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Policy Notes

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Engaging the Private Sector to Improve Access to Quality Care: Public Ends Private Means

The private health sector plays a large role in the Africa Region in terms of both sources of funding and expenditure on health services. It often supplies 60 to 80 percent of financing and 50 percent of service delivery.

Yet many countries do not have adequate public policies to deal with the private sector. Five main barriers to be overcome to improve the functioning of the private sector in health include:

- lack of access to finance and expertise
- policies and regulations that fail to support the private sector
- lack of quality assurance and improvement
- insufficient supply of skilled health workers
- lack of financial protection or sustainable financing

Potential Impact. Without new approaches to mobilize resources and delivere care, most African countries will fail to reach the Millennium Development Goals (MDGs) goals by the year 2015.

High-performing health systems are often characterized by mixed delivery of services. Often private providers play an integral role, while maintaining a strong government involvement in securing an appropriate enabling environment, regulatory framework, and financing.

The following actions would help governments and donors engage the private sector more effectively in contributing to overall health goals:

- support responsible and sustainable private sector development by increasing access to finance (both debt and equity) and the expertise that comes with that finance
- improve the policy and regulatory environment, including quality standards and their enforcement, in which these private companies operate
- provide information to regulators and policy makers to permit better informed decision making
- increase the supply of well-trained health care professionals
- increase the availability of risk-pooling and other mechanisms that would help stabilize revenue flows and make health care financing more equitable

An estimated US$25 billion to US$30 billion in new investments will be needed to meet demand between now and 2016. Of this US$11 billion to US$20 billion is likely to come from the private sector.

The biggest individual investment opportunities will be in building and improving physical assets.

Around 550,000 to 650,000 additional hospital beds will need to be added.

An additional 90,000 physicians, 500,000 nurses, and 300,000 community health workers will be required.

Demand for better distribution and retail systems and for pharmaceutical and medical supply production facilities will be strong.

Pros & Cons of Engaging Private Sector

Sub-Saharan Africa accounts for 11 percent of the world's population, yet it bears 24 percent of the global disease burden and commands less than 1 percent of global health expenditure.

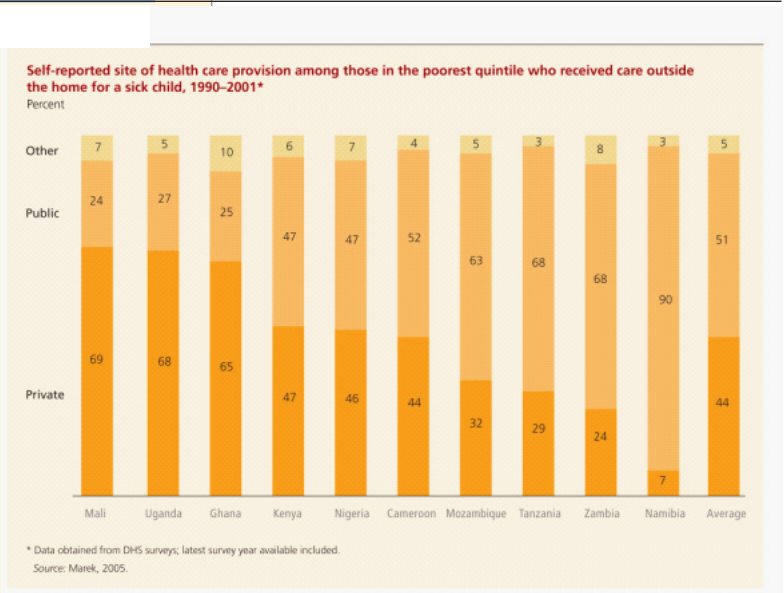
Positive Experiences. Experience shows that the private sector is large and contributes to the health sector in terms of patients, including poor households, using such services for their health care needs (Figure 1):

- The private sector already plays a significant role. A poor woman in Africa today is as likely to take her sick child to a private hospital or clinic as to a public facility.
- The private sector is sometimes the only option for health care in rural regions and urban slums.
- The private sector can provide affordable care.

Negative experiences. But the private sector is not a panacea. There are also many problems that could be addressed by better public policies, regulations, and incentives.

- financial hardship from out-of-pocket charges
- large unregulated informal private sector
- poor care from unqualified quacks
- competition with public sector for labor
- profit-seeking behavior and high costs
- fragmented care

FIGURE 1



Debunking the Myths

Private sector activity in health is not new. Since the beginning of written history, the pendulum has swung back and forth between minimalist to heavy-handed approaches to state and private sector involvement in health care.

Naïve Belief in the Powers of the State. During the 1970s and 1980s, largely inspired by experiences such as the British National Health Service (NHS) and the problems of market failure, many low- and middle-income countries established state-funded health care systems with services produced by a vertically integrated public bureaucracy.

In reality, there are numerous examples, including the experience of health care under the former socialist governments in the Former Soviet Union. Excessive reliance on the state has consistently failed to address many of the health needs of populations across the world.

Such state-run health services are often characterized by:

- underfunding
- low quality
- lack of consumer responsiveness
- pro rich allocation of public expenditure

Furthermore, without nongovernmental providers, a large share of rural populations would not have access to care.

Blind Faith in Markets. During the 1980s and 1990s, the pendulum swung in the opposite direction. There was a global sense of urgency to reform inefficient and bloated bureaucracies, and to establish smaller accountable governments.

Nevertheless the past 100 years are rich with examples of how the private sector and market forces alone fail to secure efficiency and equity in the health sector. To function well, markets in the health sector require strong public policy interventions to achieve social goals.

Policy Options

Governments everywhere are reassessing when, where, how, and to what degree to intervene or to leave to the market forces demand from patients.

Two diametrically different approaches have emerged to deal with the private sector:

- The first school of thought recognizes that the private sector is large and that the negative consequences outweigh by far any positive contribution it might make to overall health sector goals. This school recommends that governments and donors focus mainly on strengthening the public sector.

- The second school of thought also recognizes that the private sector is large. Its proponents recognize that this has both positive and negative implications for overall health sector goals. This school recommends harnessing the good features and devising policies to mitigate against the bad aspects.

The recent Oxfam International report *Blind Optimism* emphasizes the first approach. The recent International Finance Corporation (IFC) report *The Business in Health in Africa* emphasizes the second approach.

Implementation Strategy

Governments are left with several strategic implementation choices:

- ignore the private sector
- engage the private sector
  - o maintain status quo
  - o grow the private sector
  - o reduce size of the private sector

Countries that choose to engage rather than ignore the private sector will be more effective if they make the private sector an integral part of their national health strategy.

Regulating Policy and Business Environment

Private health providers need a supportive business environment. Governments have a number of public policy instruments at their disposal to achieve this objective:

- information
- regulation
- finance
- production

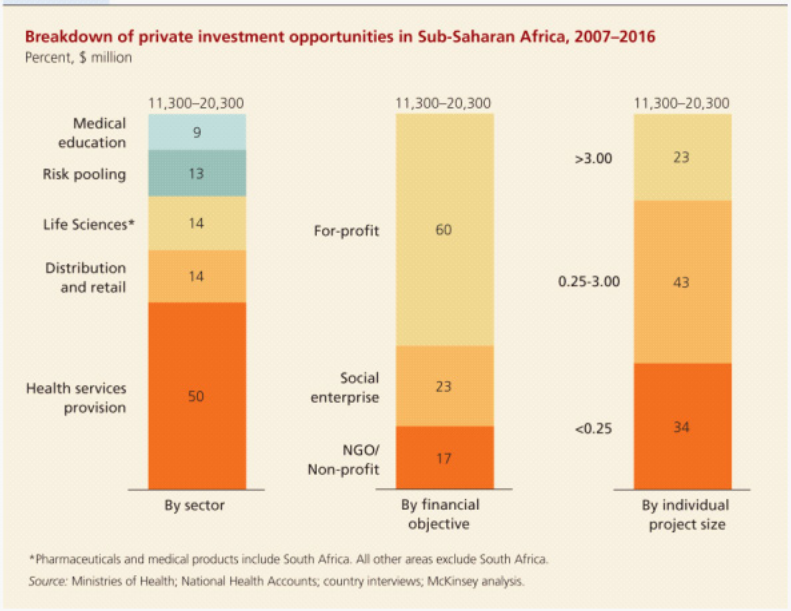
Regulating quality standards may be enough in some areas such as the pharmaceutical sector and medical supplies. Clinics and hospitals may benefit more from public-private partnerships (PPP) and contracting. More direct government intervention may be needed to scale up the education of health workers and expand risk pooling arrangement.

Core areas that would benefit from improved access to private capital include: (a) health services; (b) supply chains; (c) life sciences; (d) risk pooling; and (e) medical education

The recipients would be: for profit (60%), social enterprise (23%), and NGOs (17%). The typical size of the investments would be US$250,000 to US$3 million.

A win-win arrangement is for increased public-private partnerships (PPPs) arrangements through: (a) contracting private actors to provide services under a public mandate; or (b) purchasing services through health insurance funds.

FIGURE 2



Role of IFC and the International Develpment Community

The World Bank's Health, Nutrition, and Population (HNP) Strategy emphasizes working with countries (governments, the private sector, and civil society) and international partners in helping countries make progress in achieving the health-related MDGs and strengthening health systems, financing, and economics.

In 2007, IFC's Health and Education Department, with the support of the Bill and Melinda Gates Foundation undertook an intensive work program to: (a) study the profile, role, and impact of the private health sector in Sub-Saharan Africa; and (b) develop a strategy to better engage that sector. This work resulted in:

- an in-depth analysis of the private health sector and report entitled *The Business of Health in Africa: Partnering with the Private Sector to Improve People's Lives*
- the development of a comprehensive strategy and a Health in Africa (HiA) Initiative

The HiA Initiative has three components that are being implemented over a period of three years:

- Debt Facility (US$500 million)
- Equity Vehicle (US$300 million)
- Technical assistance (US$200 million).

Select readings:

Bennett, S., B. McPake, and A. Mills (1997), *Private Health Care Providers in Developing Countries: Serving the Public Interest?* London: Zed.

Harding, A., and A.S. Preker (2003), *Private Participation in Health Services*, Washington, DC: World Bank.

Preker, A.S., X. Liu, E.V. Velenyi, and E. Baris (2007), *Public Ends, Private Means: Strategic Purchase of Health Services*, Washington, DC: World Bank.

IFC (2007), *The Business of Health in Africa: Partnering with the Private Sector to Improve People's Lives*, Washington: DC, IFC.

Partnership with Others

The successful implementation of the HiA Strategy will require working across the World Bank Group (WBG) and partnering with other donors amd funders.

Across the WBG

Three different groups within the WBG have committed to work closely to support countries better engage the private sector in health:

- IFC
- Africa Region of the WBG
- Investment Climate Department of WBG
- External partners (Donors)

External partners are considered critical in the successful implementation of the HiA Strategy. They bring not only additional funds and resources to the project, but also expertise and an array of different networks. Current partners include:

- Gates Foundation
- Rockefeller Foundation
- Government of the Netherlands
- Government of Germany
- African Development Bank.

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CONTACT US

Therese Fergo
Email: tfergo@ifc.org
Tel: +1 (202) 458-5599

MEDIA ENQUIRIES

Ludi Joseph
Email: ljoseph@ifc.org
Tel: +1 (202) 473-7700