PRIVATE HEALTHCARE IN EMERGING MARKETS

An Investor's Perspective

IN THIS ISSUE:

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IFC International Finance Corporation WORLD BANK GROUP

Creating Markets, Creating Opportunities

LOOKING FORWARD
—NEW PARTNERSHIPS, NEW PRODUCTS

Chris McCahan
Global Lead for Health, IFC

We are emerging from a health strategy 'deep dive' out of which we have charted our path for investing in emerging market health from 2018 until 2030. Our goals are as ambitious as you would expect: in sum, we plan to greatly expand our overall footprint and impact. We also intend to change our portfolio mix somewhat. Presently, 63 percent of the health investments IFC makes are in services, 34 percent in pharma, and 3 percent in medical technology. Our goal is to ramp up investments in medtech so that it forms a significantly higher share of our health portfolio.

This strategy involves IFC working closely with the World Bank and other developmental partners to help achieve Universal Health Coverage and the 2030 Sustainable Development Goals. Our work will include various interventions and investments, including increased public and private collaboration and partnership. The World Bank Group (WBG) is well positioned to help foster such collaboration due to IFC's extensive network of private sector clients and advisory expertise, as well as the Bank's longstanding ties with governments.

> "Our overarching goal remains the same: getting affordable and quality healthcare to more—a lot more."

One example in the medical technology space that we see a potential for growing is the use of Managed Equipment Service (MES) contracts. MES can be an effective tool for a government (or a private sector provider for that matter) to contract with equipment manufacturers to manage that equipment for a fixed annual fee. Rather than just selling equipment (which then often goes unused in many under-resourced settings), the equipment manufacturer is responsible for maintaining, servicing, and training staff on the use of the equipment over an extended period, thereby sharing the responsibility and risk with the equipment purchaser. When implemented properly, we expect such arrangements can greatly improve the utilization of equipment and health outcomes. There are other such models and innovations that we expect will play an increasing role in our work—not just in the medtech sector, but also in health provision and pharma manufacturing and distribution.

We also expect to use concessional and blended finance more aggressively as a tool to reach the most challenging countries and populations. This year, the International Development Association (IDA), the part of the WBG that helps the world's 75 poorest countries, allocated a $2.5 billion Private Sector Window to help crowd in private sector investment in the lowest-income and post-conflict and fragile countries when commercial solutions are not yet possible. Similarly, the WB-housed Global Finance Facility has created an envelope of funding for relevant private sector projects targeting the health and wellbeing of women and children in 62 low- and lower-middle income countries. We expect to use these resources, coupled with IFC's more commercial instruments, to support both new and existing clients to grow at scale in the most challenging markets. We are also developing a broader Health and Education Impact Platform that will bring together different stakeholders and investors to offer solutions (including blended finance) to clients expanding their reach into underserved, low-income populations in all emerging markets. Stay tuned for more about this in our next newsletter!

Finally, IFC is refining its Quality Assessment Tool that we offer hospitals and clinics to ensure that patients have access not just to healthcare but to quality healthcare. Failings in facilities do not always stem from lack of financial resources or professional compassion—sometimes they are due to process failures and knowledge gaps. This is where the Tool comes in, with IFC assessing structures, processes, and outcomes and identifying areas where improvements should be made. Our Senior Health Specialist Charles Dalton's recent blog gives a good overview of what to expect. We are in the midst of piloting the Tool with three clients—in Georgia, Mexico, and Kenya—before a wider rollout.

Through all these initiatives, our overarching goal remains the same: getting affordable and quality healthcare to more—a lot more. IFC's health investments currently reach 142 million patients; our goal is to reach 1.2 billion by 2030.

Read the full eMagazine at
www.ifc.org/health

BARCELONA HEALTH CONFERENCE —READ OUR EMAGAZINE!

On May 16-17, 2017, IFC brought together 500 health industry leaders from around the globe for the 7th IFC Global Private Health Conference. This was IFC's largest health conference ever, with participation from 273 companies in 64 countries—70 percent at executive level—for two great days of networking and discussions. For a full recap of what went down at Barcelona, check out our eMagazine featuring:

- **HIGHLIGHTS OF KEYNOTE PRESENTATIONS**
  Highlights of our two keynote presenters, Professor Elizabeth Teisberg, Professor at the Dell Medical School, University of Texas, and Mark Britnell, Chairman and Partner at KPMG Global Health Practice. Teisberg introduced the conference theme, 'Creating Value in Health Systems,' while Britnell outlined the elements needed to create the perfect health system.
- **SUMMARIES OF DISCUSSION PANELS**
  - Social and private health insurance
  - Medical devices in BRICS
  - Retail pharmacy in Sub-Saharan Africa
  - The future of technology
  - What patients want: value through quality
  - Navigating regulatory terrains in pharma markets
  - Healthcare personnel: innovations in supply
  - Public-private collaborations
  - Investors' perspectives on how to succeed
- **IFC CLIENTS CASE STUDY PRESENTATIONS**
  - Eye care provider salauno in Mexico
  - Hospital services provider Medlife in Romania
  - Global Health Investment Fund's mission and portfolio
  - Health and wellness products supplier Ascendis in Africa
  - Retail pharmacy chain Fybeca in Ecuador
  - Diagnostics provider Alliar in Brazil
- **FT-IFC TRANSFORMATIONAL BUSINESS AWARDS**
  Unveiling of shortlisted finalists for Awards, which recognize innovators in healthcare

AS CANCER RATES RISE IN INDIA, CANCER CARE IS EVOLVING

INTERVIEW:

Dr. B. S. Ajaikumar,
Chairman & CEO,
HealthCare Global Enterprises Limited

Q: With noncommunicable diseases like cancer and diabetes becoming more common in developing countries, how is HCG addressing the problem?

We believe that the incidence of cancer in India will reach 2.5 to 3 million in the next five years or so. That means seven or eight million patients will be living with cancer in India. One of HCG's hallmarks is that our comprehensive cancer centers are present across metros and Tier II and Tier III cities; this ensures accessibility and makes the treatment more affordable for people because they do not have to travel long distances. The comprehensive cancer centers with diagnostic oncology, medical oncology, radiation oncology, and surgical oncology have made a huge difference by reducing the dropout levels of patients undergoing treatment.

Q: IFC made a $20 million equity investment in 2016 to help HCG open 12 cancer centers on top of the 15 they already have. How are the expansion plans coming along?

IFC's wish was to penetrate underserved markets so this aligns well with our vision of penetrating Tier II and Tier III cities. IFC came in as an anchor investor in our Initial Public Offering [in March 2016], which was very successful. We have expanded to over 19 centers with another 6 centers about to open in the next 12-24 months in India. We have also acquired a center in Nairobi, our first expansion outside India.

Q: Cancer treatment is very expensive and even people in wealthy countries struggle to pay for it. How can emerging markets cope with the cost?

We are a value-based healthcare provider. For example, the cost of a PET scan at HCG is $300, and the cost of an MRI scan is $120 compared to $2500 for a PET scan in the U.S. with the same outcome. We are lowering costs by doing various things. Each center is at maximum capacity utilization. With radiation oncology in some countries, the 'break even' moment is after about 12-15 patients 'on the couch,' whereas for us, it is more like 55-60 patients. Secondly, generic drugs for chemotherapy are far cheaper in India. Thirdly, we have a hub-and-spoke model where we centralize some functions—pharma, radiology, pathology. Fourthly, we do not invest in real estate but opt for a viable model, built with property owners to suit specifications.

Photo© HealthCare Global Enterprises Limited

Q: *What kinds of public policy changes would enable India's health system to produce better health outcomes?*

There are 250-300 million middle-class people in India and maybe 800-900 million in the lower socio-economic class. We must address the needs of both. In India, 75-80 percent of healthcare is provided by the private sector. In my view, we have created a very successful model of value-based healthcare. We were hoping the government would support this model. Unfortunately, I do not think this is happening. For example, the government wants to interfere with our prices. I think this will severely interfere with the quality of healthcare that we are providing.

That said, there are government programs for people in the lower socio-economic bracket, which have been very successful, for example, the Arogyashree program where the government reimburses people who are below the poverty line so that they can access high-end care. However, unfortunately, there are now places where everybody claims to be below the poverty line so the program is in turmoil. For example, there are states and cities that have issued more below poverty line cards than the actual population. With this kind of abuse, the real needy people are not getting its benefits.

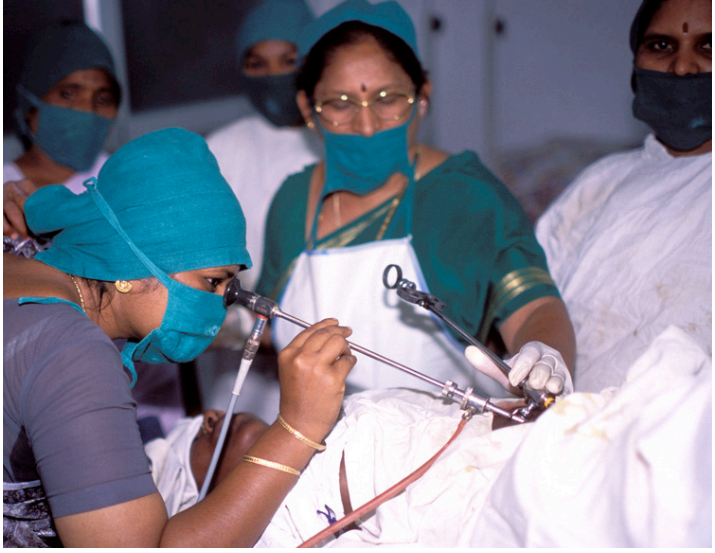
Our business works well with about 50-60 percent cash-paying patients, 25 percent privately insured patients, and 15-20 percent government scheme patients. If we get too many patients from the government schemes, it does not work because the payments from government schemes are far below what private insurers or cash-paying patients pay.

The other important area where we feel the government should work more with private enterprise is cancer prevention—things like imposing higher taxation on cigarettes to bring smoking prevalence down. They are not yet getting into this. In addition, the government should be playing a bigger role in encouraging private insurance, which has not yet penetrated India deeply. That will be a game-changer.

> "The lesson India can teach the rest of the world is value-based healthcare, where you get global standards of quality care at an affordable cost."

Q: *How do you expect the Indian health sector to evolve over the next decade? What role will the private sector play?*

For the 250-300 million middle-class Indians, we are already providing healthcare equal to, or better than, the global standard. This is why India has become a destination for medical tourists. Making that accessible to the lower-income brackets will require government collaboration with the private enterprise. Until now, government's direct contribution to healthcare provision has been minimal. They have some primary healthcare centers and some multi-specialty big hospitals in big cities, which they are trying to introduce across India. The problem is that when you ask the public their preference—private or public—the majority would like to go private because of the quality of healthcare in private. If the government can expand the programs they started and make sure they run transparently, it can transform healthcare in India to a totally different level. However, if they start meddling in price controls, pharma controls, stent [prices], I think it will be a disaster and we will go backwards.



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Q ***What lessons can Indian health service providers offer to other developing countries?***

The lesson India can teach the rest of the world is value-based healthcare, where you get global standards of quality care at an affordable cost. This is a moving target because what is considered cheap in one country can be considered expensive in another. In smaller countries like the Philippines and Kenya, the model can be easily replicated. It can be applied in other underserved countries too. For example, look at Nigeria, a country of 190 million people—it does not have a private cancer center. The value-based healthcare model can work very well there because we can leapfrog from our learnings in the past.

Q ***What are HCG's expansion plans beyond India?***

We have acquired a center in Nairobi, Kenya. In Africa, we have partnered with Commonwealth Development Corporation (CDC). People have asked me if I want to go to advanced countries but I have said no. Because these are mature markets that I do not find any interest in. For me, it's countries like Nigeria, Sudan, even Lebanon that do not have high-end cancer centers that interest me more. Some of the data we are getting on these markets is of concern. At a very young age, African populations are getting breast cancer, even prostate cancer. We are already collaborating with IFC in India. We would like to work with IFC, along with CDC, in Africa to develop a platform using the model we have created in India.

Q ***How will we treat cancer differently in a decade or two from now?***

When I was in medical school, we were taught you either can cure cancer, if detected in its early stage, or provide palliative care if found too late. However, the concept of cancer care now is more of a chronic disease. We are also realizing that cancer is multiple diseases. In emerging markets, we see more and more lung, colon, and breast cancer. What has happened in advanced countries is going to happen in emerging markets.

However, with some of the preventive measures we are taking—anti-smoking, anti-obesity—cancer incidences will peak in a few decades, and then start to come down.

The other trend we are seeing is a move away from what we used to call 'evidence-based medicine.' For example, where if you treat 1,000 patients and 500 respond to it, you give that treatment. Now cancer care is becoming more precise, more personalized. We are looking at why when two patients are treated the same way for the same disease, one responds and the other does not. What is the genomics behind it, what is the DNA?

We will be getting much better responses and long-term control. The idea is that even if the disease comes back, we will be able to identify it early enough to treat accordingly. However, I do not think we will get rid of cancer. We will have to live with it as a chronic disease…like diabetes. Immuno-therapy, where you make your own body fight against the cancer cells, will be a big hallmark of cancer care too.

Read the full case study at
www.ifc.org/health

CASE STUDY: APOLLO BETTER CARE THROUGH AN INTEGRATED NETWORK IN INDIA

One hot summer day in Chennai, India, Mr. Srinivas, who was 53 years old, was experiencing chest pain. His family physician referred him to an Apollo Clinic for a stress ECG test. As Mr. Srinivas was on the treadmill, he went into cardiac arrest and lost consciousness. Code Blue procedures went into effect and the clinic doctors immediately resuscitated him by performing CPR and administering shock. He quickly regained consciousness. Apollo Clinic's on-site cardiologist ordered medications and advised that the patient be moved to Apollo Hospital.

As he was being transferred in an Apollo ambulance, the Apollo Clinic team contacted the Apollo Hospital cardiac team to provide the complete background on the patient and his case history. Upon arriving, Mr. Srinivas was wheeled into the catheterization lab for a coronary artery angiography, an x-ray that uses a radiologic contrast medium to image the arteries that supply blood to the heart muscle. The angiogram established the extent and nature of the cardiac disease and revealed a near total blockage of the left anterior descending artery, which is a critical artery supplying blood to the heart. An angioplasty, a procedure that unblocks clogged arteries, was performed that same day. The patient was kept in the hospital ward for recovery and observation for two days and soon returned to his daily activities

Mr. Neeraj Garg, CEO of Apollo Health and Lifestyle Limited (AHLL), explained, "The key to Mr. Srinivas' survival and full recovery was due to the immediate attention he received at the Apollo Clinic and the angioplasty that he received soon after arriving at the Apollo Hospital. The continuum of care that he received through Apollo's integrated care network saved his life."

AHLL is a subsidiary of Apollo Hospitals Enterprise Limited (AHEL). AHEL began operations in 1983 and is one of the largest integrated healthcare networks in the world, with nearly 10,000 beds in 70 owned or managed hospitals, staffed by 7,000 doctors. It has a chain of 2,300 retail pharmacy stores and partnerships with 12 academic institutions and it has a research foundation. Seven of its hospitals are Joint Commission International accredited. Over three decades, it has touched the lives of 45 million patients from over 120 countries.

In 2000, Apollo Hospitals established AHLL, with the vision of ensuring access across the continuum of care. Dr. Prathap Reddy, the founder of Apollo Hospitals had a strong belief in the need to make healthcare more accessible and to move care closer to the home. As a result, Apollo Clinics was set up as a community based, multi-specialty chain of clinics that provides the neighborhood with easy access to specialist doctors, primary care diagnostics services, treatment facilities (treatment room, physiotherapy, dentistry) and preventive healthcare (health checks and vaccinations).

Apollo Clinics is now India's largest chain of primary care clinics operated by the private sector, and it plays a major role in bringing Apollo expertise closer to the home. As consumer behavior has changed and healthcare models have evolved in India, AHLL has expanded the Apollo Clinics community concept and now operates a total of seven business lines. AHLL has also been a leader in creating new models of hospital care with the creation of Apollo Cradle, hospitals focused on maternity and women's health with high-end neonatal care, and through Apollo Spectra, short stay "planned surgery" centers. Primary care services have been broadened in the last two years to include diabetes-focused clinics through Apollo Sugar, pathology testing labs with collection centers through Apollo Diagnostics, dental clinics through Apollo White and dialysis units through Apollo Dialysis.

As of March 2017, the group had about 400 centers, including 163 sample collection points across seven business lines. These formats are comprised of 75 clinics, 73 dental clinics, 44 diagnostics labs, 38 diabetes clinics, 12 Spectras, 12 maternal and infant centers, and 5 dialysis centers. Although still in an early growth stage, the company has served nearly 1.3 million patients through about 2,800 doctors in the last 12 months. At the end of its 2016 fiscal year, total unaudited revenues were estimated at Rs4.3 billion ($64 million).

Photo©Apollo Health and Lifestyle Limited

IFC has supported the growth of both AHEL and AHLL. In 2016, IFC and IFC's Asset Management Company took an equity stake of Rs 4.5 billion ($67 million) in AHLL to help it grow the network in locations that are closer to where patients live. This marks IFC's fifth investment in the Apollo group over the last 20 years. Apollo and IFC have partnered together on five investments totaling nearly $190 million in equity and loans. The investments were for the expansion of the network, purchase of equipment and expansion into smaller, less developed cities with Apollo Reach—hospitals for low-income patients.

Top 3 Success Factors

AHLL is demonstrating that outpatient and specialized care can be a very effective approach for non-critical care because it can still maintain high levels of quality through increased efficiencies at a cheaper cost for patients.

QUALITY

The Indian market suffers from a fair amount of poor medical quality. For over 30 years, Apollo has differentiated itself by providing high-level clinical excellence. Apollo Spectra has nearly eliminated hospital-acquired infection—a significant health problem in India. Out of 13,000 surgeries in 2016, it had near zero hospital-acquired infection. It was able to achieve this because it has exclusive focus on surgery—it does not admit medical cases and does not have a medical ICU from which infections can spread.

Across AHLL, medical staff are properly trained. At hiring, it confirms that doctors are properly qualified and have earned the correct privileges to perform on patients. When it acquired hospitals that were not following these norms, it took immediate action to bar the doctors from performing unauthorized procedures. For nurses, it provides in-house training programs to overcome serious skills gaps. Better skilled health professionals have improved health outcomes.

At Apollo Diagnostics, AHLL ensures treatments are more effective through reliance on significantly more accurate diagnostics. Since nearly 70 percent of clinical decisions are based on pathology inputs, inaccurate diagnostic results could undermine AHLL's reputation for quality. As such, AHLL has invested in the latest equipment and processes to ensure that doctors have the most needed tests, with rapid and precise results. AHLL continues to cultivate a high-quality brand that patients can trust.

HIGHER EFFICIENCY

AHLL expands its network in clusters of different formats, which in turn allows the company to leverage synergies across its integrated network. This promotes higher efficiency and leads to better care for patients. For instance, when Clinics, Diagnostics, and Sugar are located in the same city, Sugar can co-locate inside Clinics and Diagnostics takes over the pathological processing. The IT network integrates the patient's information across formats to efficiently facilitate timely and accurate information sharing. The individual business formats benefit from the synergies from the group, as well as from referrals from the main AHEL hospital network.

LOWER COST

AHLL identified a number of services that did not need to be based in expensive tertiary care hospitals and shifted these into smaller facilities that are more cost effective. The small format model is nimbler and has many advantages. It allows AHLL to locate facilities in neighborhoods that are closer to where patients live and where leases for smaller spaces are typically cheaper, reducing overhead. It can focus on the services that are most relevant to the local communities and equips it properly, also reducing fixed costs. By focusing on short-stay surgery, it can manage its operating theaters more efficiently and can turn around patients faster. The Apollo Spectra hospitals deliver surgery at 10 to 20 percent lower cost than that of multi-specialty in patient hospitals. These efficiencies result in savings that are passed on to the patient.

Another way that AHLL is reducing costs is by placing a greater emphasis on preventative care, which is significantly cheaper. Through Apollo Sugar it is helping diabetics manage and control their condition before it becomes more serious and costlier. A diabetic patient who is treated for a medical condition in a hospital will spend three times more than a non-diabetic patient. If Apollo Sugar can help prevent the onset of diabetes and help prevent complications, it will save the patient thousands of dollars in care and extend his or her lifespan.

Read the full case study at www.ifc.org/health

RECENT IFC INVESTMENTS

UNIMED/ PROCAPS (LATIN AMERICA)

Procaps is a Latin American company, which develops, produces, and markets packaged pharmaceutical drugs and advanced drug delivery technologies. IFC is investing in this leading manufacturer of quality advanced drug delivery technologies to help the company increase access to quality affordable products by increasing production capacity and efficiency of its manufacturing plants, acquiring new brands, and increasing the group's M&A headroom.

REDE D'OR GROWTH (BRAZIL)

Rede D'Or is the largest network of independent private hospitals in Brazil, comprising 34 hospitals and is widely recognized for its excellence in medical treatments. This is IFC's third investment in the company, which will support the construction of new, larger, and more cost-efficient hospitals, as well as the expansion of existing hospitals and information technology investments. Through its additional beds created, Rede D'Or will help reduce the estimated 14,000 bed deficit in Brazil and broaden access to high-quality and value-added health services, thus relieving the burden on strained public resources.

IDS MEDICAL (BRITISH VIRGIN ISLANDS)

IDS Medical Systems Group Limited is the largest pan-Southeast Asian medical device distributor and supply chain manager. IFC's equity investment in the company will support the expansion of the company's operations, both by growing in its presence in existing markets and selectively entering new markets in Asia.

MEDICAL CREDIT FUND (KENYA)

A financing and technical assistance vehicle with a mandate to improve access to quality healthcare for underserved populations in Sub-Saharan Africa, Medical Credit Fund (MCF) serves the small and medium enterprises (SME) in the healthcare sector, including many first-time borrowers. In addition to continuing its work with the smallest borrowers, the fund has identified a financing need for the larger SMEs that are having difficulty accessing funding through traditional financing mechanisms as well as SMEs in new SSA geographies. Alongside other investors, IFC is supporting MCF in scaling up its activities to serve more and larger healthcare SMEs on the continent, including businesses that cater to the health sector as well as health providers.

MAX SCH (INDIA)

IFC is investing in Max Healthcare Institute Limited (MHIL), an existing IFC client and a joint venture between Max India Limited and Life Healthcare, **both of which are also existing IFC clients**. Max India Limited is part of the Max group in India and is the listed holding company for the group's healthcare assets including MHIL, Max Bupa (health insurance) and Antara (senior living). Life Healthcare is the second largest private hospital operator in South Africa. IFC's investment will be used for the acquisition of 49 percent of a company that provides medical services to a hospital located adjacent to an existing hospital campus of MHIL and for capital expenditure by MHIL to add approximately 1,000 beds. After the proposed share acquisition, MHIL will develop the joint campus of its existing hospital and the adjoining hospital to create a specialized center for premier quaternary care with seven centers of excellence for selected specialties to provide comprehensive clinical services. IFC's investment will help strengthen patient outreach and quality of healthcare, especially in markets that are currently deficient in healthcare infrastructure. The investment will also help to create quality skilled jobs as MHIL will employ more than 3,500 additional staff.

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ACIBADEM HEALTHCARE GROUP (BULGARIA)

Acibadem Healthcare Group, a leading private healthcare group from Turkey, partnered with the owners of City Clinic, a major Bulgarian healthcare company to form a new entity—Acibadem City Clinic B.V. (the Company). The Company consolidates the largest private hospital in Bulgaria, Tokuda, with City Clinic's existing network of specialized hospitals and outpatient clinics in Sofia, Varna and Burgas. IFC's recent equity investment in Acibadem City Clinic B.V. will support the largest private healthcare provider in the country, fully integrated in the Bulgarian universal health insurance scheme to widen the scope of quality healthcare services and to implement operational improvements.

BIOLOGICAL E LIMITED (INDIA)

An Indian manufacturer of pharmaceutical drugs and vaccines, Bio E. Limited's vaccines reach significant numbers of children in middle- and low-income countries either directly or through supplies to organizations. IFC is helping to fund the company to expand its product offerings to include a wider range of vaccines and for setting up new manufacturing facilities in India. The investment will help increase the availability of essential and modern vaccines and medicines in India and other emerging markets as well as improve children's health by providing access to affordable, high-quality vaccines.

IFC's recent equity investment in Acibadem City Clinic B.V. will support the largest private healthcare provider in the country.

PRIVATE HEALTHCARE IN EMERGING MARKETS

An Investor's Perspective

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QUESTIONS?

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