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Growing investme
for private sector p

Driven by new government strategy and regulatory reforms, more investments are expected in the GCC healthcare industry, aimed at enhancing and developing healthcare infrastructure and value chain. This increase in investment will lead to a significant expansion in the healthcare sector and will create attractive opportunities for private sector participation in the industry.

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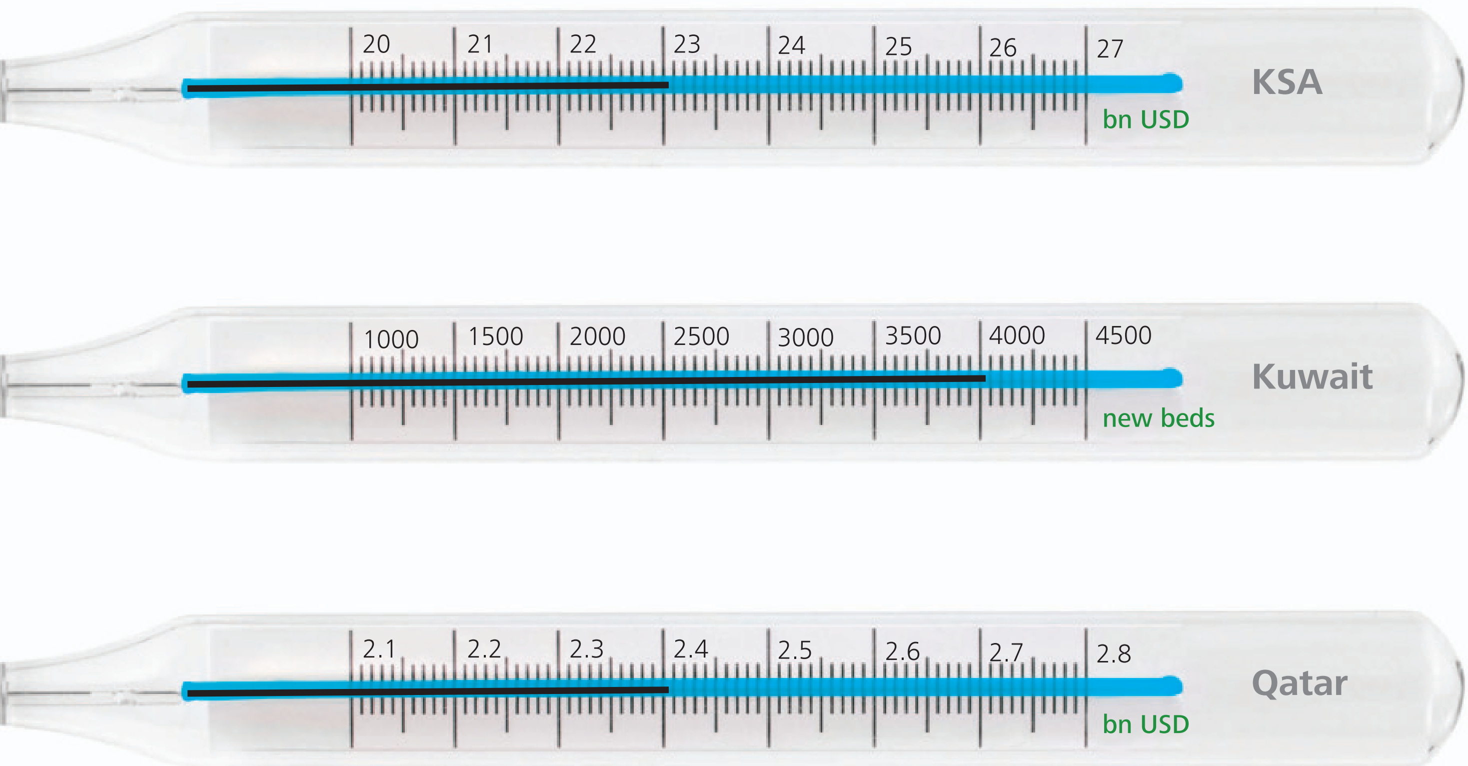

Key market drivers

Demand for health services are affected by several key drivers, including demographic and macroeconomic factors. According to the Economic Intelligence Unit (EIU), the Gulf Cooperation Council (GCC) population reached 45 million in 2010 and is forecast to reach close to 57 million by 2015, posting a cumulative annual growth rate of 5%. The GCC population is relatively young with the vast majority of people under the age of 29. But this structure is expected to change in the next 10 years, with the over-65 age segment experiencing the fastest growth rate. This segment has a proportionally higher healthcare cost per capita associated with the treatment of diseases such as heart ailment, hypertension and diabetes.

The healthcare industry is also driven by positive growth prospects and increased purchasing power, such as those witnessed in the region. The overall income levels in the GCC region have risen substantially due to the increase in oil prices over the past few years. Income growth has outpaced population growth, resulting in faster increases of per capita income. According to the International Monetary Fund (IMF), per capita GDP in the GCC is expected to grow 5.4% over the period 2010-15, which is likely to further drive healthcare spending in the region.

Increased urbanization and rising per capita income have also led to a more sedentary lifestyle in the GCC. This has substantially increased the prevalence of lifestyle-related diseases such as diabetes, cardiovascular ailments and cancer. According to the World Health Organization, the GCC has the highest ranking in the world in incidences of diabetes and obesity. The higher incidence of lifestyle diseases is projected to lead to an increase in per capita healthcare costs and more demand for specialized tertiary medical facilities. Additional investment and private sector participation are required to reduce the demand/supply gap.

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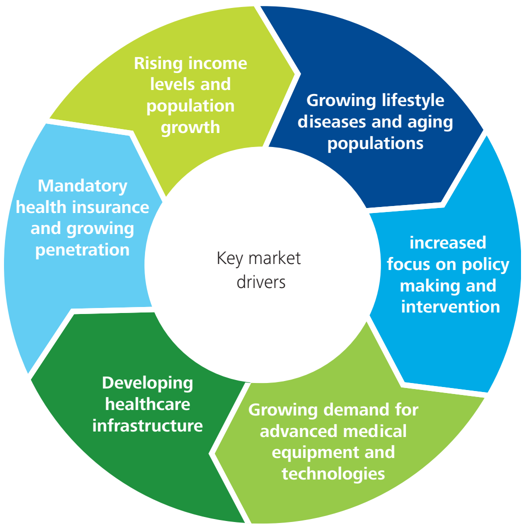
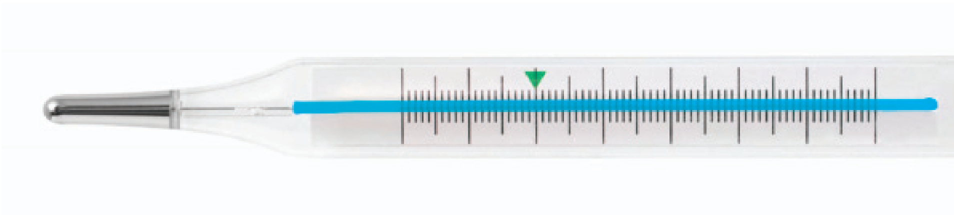
Key market drivers and challenges for the GCC healthcare industry



Source: Deloitte



Developing the healthcare infrastructure

GCC governments have devised strategies to boost their healthcare infrastructures. However, they continue to lag behind the developed markets in terms of standards and key indicators. Expenditure on healthcare in the GCC grew by around 14% to reach over $34 billion in 2009, of which the public sector contributed 70%. But despite a relatively high level of public spending, expenditure as a percentage of GDP stood at 3.5% only, far below that of developed economies and the world average of 10%. In addition, GCC states lag behind developed countries in bed count. The bed density in the GCC is currently at 1.8 beds per thousand, as compared with 3.1‰ in the U.S., 8.2‰ in Germany and a staggering 13.7‰ in Japan.

Aided by large budgetary surpluses, the GCC governments are set to make unprecedented investments to support healthcare provision and bring the industry up to par with international standards in terms of bed capacity and the quality of healthcare services. Such investments will require strong private sector partnerships as well as a strong private sector presence to both, sustain and capitalize, on expected demand. Promoting the industry to private players is a priority for all GCC governments, as it is clearly stated in their strategic and development plans.

Saudi Arabia

Saudi Arabia, which is the largest and one of the most developed markets for healthcare services in the region, allocated a $23 billion healthcare budget in 2012, representing the largest in the history of the Kingdom. They have also allocated a robust SAR 274 billion (USD 73 billion) for various health initiatives in their ninth Five Year Plan (2010-2014), including the construction of 121 hospitals, 700 primary healthcare centers and 400 emergency centers. The plan is to improve the bed density from the current 2.2‰ to 3.5‰ and the ratio of physicians to beds to 0.75. The Saudi government is undertaking policy reviews to create an effective regulatory framework aimed at providing the appropriate environment for increased private sector investment and expansion in medical facilities and production and distribution of medical equipment, supplies and services. Such initiatives include the promoting of mergers and acquisitions to spread private healthcare expansion, offering incentives to attract highly qualified medical professionals, addressing the shortage in qualified medical staff through education and the expansion of medical colleges and residency programs, creating partnerships with leading educational institutions to build the Kingdom's medical education capacities, designing a sophisticated healthcare system to regulate and track the increasingly complex healthcare sector and establishing a national electronic records system and business intelligence solutions to support the Kingdom's healthcare expansion. The aim of the privatization initiatives is to reduce public spending and re-focus government efforts on market regulation.

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Kuwait

Kuwait is another example with plans to increase bed density from the existing 2‰ to 2.2‰ by building nine new hospitals by 2016, which will add 4,000 new beds to the market. The government is also planning major policy and regulatory reforms to increase the private sector investment in the industry. The government is also identifying specializations that the private sector can invest in to align service offering with the public sector and control competition to ensure quality services are being offered.

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Qatar

Qatar's 2011–12 budget allocated QAR 8.8 billion (USD 2.4 billion) for health projects and services and the government continuously encourages the private sector to play a greater role in upgrading healthcare infrastructure. In fact, private sector participation, which stands at around 60% of total hospitals, has been steadily rising over the years and the government has recently taken a number of additional steps to further widen participation. For example, Qatar's Supreme Council of Health (SCH) plans to introduce a national health insurance scheme within the next three years under the National Health Strategy (NHS) 2011–16 to reduce dependence on public funds for healthcare. Qatar also intends to implement a pioneering e-health program across its hospitals and clinics nationwide, including the introduction of an electronic health records system. The imminent need for a comprehensive information management system will provide extensive opportunities for the private sector to contribute to its development and benefit from the flow of information it generates. Furthermore, in January 2011, the SCH approved a decree to remove all price controls on medicine in an attempt to liberalize the market and increase competition. Currently, the SCH is implementing the free pricing policy, but routine inspections on the prices are conducted to prevent any misuse of the policy. The SCH also has a new direction to promote pharmaceutical manufacturing in the country for private sector investors.

UAE

Meanwhile, leaders in the United Arab Emirates (UAE) have emphasized in their vision that all Emiratis should have access to comprehensive world-class facilities with the best quality services in early diagnosis and preventative medicine. With this core focus, mandatory insurance will be introduced to all Emiratis and non-Emiratis across the UAE (beyond Abu Dhabi), which in turn will increase consumption of healthcare services (perhaps as much as three-fold) and will help regulators identify the gaps in current services at hospitals and clinics across the emirates. The private sector will have access to better information on the market landscape, thus providing an additional platform for investment in the industry. Furthermore, the President of the UAE, Khalifa bin Zayed al Nahyan, recently issued a decree to establish a Federal Health Authority (abolishing an earlier decree). The new decision was driven by the President's interest in utilizing the allocated budget on improving and expanding the existing healthcare services and infrastructure in the country.

Specifically, the Emirate of Abu Dhabi has been working to strengthen their cooperation with internationally recognized healthcare providers with an aim to transfer knowledge and know-how to the local market. The Public-Private Partnership (PPP) model between Mubadala and Cleveland Clinic is an example of the strategic direction and importance the government of Abu Dhabi has placed on providing world-class healthcare services to its citizens. Dubai, on the other hand, has created a specialized healthcare free zone (Dubai Healthcare City) aimed at attracting internationally recognized medical service providers to set up in a 100% ownership structure.

The leadership of Dubai strongly believes that increased private sector participation is a promoter of competition that results in best in class quality service offerings. The Dubai Health Authority (DHA) has also set new initiatives aimed at positioning the industry as an international hub for medical tourism. Similarly, in April 2012, the ruler of

Sharjah, Sultan bin Mohamed Al-Qasimi, announced the establishment of the Sharjah HealthCare City (SHCC), which is also aimed at attracting international healthcare companies and private players to the emirate. It is estimated that Sharjah will require an additional 630 beds in the next five years to meet growing demand. As such, healthcare has been designated as a key focus sector for the attraction of Foreign Direct Investment into the emirate.

Good reasons to invest

The GCC healthcare market stands on the brink of major developments and double digit growth. The combined forces of regulatory and funding reforms (i.e. structural changes in service provision and recent moves towards a compulsory insurance system) and increasing demand for services through population and income growth and high incidence of disease categories make this inevitable. As the GCC governments plan for additional investments and expansions, the private sector is becoming increasingly aware of the gaps in healthcare services, not only in terms of infrastructure availability but also as quality of services. Indeed, any additional investment in the industry will require a strong private sector presence. This creates attractive opportunities for the private players to supplement the efforts of the government and devise effective strategies focused on highly differentiated services and products to cater to the unmet demand across the entire healthcare value chain.

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