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Access to Finance and the Private Health Sector

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Strengthening Health Outcomes through the Private Sector
Abt Associates Inc.

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Presentation Outline

- Key concepts – case study
- Why access to finance is important
- The private health sector is underfinanced
- Techniques to increase access to finance
- Access to finance programming to achieve health objectives
- Q & A

Key Concepts in Access to Finance



Health Finance vs. *Access to Finance*

- **“Health finance”** - different mechanisms for payment to health care businesses (providers) in exchange for the provision of goods and services
- Private health care businesses receive payment for their products and services through a number mechanisms, including:
 - public and private insurance schemes
 - Ministry of Health direct financing, contracting out
 - out-of-pocket payments from individuals
 - corporate contracts

Health Finance vs. *Access to Finance*

- “**Access to finance**” refers to internal and external finance for business operations and expansion
 - Loans
 - Equity (including self-financing)
 - Leasing
 - Supplier credit
- Commercial banks, equity firms, and others sometimes call this type of financing “health finance,” and create confusion for public health community
- This presentation discusses **access to finance**

Case study

- Jackie, the midwife
- Joe, the banker
- Jane, the USAID health officer
- Discussion



Why Access to Finance is Important



Private Health Care Providers Are Businesses

- Health care entrepreneurs want to **sustain** their businesses
- Health care providers often want to **grow** and/or **improve** their businesses



What does finance do, *really*?

- Establishes private health care as a viable business
- Ensures health care businesses are sustainable
- Equipment upgrades/replacement
- Helps manage costs and cash flow (i.e. purchasing stock)
- Helps health care businesses to **grow** and/or **improve**
- Enables and speeds process of expansion and improvement



The Private Health Sector is Underfinanced



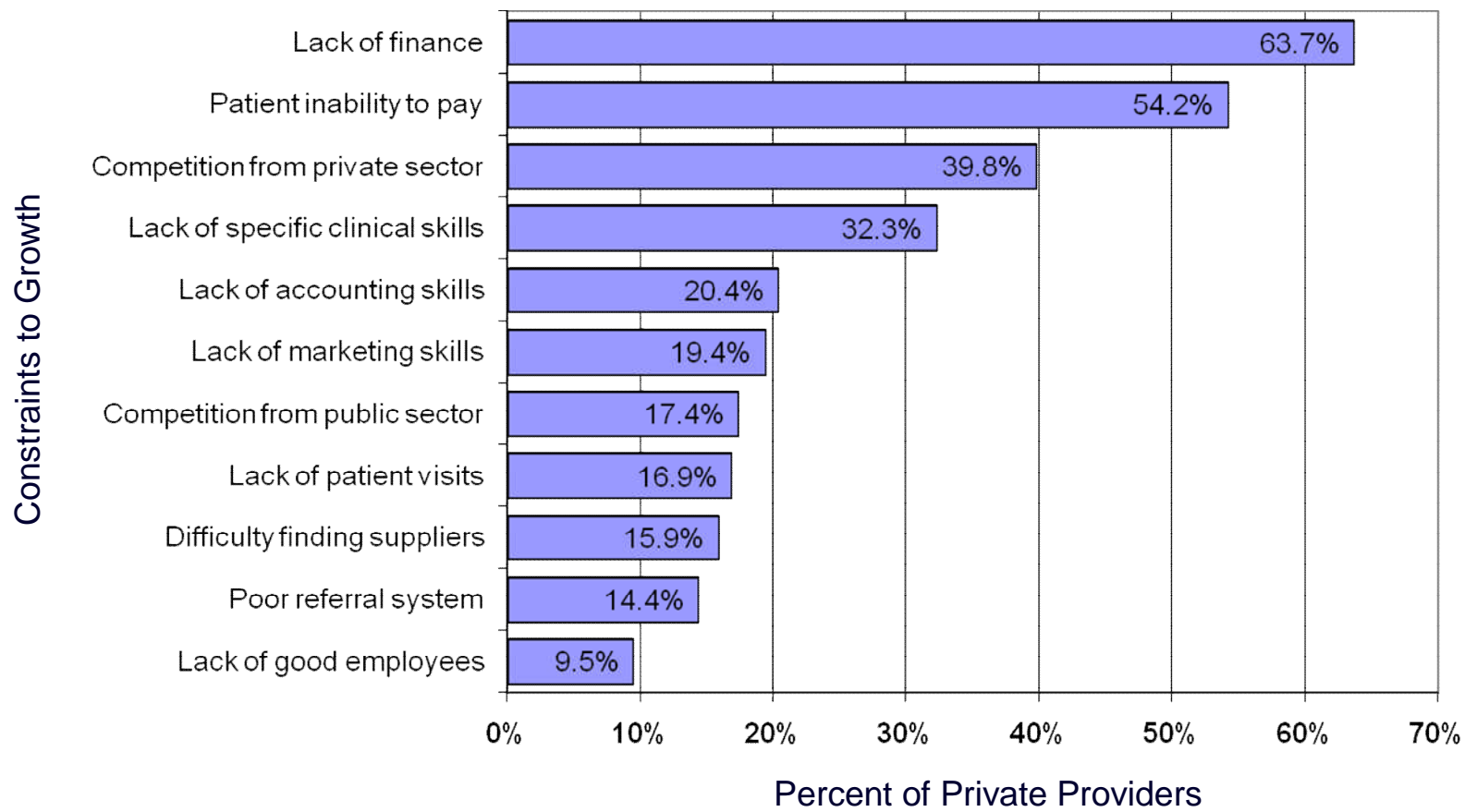
The Private Health Sector is Underfinanced

- In sub-Saharan Africa, as much as \$20 billion in private investment will be needed to support the expected growth in health care spending over the next decade (IFC, 2008)
- Most banks have little experience lending to the sector and view it as risky
- Private providers lack experience borrowing and yet are interested in expanding and improving their businesses
- Supplier credit and medical equipment leasing for the private sector is underdeveloped

(Banking on Health Project, 2009)

The Private Health Sector is Underfinanced

Private providers claim lack of access is the greatest constraint to growth (Zambia, 2007)



Source: Banking on Health 2007.

The Barriers: A Highly Fragmented Sector

- Private health care businesses are often small and isolated
- Limited market information
- Weak associations and limited networking opportunities
- Lack of access to business development support (business advisory services, accounting and finance, etc.)
- Limited public-private partnerships and government oversight
- Investors and banks have limited opportunities to directly interact and market to sector



The Barriers: Lack of Management Capacity

- Small-scale health care providers are often managed by clinicians
- Banks and other investors note several concerns
- Think of Jane



The Barriers: FIs Don't Finance the Sector

- Collateral concerns
- Don't understand the market, business models
- View health as risky, a public good, not a growth industry
- A survey of private medical providers in **Nigeria** found that they did not have credit experience with financial institutions:
 - only 15% of physicians and patented medical vendors applied for a loan
 - 10% of nurses/midwives applied for business loans
 - 20% of pharmacists applied for credit (PSP-*One*, 2009)

Consequences of Underfinancing

- Lack of access to finance has been identified as a barrier to the development of the private health sector
- It can have a negative impact on both **scale** and **quality**
- Lack of financing results in a private sector dominated by small clinics with limited capacity
- Without finance, providers have a limited ability to scale up into organizationally complex forms



Techniques for Increasing Access to Finance



Techniques to Increase Access to Finance

- Provide technical assistance to private providers
- Strengthen market linkages
- Foster conducive policy environment
- Work with local financial institutions to promote health sector lending
 - Including support for health sector DCA loan portfolio guarantees



The SHOPS Approach

- Work with private providers to improve ability to access and manage finance
 - Business and financial management training
 - Improve local capacity to offer business support & training



The SHOPS Approach

- Strengthen market linkages
 - Sponsors private sector trade fairs
 - Builds professional association capacity
 - Builds providers' commercial business skills and capacity
 - Fosters linkages between providers, financial institutions, governments and other key actors
- Foster conducive policy environment
 - Uses market research to inform policy for private sector
 - Offers advice on public-private partnerships
 - Identifies areas for policy and regulatory reform



The SHOPS Approach

- Work with financial institutions to increase financing
 - Commercial banks; microfinance institutions; equity funds
 - Market research
 - Training in lending to the health sector
 - Technical assistance in loan product development and marketing
 - USAID's Development Credit Authority Guarantee for Health



DCA Guarantees for the Health Sector

- What is a DCA?
 - Development Credit Authority Guarantees – loan portfolios
 - A type of GDA, PPP –leveraging private sector capital
 - Administered by USAID's Office of Development Credit
 - 50% of banks' loan losses are guaranteed
 - Backed by the US Treasury
 - Encourages banks to expand lending

DCA Guarantees for the Health Sector

- How do DCA's work?
 - Mission and financial institution agree on definition of a “qualified borrower” to meet development objectives
 - Mission pays subsidy fee – small percentage of DCA amount
 - Bank pays origination and utilization fees
 - SHOPS can provide support:
 - > Market assessment
 - > ID, vet bank partners and structure guarantee
 - > Assist mission with Action Package, term sheet, etc.
 - > Supporting TA to banks, borrowers and monitoring
 - DCAs for health: Nicaragua, Zambia, Kenya

Access to Finance Programming to Achieve Health Objectives



Country Example: Zambia

Zambia Banking on Health Project (2007-2009)

Market information and training for banks

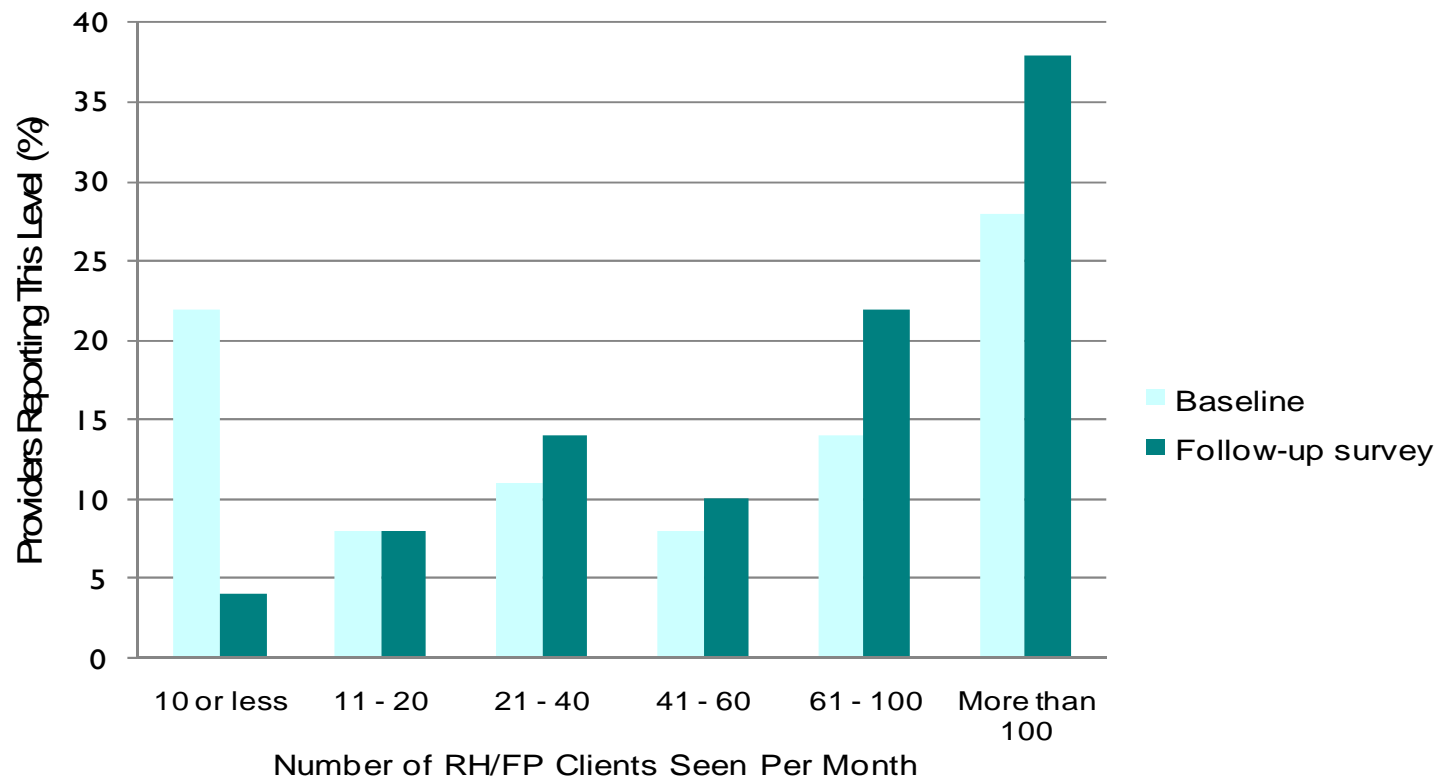
- 80% loan application approval rate for providers
- 52 loans to health care providers
- Loans totaling over \$1.5 million for expansion, improvement, and supplies

Business training and advisory for providers

- 500 providers trained in business and financial management
- 28% of providers who attended business management training received loans

Country Example: Zambia

Zambian private providers that participated in business and access to finance training received greater # of FP clients



Programming to Meet Objectives

■ Uganda:

- Objective: Address human resource shortage in health sector
- Creating financing options for students in private training institutes, increased access to finance for private schools to expand

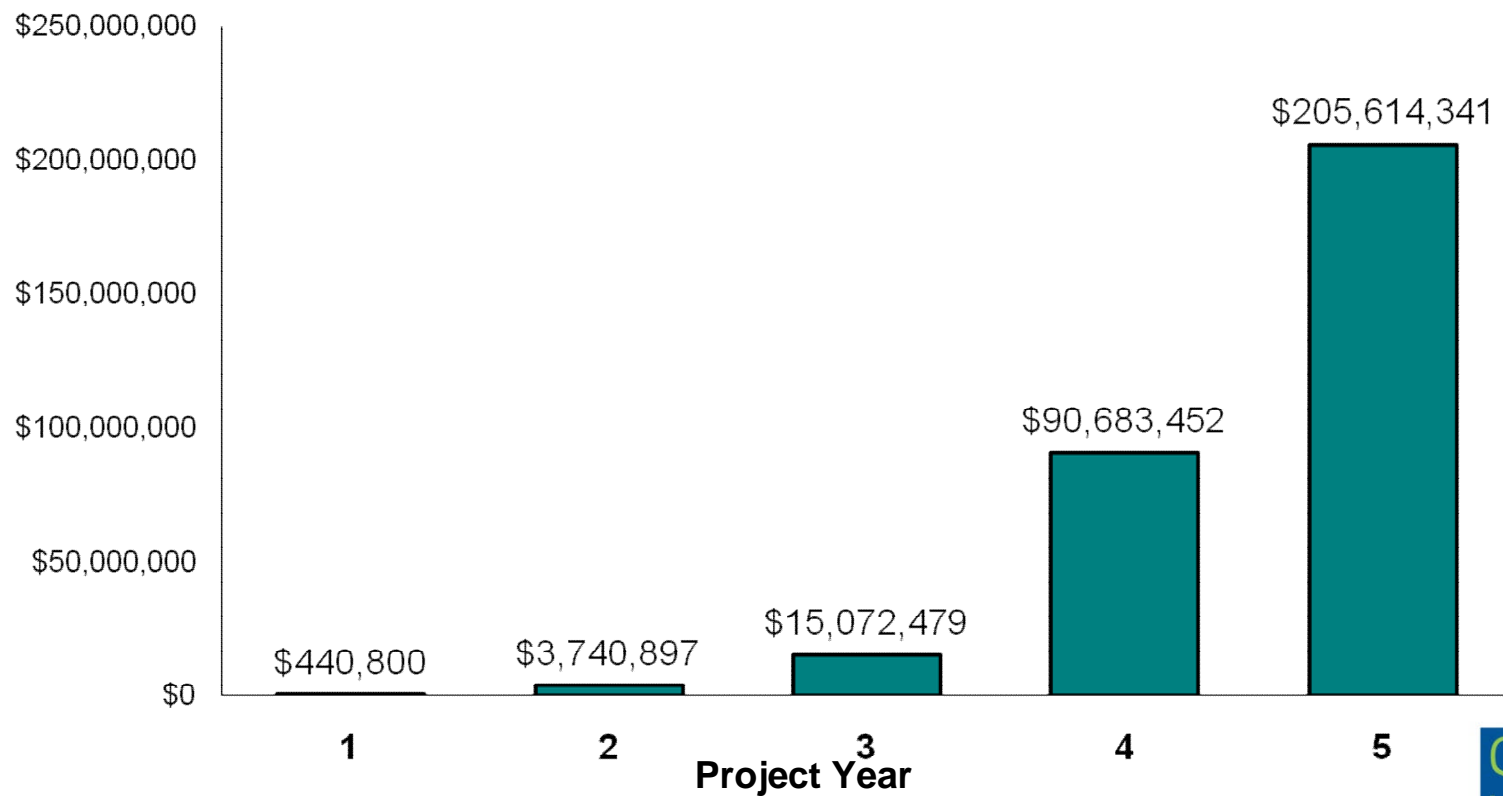
■ Nigeria:

- Objective: Expand private provision of RH/FP, maternal and child services
- Structuring \$10 million DCA with two financial institutions and providing TA to banks and private providers



Access to Finance Programming Results

Under Banking on Health, 21 financial institutions globally lent over \$205 million to the private sector



Access to Finance Programming Results

- Loan uses can be directly tied to quality improvements.
- Increases in family planning services occurred in three countries
 - Zambia (13%), Uganda (5%), Peru (2%)
- Providers added family planning methods and services:
 - Uganda (with an increase in 5 FP services and methods)
 - Romania (7), Peru (5), Nicaragua (5), Zambia (7)
- Increases in family planning visits occurred in:
 - Uganda (57%), Peru (42%), the Philippines (36%)
 - Zambia (17%) and Nicaragua (3X).

Banking on Health (2009)

Thank you!



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