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Banking on Health and Financial Institutions

Global trends including health reform, new public and private health insurance options, and increased health expenditures are expanding the role of the private health sector in many developing countries. These shifts add up to business opportunities for banks willing to make the investment to enter the health care market. Yet in many countries financial institutions are not lending to the health sector in significant ways. Financial-sector assessments the United States Agency for International Development (USAID)-funded Banking on Health project conducted reveal that many lenders believe the health sector is risky. Bankers often are not aware of the sector’s financing needs and repayment capacity, and they are not always comfortable analyzing and structuring loans to health care businesses. Financial institutions cite a need for market information about the sector. Bankers typically do not know how to market to health care businesses that often are small and disbursed throughout the country. In addition, banks stress collateral concerns, identifying political risk in taking a health facility as collateral and the lack of a secondary market for medical equipment. Often financial institutions do not offer loan products that meet the financing needs of health care providers, resulting in a mismatch between financing needs and bank terms.

Banking on Health takes a two-pronged approach to increase access to financing by working with financial institutions to expand health-sector lending and improving the credit readiness of private health businesses.

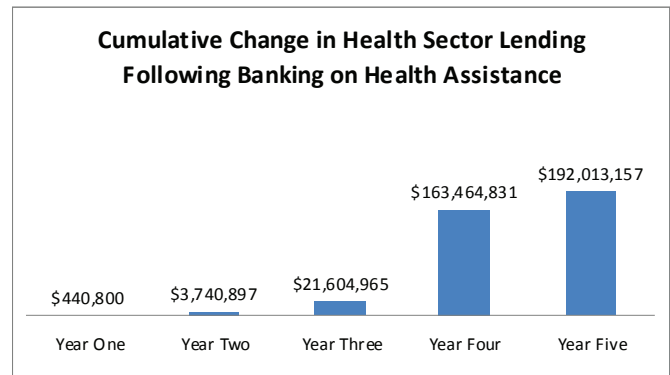
Working with Financial Institutions to Expand Health-Sector Lending

Since 2004 Banking on Health has worked with banks, microfinance institutions, equipment and product suppliers, credit unions, and other financing entities to expand lending to the private health sector. Our approach involves providing discrete technical inputs

to remove barriers to market entry and then exiting when private capital begins flowing. Our technical assistance to financial institutions includes conducting market research on the health sector that financial institutions value, working with them to develop loan products for the sector, training in lending to health providers and entering the health care market, and market referrals. We also help in structuring USAID’s Development Credit Authority guarantee, which covers up to 50 percent of defaults on loans and shares risk with financial institutions that enter the health sector.

Key Outcomes of Our Work with Financial Institutions

Following our assistance, financial institutions in eight countries lent more than \$192 million to the private health care sector.



These results were achieved by providing technical assistance and advisory services in the following areas.

Bank training

Banking on Health developed eight lender training courses on topics such as

- Introduction to the Private Health Sector Market
- Lending to the Private Health Care Business

- Product Development for the Health Sector
- Market Research and Market Segmentation
- Ensuring Loan Repayment with Loan Structuring and Monitoring

Since 2004 Banking on Health has trained 581 lenders in 51 financial institutions in eight countries.

Loan-product development

Banking on Health has worked with financial institutions to develop loan products tailored to the financing needs of health providers. Financial institutions in Uganda, Nigeria, Peru, Nicaragua, and Romania developed new specialized loan products and marketing campaigns for the health sector, following Banking on Health assistance.

Market assistance

Banking on Health has conducted market research for financial institutions in five countries and held 17 private-health-sector trade fairs in which 3,355 private providers and 45 financial institutions participated.

Development Credit Authority guarantees

- Banking on Health supported the utilization of two health-sector Development Credit Authority loan-portfolio guarantees, in Nicaragua and the Philippines, resulting in more than \$4 million in new loans to the health sector.
- Banking on Health assisted in structuring new health-sector Development Credit Authority guarantees in a number of countries, including Zambia, Nigeria, and Ethiopia.

Catalyzing an Increase in Health-Sector Lending in Romania

Banking on Health began working in Romania in 2006 to expand lending to family doctors, important providers of reproductive health and family planning services. The project conducted rigorous market research on the private health sector in Romania and used its findings to develop workshops in loan-

product development and marketing to the sector for the managers and loan officers of five financial institutions: Banca Transilvania, Libra Bank, Raiffeisen Bank, CHF-Express Finance, and Opportunity Microcredit Romania. Banking on Health followed up the training with individual advisory services. Banking on Health complemented this work with business training for family doctors offered through

a local nongovernmental organization and advocacy with the government to improve contracting terms for family doctors. This limited technical assistance catalyzed a dramatic increase in health-sector lending in Romania, significant changes within the financial sector, and the opening of channels of communication between the medical and financial sectors.

In October 2007, Banca Transilvania launched

a major initiative in the health sector. It includes six specialized health-sector branches and a dedicated sales force of 80 new employees to market newly developed health-sector financial products nationwide. This has resulted in almost \$121 million in financing to the health sector thus far. New Banca Transilvania products include education loans for medical students, savings accounts for residents, start-up loans for physicians opening a private practice, loans for investment and expansion, and business-advisory services. Libra Bank also introduced new products to the sector, including a working capital loan for pharmacies, growing its health-sector loan portfolio by almost \$61 million. In April 2008 Raiffeisen Bank launched new loan products for medical professionals, including a start-up business loan—a unique product for the Raiffeisen group of banks worldwide. More than \$182 million has been lent to the health sector in Romania, following Banking on Health assistance. As banks have entered the market they have adjusted their terms to be more competitive, improving the financial terms and conditions offered to borrowers in the health sector.

