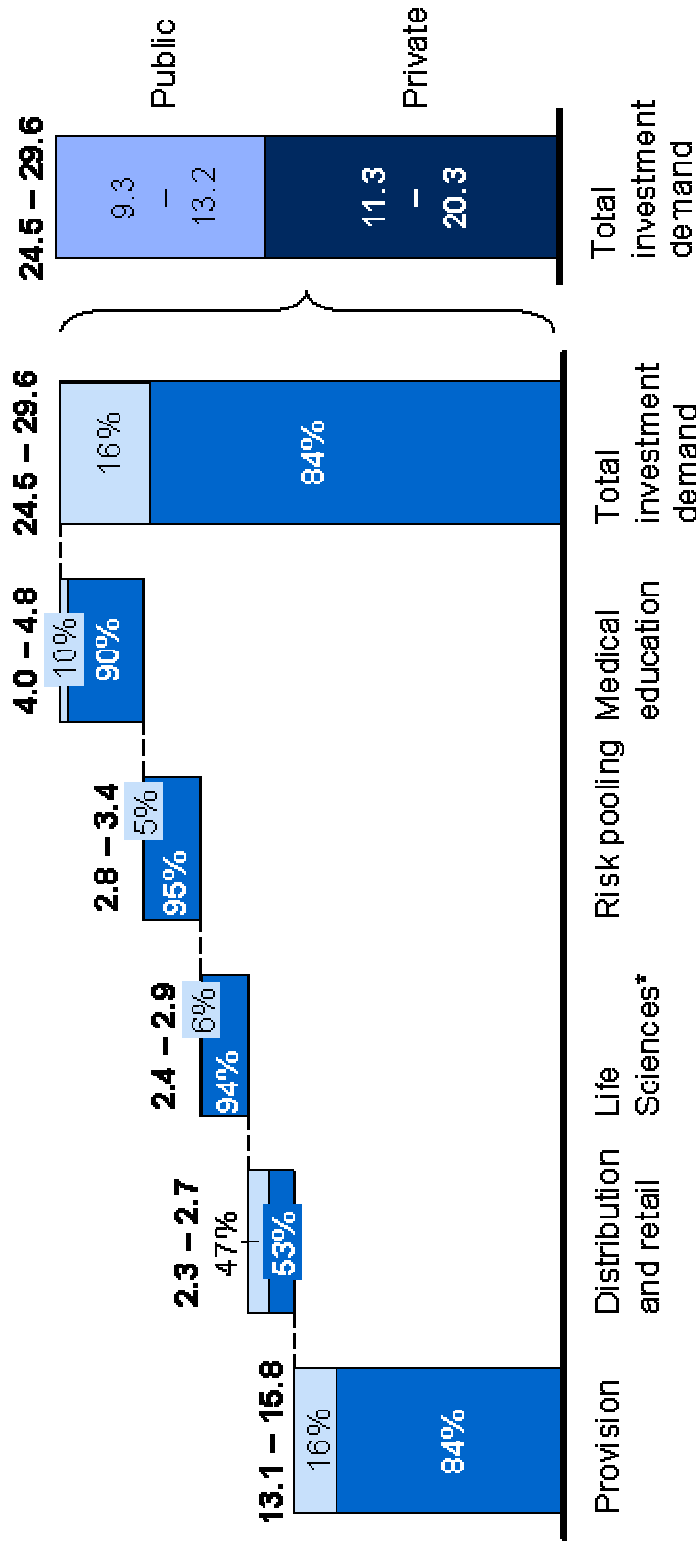


Note: Refer to Annex 6 for a detailed review of methodology for estimating future health expenditure
Source: WHO; Global Insights; McKinsey analysis

Significant Investment will be Required to Meet Demand



Projected cumulative 2007-2016 investment demand in Sub-Saharan African health sector (public and private)
\$ billion

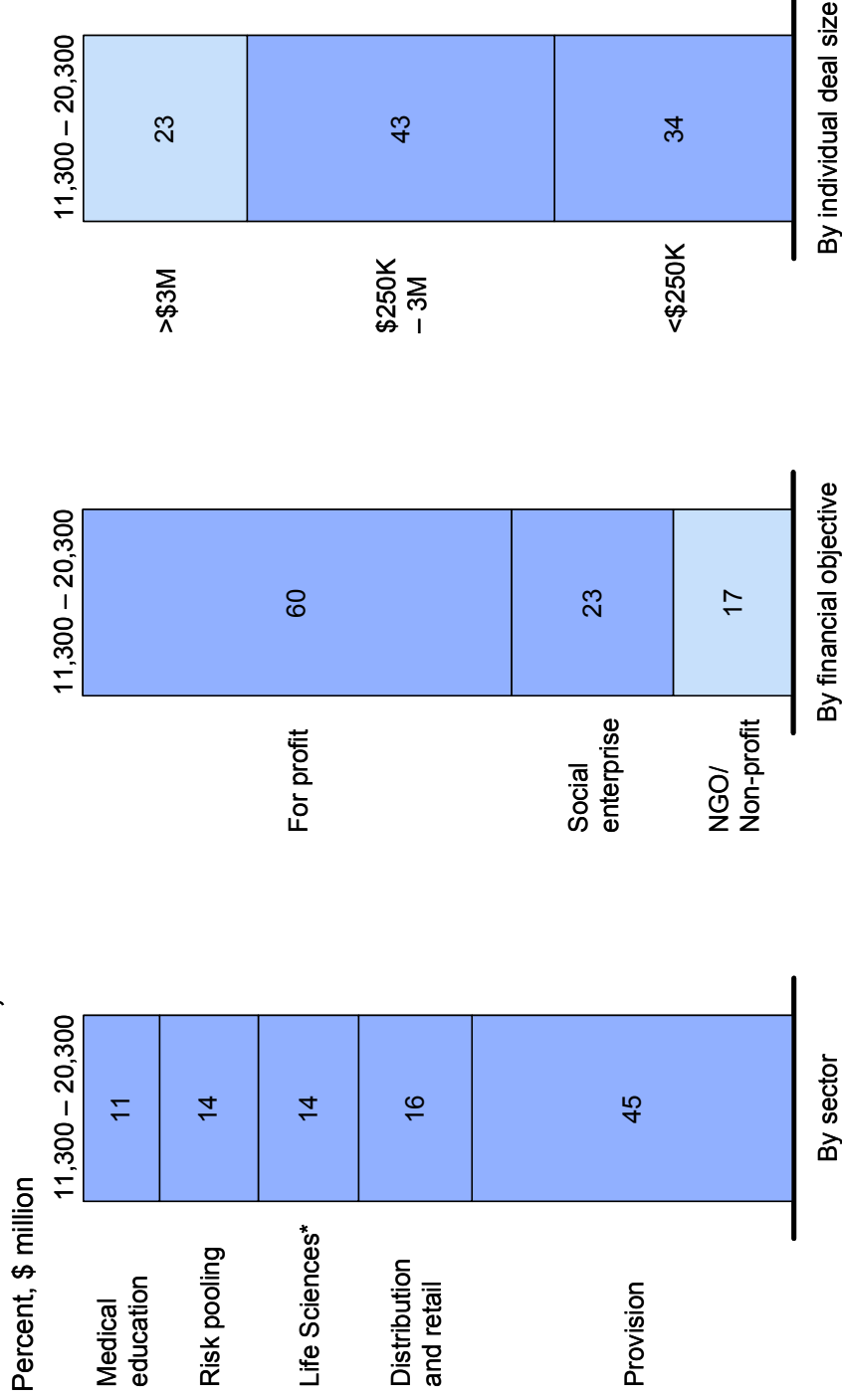


Expected proportion of investment demand to be funded by the private sector

(50%) (100%) (85%) (70%) (40%) (58%)

* Pharmaceuticals and medical products includes South Africa. All other areas exclude South Africa
Source: McKinsey analysis

Although Most Investment Opportunities are Expected to be Small (<\$3m)



* Pharmaceuticals and medical products includes South Africa. All other areas exclude South Africa
Source: team analysis

IFC's Strategy Aims to Address the Key Barriers to the Further Development of the Private Health Sector

A variety of actions are essential to supporting the development of a strong private health sector

Increase access to capital

- Limited access to capital, including both debt and equity, is a significant constraint to growth and a driver of sector fragmentation

Improve the regulatory environment

- The regulatory environment often impedes growth of the private healthcare sector in many SSA nations

Promote risk pooling vehicles

- Risk-pooling vehicles are superior financing mechanisms to out-of-pocket payments and can help mobilize revenue for providers, supporting the growth of a formal, organized private sector

Increase revenue flows from alternative sources

- Though the private sector receives most of its revenue from the general population, the public sector, international donors, and employers are alternative sources of funds

Alleviate the human resource shortage

- Short supply of skilled health workers and healthcare managers has an adverse impact on the potential for healthy, sustained private sector growth

Guiding principles for IFC strategy

- Center strategy and specific activities around IFC's core capabilities
- Concentrate on issues with potential for significant impact on private sector businesses
- Target niche areas not addressed by the efforts of the World Bank Group or other stakeholders – avoid duplication but collaborate with the efforts of others where IFC can add value

- IFC's *investment* strategy addresses the need to increase capital for private sector entrepreneurs
- IFC's *non-investment* strategy proposes advocacy and technical assistance mechanisms to address the other major challenges faced by the private health sector in sub-Saharan Africa

This strategy is consistent with and complementary to the Bank's HNP and Africa strategies



IFC's Proposed Investment Strategy

- 1** The current healthcare investment landscape demonstrates a financing gap for small (requiring <\$5 million), but profitable enterprises
- 2** IFC will focus its investment strategy through an equity vehicle and risk participation facilities with local banks, investing in a prioritized set of countries
- 3** The equity vehicle will be characterized by:
 - Estimated need of \$250 - \$300 million over next 5 years, with \$100 - \$150 million to begin
 - A focus on building sustainable companies, identifying market opportunities, consolidation of fragmented markets - not purely on returns
 - External management and configured as an investment company/fund outside of IFC
 - Multiple tiers of investors
 - Utilization of equity and quasi-equity instruments according to exit options
 - Significant Advisory Services, with an estimated budget of 5-10% of investment size to provide technical assistance to companies
- 4** IFC will develop risk participation facilities with local banks:
 - Estimated need of \$400 - \$500 million over next 5 years
 - May require first loss or subordinated funds to accelerate rollout
 - Similar to equity vehicle, technical assistance to be provided



IFC's Proposed Operating Climate Strategy

IFC's operating climate strategy should enable private sector development and leverage World Bank and IFC core capabilities

This component of the strategy will involve three areas of activity:

- 1 The conduct of in-depth assessments of the environment facing private sector health businesses as a means of informing government-facing TA efforts and overall investment strategy
- 2 Provision of technical assistance to governments for both reforming the overall regulatory environment and expanding formal public-private interactions (e.g., PPPs, PFIs)
- 3 Developing public report highlighting aspects of the healthcare investment climate across sub-Saharan Africa and successful or innovative models of private sector activity and engagement

Implementation of this element of the strategy will be done in **close consultation and cooperation with the World Bank**. Other development partners will be welcomed to the process as appropriate whenever practical.



www.ifc.org/HealthInAfrica