



## The Health of Nations

### A new asset class: Investing in healthcare sector development

#### High impact investment in emerging markets healthcare

The role of technology transfer, capacity building, coordination and governance

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#### **Strong health systems ensure sustainable and profitable private sector investment returns and maximum social and economic benefits from development and aid spending**

Health systems across the emerging markets vary in quality, human capital and governance. For investors, multi-lateral organizations and the public sector, health systems analysis identifies opportunities to create businesses and provide services that contribute to high-quality health systems.

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#### **Technology transfer, capacity building, coordination and governance facilitate profitable healthcare investments**

Health systems that encourage the assessment, transfer and management of technology (drugs, medical devices and services), invest in capacity building (human capital and public health infrastructure) and in coordination and governance (manage capacity, facilitate stakeholder collaboration and ensure a favourable regulatory framework) offer the best returns for private and public sector investors.

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#### **Health systems transition in the emerging markets creates business opportunities**

Waves of healthcare sector privatization, consolidation and growth present opportunities for astute investors. Profitable business opportunities focused on supporting sustainable, accessible and comprehensive health systems exist in areas including managed care, disease management, health insurance, health information systems, training, quality improvement and rehabilitation.

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## About Santeum Partners

Santeum Partners AG is an independent financial advisory boutique dedicated to value creation in the healthcare and life sciences sectors. Our core activities are in innovative financing, consulting and advisory services, and thought leadership and capacity building. Based in Switzerland, the Santeum Partners team works at the interface between the industrialized and emerging markets. Santeum Partners supports investors, entrepreneurs, academic institutions, research centers, healthcare and life sciences companies, inter-governmental organizations and the public sector in developing opportunities, executing transactions, implementing projects and building successful businesses. Santeum Partners aims to contribute to global development and growth, the diffusion of innovation and health promotion.

# Introduction

Emerging markets<sup>1</sup> healthcare is one of the most “developmental” opportunities available to investors, be they from the private, public or inter-governmental sectors. However, as health systems<sup>2</sup> in the emerging markets vary widely in terms of scale, quality, human capital, management expertise and governance, investors are presented with unique opportunities and complex challenges. In the industrialized world, there is considerable controversy as to how much countries should be spending on healthcare, but the burning question in emerging markets is rather where, how and on what limited healthcare budgets and investment capital should be deployed? The upside of wise resource allocation is substantial, as an equitable, sustainable and effective health system drives a vibrant private healthcare sector thereby magnifying societal and economic benefits<sup>3</sup>.

***An equitable, sustainable and effective health system drives a vibrant private healthcare sector thereby magnifying societal and economic benefits***

In our recent report on the role of Sovereign Wealth Funds in healthcare sector development (available at [www.santeumpartners.com](http://www.santeumpartners.com)) our focus was on natural resource rich countries that still have challenges in terms of overall population health status, the burden of lifestyle related diseases and growing health systems. This report builds on the premise that investing in the healthcare sector in the emerging markets is not only vital for economic development and societal wellbeing, but also generates excellent returns. We outline the fundamental conditions that are required to ensure that healthcare investment, irrespective of its origins (public, sovereign wealth, multi-lateral development aid or private sectors) is: a) sustainable, b) has maximum impact in improving health status and in preventing and managing diseases and most importantly c) generates excellent returns.

***This report is about a high stakes game – avoiding the health systems development trap***

This report is about a high stakes game – avoiding the health systems development trap<sup>4</sup>. Key features of this trap are a public health sector that is unable to fulfil its obligations, while at the same time not having the human capital and resources to coordinate and ensure that a growing private health sector maintains good quality and coverage. The health systems development trap is also characterized by amongst other features; under-investment in surveillance, health promotion, infrastructure and technology management, community-level care and rehabilitation and by limitations in the implementation of regulations and governance. We explore ways to avoid the health systems development trap through ensuring a baseline set of conditions for profitable investment in making health systems work better for all.

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<sup>1</sup> We regard an emerging market country as any non-OECD country (recognizing that substantial differences exist in terms of economic and social development between these countries)

<sup>2</sup> The World Health Organization describes a healthcare system as all organizations, institutions and resources devoted to producing actions whose primary intent is to improve health

<sup>3</sup> Should there be a ceiling on what percentage of GDP countries spend on health? *BMJ* 2008;337:a1036

<sup>4</sup> We acknowledge and thank Professor Paul Collier for introducing us to the concept of the natural resources trap (*The Bottom Billion – Why the Poorest Countries are Failing and What Can Be Done About It?* Oxford University Press, 2007)

# Setting the Scene: Health System Strengthening

## – Why Does It Matter?

*“Without healthcare, many of the opportunities for fundamental health improvement are lost. With partial health systems, or systems with inequitable provision, opportunities for universal health as a matter of social justice is lost. These are core issues for all countries”... “Yet health systems are appallingly weak in many countries, with massive inequality in provision, access, and use between rich and poor.”*

*World Health Organization (2008) Closing the gap in a generation: health equity through action on the social determinants of health. The Final Report of the Commission on Social Determinants of Health*

The World Development Report (1994) highlighted the link between investment in development and health. Improvements in housing, environmental services, employment, entrepreneurship and wealth creation, transportation and quality of life have substantial positive health impacts. Healthcare sector investment, especially in hospital infrastructure is regarded as a core economic development activity. Unfortunately, there is often very little consideration of the importance of integrating such investments into a long-term strategy to develop a sustainable, integrated and high quality health system. The repertoire of healthcare sector investment strategies in the emerging markets has historically been mainly limited to hospitals, specialist clinics, wellness and beauty and biopharmaceutical and medical technology distribution. It is only recently that we have seen growing interest in health insurance, managed healthcare and healthcare services (for example, disease management and providing for the needs of special groups such as the elderly and disabled).

### The six building blocks of a health system (World Health Organization)

Good **health services** that deliver effective, safe, quality personal and non-personal health interventions to those that need them, when and where needed, with minimum waste of resources.

A well-performing **health workforce** that works in ways that are responsive, fair and efficient to achieve the best health outcomes possible, given available resources and circumstances (i.e. there are sufficient staff, fairly distributed; they are competent, responsive and productive).

A well-functioning **health information** system that ensures the production, analysis, dissemination and use of reliable and timely information on health determinants, health system performance and health status.

A well-functioning health system ensures equitable access to essential **medical products, vaccines and technologies** of assured quality, safety, efficacy and cost-effectiveness, and their scientifically sound and cost-effective use.

A good health **financing system** raises adequate funds for health, in ways that en-

sure people can use needed services, and are protected from financial catastrophe or impoverishment associated with having to pay for them. It provides incentives for providers and users to be efficient.

**Leadership and governance** involves ensuring strategic policy frameworks exist and are combined with effective oversight, coalition building, regulation, attention to system-design and accountability.

*Source: World Health Organization (2007) Everybody's business: strengthening health systems to improve health outcomes: WHO's Framework for Action.*

**Healthcare sector investments in the emerging markets have historically been mainly limited to hospitals, specialist clinics, wellness and biopharmaceutical and medical technology distribution**

Health systems achieve the goal of improving health through organizing, financing and ensuring the quality of health services<sup>5</sup>. These definitions focus on the “health production” attributes of health systems, whereas many stakeholders are more interested in the parts (hospitals, clinics, service providers) than in an integrated view. Health authorities and policy makers, desirous of a greater private sector role in the health system, need to devote considerable research, consultation and coordination resources to support all the stakeholders (public, private, academic, financial) and to ensure a robust strategic framework to guide evolution towards a top-tier health system.

## What Makes a Health System “Investment Ready”?

**Most stakeholders are more interested in the parts (hospitals, clinics, service providers) of a health system than in an integrated view**

*“One of the main challenges facing governments is guiding health sector investments towards appropriate and sustainable technologies and services that contribute to overall health system improvement.”*

*Santeum Partners (2008) The Health of Nations: A New Asset Class: Investing in Healthcare Sector Development: The Role of Sovereign Wealth Funds*

*“In sum, in a vicious circle, weak health systems can limit the effectiveness of global health initiatives and global health initiatives can place unwarranted stress on already weak systems. This dilemma drives a wedge between health systems strengthening efforts and the work of global health initiatives and limits the capacity of both to achieve their full potential.”*

*World Health Organization (2008) Maximizing positive synergies between health systems and global health initiatives*

A health system has a range of diverse stakeholders from the public and private sectors providing care to patients or healthcare consumers. How the public and private

<sup>5</sup> World Economic Forum (2007) From Funding to Action: Strengthening Healthcare Systems in Sub-Saharan Africa. World Economic Forum White Paper, Centre for Public-Private Partnerships, Global Health Initiative

***Substantial investment in ensuring the human capital, systems, training, governance and management expertise to drive performance and quality are pre-requisites for good hospitals***

sectors interact and the regulatory, social and reimbursement context of this interaction, have a direct impact on a health system's performance. It is not enough to build hospitals and equip them with sophisticated technologies, without substantial investment in ensuring the human capital, systems, training, governance and management expertise to drive performance and quality. Similarly, introducing statutory health insurance only makes sense when considerable effort has gone into ensuring that public and private providers have the capacity and service quality to satisfy newly-generated demand.

### **The health systems development trap**

A health systems development trap exists when a range of conditions result in the public and private sectors being unable to fulfil the WHO criteria for fully functional health system combined with a negative spiral of under-resourcing related to:

- Insufficient data and transparency on health status, determinants and key health challenges
- Unclear public policy related to the role of the private sector and privatization
- An uneven playing field for private sector participation in health system development
- An under-developed local investor base and no or limited access to international capital markets
- Limitations in the regulatory, governance, IP and legal environment
- Shortage and poor deployment of local human capital
- Insufficient investment in training, universities, paramedical colleges and local institutions
- Competition between local and international development organizations and the public sector
- Barriers to building healthcare businesses and insufficient number of local health sector entrepreneurs
- Unclear delineation of responsibilities and obligations between local, regional and national authorities
- Focus on high-profile projects at the expense of community-level infrastructure
- Inability to leverage international sources of impartial and committed advice and support
- Absence of a clear strategy to encourage the capital markets to invest in the healthcare sector

**Health system strengthening creates an optimal environment for healthcare investment and the biggest opportunity lies in healthcare services**

**The opportunity for profitable healthcare services investment is immense, especially in many countries where the public sector does not have the human capital, but does have the financial resources to support private healthcare services development**

The WHO World Health Report 2000 evaluated health systems using the following criteria: the overall level of health; the distribution of health in the population; the overall level of responsiveness; the distribution of responsiveness; and the distribution of financial contribution. Based on these measures, countries such as the US that spend a high proportion of GDP on healthcare performed poorly against much poorer countries due to inequities in access, poor value in terms of health status and substantial inefficiencies and wastage.

Using an agricultural analogy, a successful farmer needs a good environment (soil, weather, protection from pests) and a ready market for his or her produce. For the healthcare investor, this translates into an environment where projects can be nurtured and grown and investment opportunities exist to meet pressing healthcare needs. We believe that health system strengthening creates the good environment for healthcare investment and that the biggest opportunity lies in healthcare services.

#### Case Study: The US healthcare dollar

The US has seen substantial recent growth in the healthcare services space driven by a need to improve efficiency and contain costs. The challenge that every country faces is how to pay less for healthcare while ensuring that the quality and accessibility of this care is not compromised. Healthcare service-based cost-containment strategies that work include moving care from expensive hospitals into the community, using information technology to better manage patients and introducing processes and systems to care for people with chronic conditions so that they remain as healthy as possible for as long as possible.

**Table 1: Selected % US healthcare sector expenditure in 2006**

Category	% 2006
Hospital Care	30
Physician services	20
Prescription drugs	10
OTC / non-durables	3
Nursing Home care	8
Research (non-pharma)	2

Source: Mongan et al. Options for slowing the growth of healthcare costs. *New Engl J Med* 2008; 358: 1509-1514

**Building healthcare services is the best way to ensure the sustainability of health system reform**

Moving to a service-oriented health system requires expertise at a governmental and public policy level. It is ostensibly easier to build physical infrastructure than to attack issues such as the lack of health data, poor primary care facilities or deficiencies in coordination and general management. But the opportunity for profitable healthcare services investment is immense, especially in countries where the public sector does not have the human capital, but does have the financial resources to support private healthcare services development.

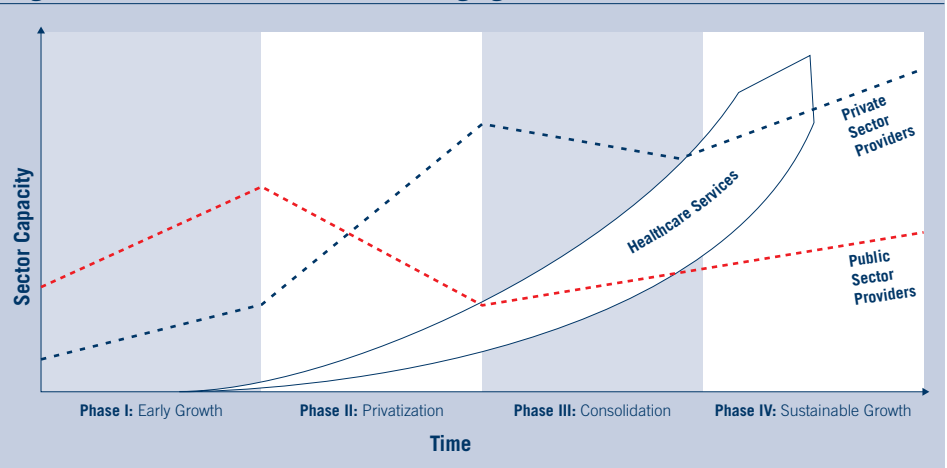
**Healthcare services: the backbone of a health system**

As most of the current and anticipated investment in emerging markets healthcare sectors are dedicated to infrastructure (mainly state-of-the-art hospitals) and products (including pharmaceutical manufacturing), the healthcare services sector remains relatively underdeveloped. This trend is similar to that which occurred in the USA more than a decade ago, when the healthcare services market began to grow substantially.

The opportunity exists to profitably contribute to building an integrated, better quality health system including:

- Services to better manage healthcare and improve care for a range of conditions and improve health: Information management services, electronic medical records and decision support, disease management; health promotion and wellness services; rehabilitation and care for special groups such as the elderly and the disabled.
- Strengthening human capital and improving quality: Training, assessment and certification services; consulting and capacity-building and general management training; quality and service management training.
- Improving existing and future infrastructure: Facility and capital equipment management; reimbursement and capitation; services for the optimal utilization of medical technologies for diagnosis and treatment; centralized services including laboratories, pharmacies and logistics.

**Figure 1: Trends in the evolution of emerging market healthcare sectors**



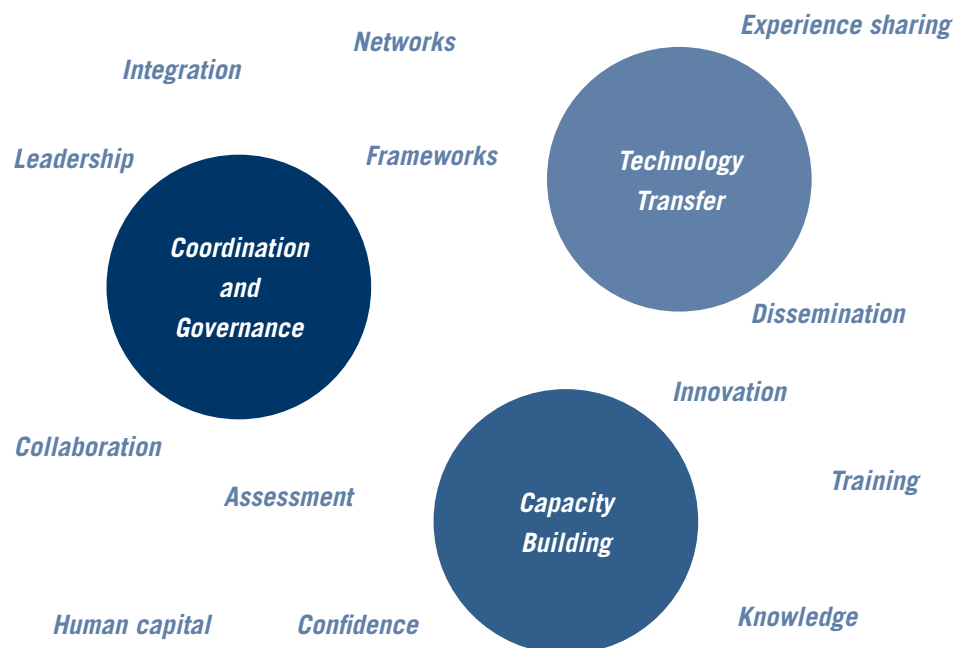
Building healthcare services is the best way to ensure the sustainability of health system reform. In many emerging market countries, the private sector is largely focused on meeting the need for hospital beds as the public sector is slow to grow capacity and often is engaged in a hospital privatization process. Healthcare services contribute to ensuring that existing capacity is optimized and in limiting the impacts of the inevitable consolidation that occurs when private and public capacity exceeds future needs (Figure 1). Similarly, all health systems inevitably have to contain costs and healthcare services such as disease management, day-clinics and community-based care play an important role. As health systems mature, the demand for health services generally continues to rise as populations age and consumers spend more discretionary money on their health and wellbeing seeking quality and good service.

## Strengthening Health Systems for Investment

***Technology transfer, capacity building, coordination and governance demand particular resource allocation to support healthcare sector investment in the emerging markets***

We propose that technology transfer, capacity building, coordination and governance demand particular resource allocation to support healthcare sector investment in the emerging markets, especially in countries that face a combination of a lack of human capital, a need to further invest in healthcare infrastructure and under-developed healthcare services.

***Figure 2: Focus areas for health systems strengthening***



## **Technology Transfer – More than More Pharmaceuticals and Machines**

*“To reduce poverty and increase the world economic strength, knowledge and technology transfer to developing countries should be focused upon. This will reduce the gap between developed and developing countries. Developing countries should be willing to encourage knowledge and technology transfer as well as local R&D.”*

*Hendrix A. Odigie and Richard Li-Hua. Unlocking the Channel of Tacit Knowledge Transfer. Working Paper presented at The Chinese Association for the Management of Technology International Conference, Beijing, October 2008*

***The lifeblood of a good health system is continuous improvement of existing technologies and services as well the introduction of new and appropriate technologies***

The lifeblood of a good health system is continuous improvement of existing technologies and services as well as the introduction of new and appropriate technologies (innovation, knowledge and technology transfer). The recent history of healthcare is characterized by the pace of innovation in diagnosis and treatment. Emerging market countries need to access new technology, but under terms and conditions that generate the maximum benefit for the patient or healthcare consumer. Innovation must diffuse from the industrialized to the developing world (and more recently from the developing to the industrialized world), yet there needs to be a recognition that technology alone is not a panacea.

Good health systems focus on technology assessment, including the management of technology transfer in therapeutics (drugs, medical devices, protocols and IT), diagnostics and healthcare service innovation. Countries need regulatory capacity and to collaborate closely with local and international agencies, investors and industrial partners. Every country needs healthcare technology assessment services to support decision making and ensure patient access to the best medical technologies.

***There is a need for local knowledge, experience, expertise and networks to source, negotiate, implement and manage healthcare projects***

Investors should encourage and support the creation of innovation centres to collect information, disseminate data and identify new opportunities and assist in the diffusion of appropriate medical technologies. Similarly, governments must promote the application of international norms and standards for drugs, diagnostics and medical devices and work closely with the private sector to develop a coordinated technology transfer strategy. Reinforcing professional associations and closely collaborating with relevant regulatory and government departments supports the development of legal frameworks to keep up with rapidly changing medical practice. Resources should also be devoted to conducting research and undertaking advocacy on intellectual property (IP) issues and legal barriers to the development of an entrepreneurial life sciences sector.

## Case Study: Health information technology transfer – lessons from the industrialized world

*“Past experience of investing in information technology for healthcare suggests that it is easy to spend large sums of money but hard to achieve rapid improvements. Problems agreeing on common standards have held up the adoption of electronic health records and, even where they have been successfully adopted, development has taken years. Where successfully installed, at least as much has had to be spent on changing organizational cultures and business practices as on IT itself. A recent survey showed that while three-quarters of US hospitals had some IT in place, only 12 per cent were running a full electronic health record, while the penetration of full electronic records in physicians’ offices is even lower”.*  
*Nicholas Timmins, Financial Times, 9 December 2008.*

Health information systems and electronic medical records are the backbone of efficient, cost-effective healthcare delivery. Countries such as the United Kingdom have spent billions on introducing comprehensive electronic medical records, but implementation has been extremely slow, over-budget and beset with problems ranging from rapidly outdated technologies to poor usability to strong resistance from healthcare professionals.

Health information systems should be designed to support networking all healthcare professionals (irrespective of whether they are in a large hospital or a small rural clinic) for the purposes of optimizing medical care. Similarly, the electronic patient record is vital for disease management, occupational health and primary care. With this in mind, purchasers of health information systems should seek solutions that can indeed be customized to local conditions and support a comprehensive, networked health system.

### Capacity Building – Negotiating from a Position of Strength

Our experience from healthcare sector investment projects in a number of emerging market countries has constantly driven home the need for local capacity (knowledge, experience, expertise and networks) to source, negotiate, implement and manage these projects. We note that there are 2 key areas of focus for effective capacity building; nurturing the human capital to drive sustainable and profitable investments and ensuring that the public health infrastructure exists to provide the optimal “environment” for such investments.

Turning firstly to human capital, most emerging market countries still substantially under-invest in resources for management and leadership development in healthcare. While numerous stand-alone educational and training facilities exist, it is hard to find many examples of integrated activities to build cadres of managers and leaders that have a good insight into health systems management, health economics, health insurance and financing.

There is considerable scope for more research into optimising the routine functioning of health systems and for health economics training to promote cost effectiveness

***Good public health infrastructure is needed for successful healthcare investments***

and to maximise the health benefits of investments and interventions. A well-trained cadre of healthcare managers can input into healthcare financing reform and health insurance design. They also support the diffusion of innovation in healthcare management and leadership in areas including service operations, quality and operational excellence.

***Many emerging market countries do not currently have resources and capacity for improving all aspects of health data collection and analysis***

Our experience has shown that good public health infrastructure is needed for the implementation and success of investments. Surveillance and monitoring of the burden of ill-health and health determinants (including environmental, social, economic and other factors) provide indispensable data-driven decision support for strategic investment in public and private healthcare. We note that many emerging market countries do not currently have resources and capacity for improving health data collection and analysis and consolidating secondary data to provide best possible assessments of health challenges and investment opportunities. Capacity building is based on collaboration with national and local agencies, both public and private, for the management of the various surveillance and data collection systems that are currently in-place or that need to be created to support improvements in data management at a hospital and primary care level. Investors need detailed knowledge on burden of disease and quantification of health impacts of changing demographics, aging, social and economic transition.

A large part of the healthcare services investment opportunity in the emerging market is driven by the need to improve the health status of the population and to better manage chronic conditions. In order to grow healthcare services, the public sector needs to provide support, coordination and leadership resources to undertake manifold research, intervention and training programmes and activities aimed at reducing the burden of communicable, lifestyle-related and chronic disease. Countries need a hub for the coordination of diverse health promotion activities and to focus on identified health challenges such as diabetes, hypertension, heart disease and road traffic injuries. This extends to health issues that have strong social overlays such as obesity, substance abuse, smoking, mental health and HIV.

***The speed of health system development, especially of hospital infrastructure strains the limited coordination resources of governments and health authorities***

#### **Coordination and Governance – The Virtuous Circle for Investors**

Countries are devoting more and more of their natural resource wealth towards healthcare sector development. The speed of this development, especially of hospital infrastructure, strains the limited coordination resources of governments and health authorities. Figure 1 illustrates the “waves” of investment as the private and public sectors go through a range growth, privatization and consolidation phases. Earlier in this report, we developed the case for healthcare services investment and we now focus on the pre-requisites for ensuring that maximum value is generated from these investments, especially in physical infrastructure.

***Coordination is vital for building a sustainable, investment-friendly health system***

As more and more money is pumped into a health system and growth occurs at breakneck speed, it becomes difficult to identify and coordinate a range of ostensibly “competing” initiatives. Good health authorities keep tight control over the number, utility, viability and financial soundness of private sector hospital projects in order to avoid a hospital bed over-supply bubble that some emerging economies have en-

***Good healthcare is about the highest standards of care, patient protection and ethics and this has to be reflected in the way that investment projects are structured and implemented***

countered. We view coordination as vital for building a sustainable and investment-friendly health system and propose that countries focus on coordination and quality in the management and development of physical infrastructure and real estate in healthcare and the life sciences, including hospitals, primary health care facilities, clinics, laboratories, research facilities and bio-parks, bio-pharmaceutical companies, health promotion and community-based facilities. To achieve this goal, there is a need to undertake ongoing surveys of physical facilities, quality, service and capacity and to develop decision support database for healthcare and life sciences infrastructure investment and to conduct demand and human capital development assessments to support future evolution. Coordination is intimately linked with health consumer or patient focus and continuous quality improvement.

An incontrovertible component of an “investment ready” health system is governance, which we regard as the supporting regulatory, legal and operational frameworks for building top class healthcare projects and developing public-private partnerships. Good healthcare is about the highest standards of care, patient protection and ethics and this has to be reflected in the way that investment projects are structured and implemented. Authorities need to support the professional development and testing, certification, accreditation and control of medical and paramedical professionals.

***A sustainable, high-quality and accessible health system must support and grow a network of stakeholders***

We see that confidence in a health system is strongly linked to patients and their families knowing that they will be professionally and safely looked after (and that any untoward events will be detected, investigated and sanctioned). Much still needs to be done to reinforce professional associations and support the development of legal frameworks to keep up with rapidly changing medical practice. Similarly, countries need ensure that a governance structure is in place to promote research, protect intellectual property and promote innovation; all vital components of an entrepreneurial life sciences sector.

#### **Case Study: Putting it all together - lessons from clean-tech**

How do you establish a new economic sector? The Emirate of Abu Dhabi has taken a unique approach to building local capacity in renewable and clean energy with its Masdar initiative. The goal of Masdar is the establishment of an entirely new economic sector in Abu Dhabi based on new energy technologies, which will assist in economic diversification and the development of knowledge-based industries, while enhancing Abu Dhabi’s existing record of environmental stewardship and its contribution to the global community.

The Masdar cluster is financed by a USD15 billion seed investment from the government of Abu Dhabi and will bring together investors, businesses and academia. This funding will be directed to the following areas:

- Investments
- Manufacturing future energy solutions
- Education and R & D (Masdar Institute of Science and Technology)

- Carbon management
- Sustainable development and planning
- Renewable energy infrastructure projects

A related objective is to drive the commercialization and adoption of these and other technologies in sustainable energy, carbon management and water conservation. In doing so, Masdar will play a decisive role in Abu Dhabi's transition from a technology consumer to technology producer. The project includes a joint USD200 million clean-tech private equity fund with Credit Suisse.

Masdar is a good example of how to integrate the key components required for sustainable and appropriate sector development, including technology transfer, capacity building, co-ordination, and private sector investment.

This model, applied to health system development, not only helps to overcome the development trap but also ensures that the criteria identified by the WHO for top-tier health system are met. Santeum Partners has developed a model for supporting health system growth based on 3-core components: (i) creating centres of excellence to ensure the requisite knowledge, resources and leadership, (ii) networking the health system into global expertise and technologies, and (iii) setting up investment vehicles to drive the growth of private healthcare services. This model is can be customized to meet the healthcare sector development needs of most emerging market countries and can be implemented at local, national and regional levels. Furthermore, it can be implemented in a phased process and appropriately scaled-up, being tailored to the availability of local or international funding. At the heart of such an approach is a belief that a sustainable, high-quality and accessible health system must support and grow a network of stakeholders.

Sources: [www.masdar.ae](http://www.masdar.ae) and *The Economist*, December 6-12, 2008

## Closing Comments: Implications for Investors (and Policy Makers)

*"Ultimately increased efficiency may be the only way of reconciling rising demands for healthcare with public financing constraints," ..... "changing how health funding is spent rather than mere cost cutting is key to achieving better value."*

*Organization for Economic Cooperation and Development (2004) Health systems: measuring and improving performance*

*"Investing in the healthcare sector poses unique challenges. Different timelines, investment needs and regulatory environments across countries and sub-sectors (pharmaceuticals, medical devices and health services) are some of the complexities that investors face. The upside is potentially large as healthcare investments benefit from deregulation, privatization, growing economies, demographic change (growing populations and increasing life expectancy) as well as from an ever increasing share*

*of public and private spending.”*

*Santeum Partners (2008) The Health of Nations : A New Asset Class: Investing in Healthcare Sector Development: The Role of Sovereign Wealth Funds*

***The emerging markets have an absolute need for investments in healthcare infrastructure and services while at the same time having to increase the efficiency of existing investments***

The emerging markets have an absolute need for investments in healthcare infrastructure and services while at the same time having to increase the efficiency of existing investments. The private and public sectors both seek quality, sustainability and good outcomes from the healthcare projects they invest in. These return criteria are complex and go to the heart of the role of healthcare investment in the economic and social fabric of the developing world. Over the past 18 months, there have been numerous statements from governments, multi-lateral organizations and health authorities on the integral role of private sector investment in healthcare sector development. The private sector has manifold opportunities to participate in building the healthcare sector, be it through new ventures, public-private partnerships or participating in the inevitable privatization of public facilities.

For investors, the benefits of integrating health systems analysis into an emerging markets healthcare investment strategy are twofold. Firstly, it helps identify threats and opportunities related to existing business and investment opportunities. Secondly, it identifies potential gaps in the health system where the private sector can step in as a service provider to the public sector. For governments and policy makers, an expanded view of health systems to include technology transfer, capacity building, coordination and governance serves to highlight the need to work together with the private sector (investors and providers) to develop a sustainable and efficient health system. Building local capacity empowers countries to engage on equitable terms with the private sector and inter-governmental and multi-lateral organizations. Ensuring good coordination and governance is vital to “setting the rules of the game” especially for investors and vendors of products and services.

***Some countries may even need to “prime the pump” by directly investing in private healthcare services***

The avoidance of a number of “health systems development traps”, such as inappropriate or too little private sector investment combined with significant public sector under-capacity, requires resources for disseminating best practice and capacity building. Some countries may even need to “prime the pump” by directly investing in private healthcare services companies to meet demand and contribute to the development of a sustainable sector. Healthcare investment, when properly nurtured and well-executed, has the potential to generate significant returns in terms of societal and economic wellbeing. And for investors, good investments generally make good money!

# Appendix: Evolving Trends in Health Systems Development

***Innovative financing of healthcare services:*** In recent years there has been a growing recognition that strong health systems lie at the core of sustainable development. British Prime Minister Gordon Brown and World Bank President Robert Zoellick are currently leading a commission on innovative financing to strengthen health systems. The Global Health Initiative of the World Economic Forum in 2005 began a process to identify clear and specific opportunities where businesses could work in partnership with the public sector, to strengthen health systems in Sub-Saharan Africa. The mismatch between health sector investments and aid disbursements and the healthcare needs of populations is receiving increasing attention. Of particular concern is the low level of funding to combat the global epidemic of chronic and lifestyle-related conditions (heart disease, diabetes, injuries and the consequences of smoking, pollution, climate change and obesity). A substantial quantum of donor funding never leaves the developed world and healthcare services development funding has, until recently, been largely ignored by the major donor groups .

***The drive for efficiency:*** In the USA alone, over USD700 billion a year in healthcare services are delivered with little improvement in health outcomes . There is a growing realization in the industrialized world that future returns in terms of healthcare sector investment as measured by better population health status, will not be able to match the historical improvements that occurred over the past 50 years, unless there is a substantial reduction in wasted expenditures. Low-benefit, high-cost care has to be researched, identified and controlled and in the USA in particular, access to quality healthcare has to be broadened. In an opinion article in the Financial Times (October 26, 2008), Ronald Williams, the Chairman of Aetna (a major US health insurer) made the case for a new institution to compare technologies, practices and treatments to determine which provide the best value and outcomes.

***Renewed interest in primary healthcare:*** In 1978, the Alma-Ata WHO declaration put primary health care at the forefront of health systems development. Unfortunately, we are still some way from reaching the noble goal of “Health for All”. The recent report of the Commission on Social Determinants of Health emphasised that healthcare at the local community-level was the best avenue to promote health and deliver appropriate care. Robust primary healthcare delivery is built on good health information systems, disease management and health promotion, health education and quality improvement systems. In the emerging markets, healthcare is often funded by individuals through out-of-pocket spending. Yet, the private healthcare sector generally remains underdeveloped, has high variations in safety and quality and is poorly integrated into national health systems.

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