

ISSUE BRIEF

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to promote health, well-being, and value in health care delivery*

BUILDING THE PRIVATE HEALTHCARE SECTOR IN THE DEVELOPING WORLD

KEY FINDINGS

- In countries where the private sector plays a larger role in healthcare, people report having more access to care.
- There are also fewer disparities in the services received by rich and poor, and urban and rural populations.
- Governments in developing countries have considerable untapped potential to work with the private-health sector.
- Lack of engagement with the private sector can have serious negative consequences for public health.
- Inadequate access to capital and poor business processes significantly impede the growth of the private healthcare sector in developing nations.
- Policies aimed at removing barriers to growth can improve the health of developing populations. This paves the way for future research to design new policy solutions.

Realities on the ground today in a number of developing and emerging economies stand in stark contrast to global Millennium Development Goals calling for universal, equitable access to quality health care. With the 2015 deadline for meeting these goals fast approaching, the healthcare systems in these nations urgently need improvement. Throughout the developing world, the private healthcare sector contributes significantly to the delivery of healthcare. Working alongside the public sector, it comprises the full range of non-governmental providers, both commercial and philanthropic. Hospitals, clinics, and pharmacies form a part of this sphere, as do small unregistered providers not working in fixed facilities, such as drug peddlers and traditional healers.

Given the scale of the private sector's involvement, governments in developing and emerging economies need to include it in their efforts to make health care better. Yet debate is rife about what role the private sector should play. Until now, evidence has been lacking to inform this debate, and it is unclear how best to enhance private-sector performance. **Neeraj Sood**, Director of International Programs at the Leonard D. Schaeffer Center for Health Policy and Economics, along with colleagues from the Schaeffer Center (Zachary Wagner), the RAND Corporation (Joanne Yoong, Nicholas E. Burger, Daniel Kopf), and the World Bank (Connor P. Spreng), offers new research that begins to fill this gap. Drawn from data collected in sub-Saharan Africa, the findings may also reflect circumstances in developing countries around the world.

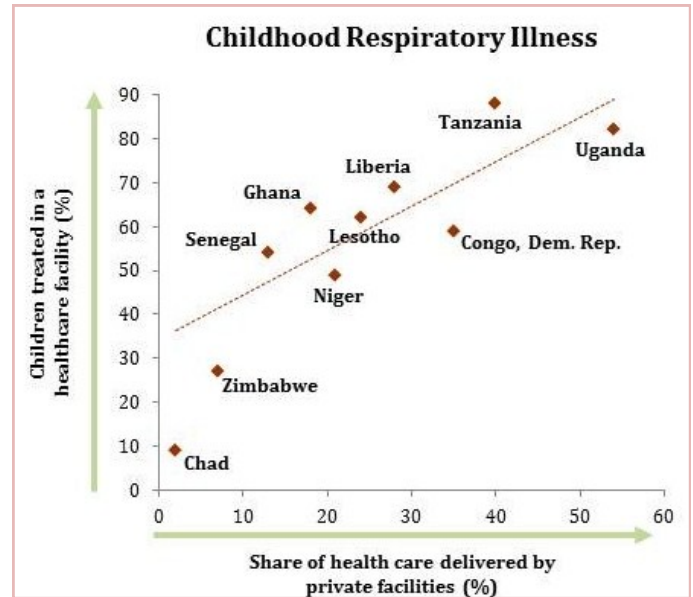
How Does the Private Sector Affect Healthcare in the Developing World?

There is no question that the private healthcare sector is well established in developing countries. What is in question is whether it is doing more harm than good, and whether it should be playing a different role in the healthcare system of these countries overall. In sub-Saharan Africa, critics voice a number of concerns. One is that the quality of care is poor in under-regulated private facilities, leading to undesirable outcomes not just for individual patients, but for disease control and drug resistance more broadly. Higher fees for services are another worry: Critics hold that because poorer people in the countries of this part of Africa cannot pay private-sector prices, access to services is far from universal and there are inequities in care. Individuals with such concerns call for limiting the private sector’s role in the region’s health care.

In contrast, proponents of private health care point to already strained public-health resources. They argue that in this context, the private-health infrastructure offers opportunities that realistically need to be built upon. For example, the private sector might bring in new resources that would broaden access to care. In addition, if private providers served more of the population as a whole, governments could devote more attention—and public-health resources—to ensuring care for the poor and underserved. Advocates emphasize that some consumers actually perceive private-sector providers to offer higher quality, greater responsiveness, and easier access to services than their public-sector counterparts.

A recent study by Dr. Sood and colleagues offers initial insight into this debate, suggesting that the private sector’s participation in healthcare systems in sub-Saharan Africa does not impair the way these systems function as a whole. The authors looked at 34 countries in this region, focusing on two services: childbirth and treatment of childhood respiratory illness. Where more private facilities participated in the healthcare system, more people also reported having greater access to these two services (Fig. 1). Greater participation of the private sector was also strongly associated with fewer disparities between the services received by rich and poor, and urban and rural populations. The analysis accounted for confounding factors such as differences in income and the educational level of mothers.

Fig. 1 Where the private sector plays a larger role, there is more access to healthcare facilities



Note: The figure shows a representative sample of the 34 countries surveyed. Percentages are rounded.

Because the study did not measure the quality of care received (and also excluded care from unregistered providers, such as traditional healers), it stops short of showing definitively that increasing the extent to which private providers participate in regional health care leads to favorable health outcomes overall. But it is clear that it has no adverse effects on either access to care or equity. It seems likely that this finding would hold in developing countries in other parts of the world as well.

To What Extent Are Governments Engaging with the Private Sector?

With the often severe limits on public-health resources in developing countries, it may no longer be optional for their governments to engage with the private sector. With this idea in mind, Dr. Sood and colleagues probed private healthcare providers in two sub-Saharan African nations to identify the extent to which governments are now doing so, and how effectively. The findings indicate that engagement is falling far short of potential.

In any nation, the government can interact with the private sector in a number of ways:

- **Monitoring.** Reports to the government from providers. Includes: quality standards, utilization of services, finances.
- **Technical assistance for capacity building.** Government support, such as technology upgrades and training on how to secure capital.

- **Financial assistance for capacity building.** Government funds for improving skills and upgrading technology.
- **Regulation.** Government checks on quality of services, access to services, and equity.
- **Assistance for improving public health and reducing inequities.** Government incentives for private facilities to help deliver public-health services and address equity issues.

Focusing on Kenya and Ghana, the authors surveyed clinics and pharmacies—the two largest categories of private providers—about the extent to which their governments are engaging with them in each of these ways. All, especially the pharmacies, reported minimal interaction in any form.

What engagement that does occur is focused on regulations to improve the quality of care. Yet facilities are rarely penalized for failing quality standards. Monitoring is very limited and focused on medical issues, neglecting business operations. Little attention is given to building the capacity of healthcare businesses, and when technical or financial assistance is distributed, the clinics receive a disproportionate share (Fig. 2). The vast majority of clinics and pharmacies do not receive government incentives to meet public health and social goals.

These findings are echoed in a recent report by the World Bank, in collaboration with the Schaeffer Center, RAND Corporation, and *Economist* Intelligence Unit. Interviewing expert stakeholders in 45 African countries, the team found that while the governments of more than 85 percent of these countries maintain an official policy of working with the private health sector, the majority do not actually implement

that policy. Most do not even keep accurate and timely information on the scale and scope of the private healthcare sector and regulations on the books are often weakly enforced.

In the Sood study, differences emerged between Kenya and Ghana that suggest there is no “one-size-fits-all” solution for sub-Saharan Africa. Indeed, one can assume that developing countries globally will show disparities that would make a uniform policy solution elusive. But both Kenya and Ghana do show considerable untapped potential for governments to constructively engage with private healthcare providers. Developing nations elsewhere likely have similarly unrealized potential.

Does Lack of Engagement with Private Providers Carry a Public Health Price?

Again using survey and census data from Kenya, Dr. Sood and his Schaeffer Center colleague Zachary Wagner show that this lack of government engagement with the private sector can have decidedly negative consequences, particularly in terms of preventive care. Two million people, most of whom are children from developing economies, die every year from preventable diseases. Immunization programs could significantly reduce this number. In Kenya, for-profit health care facilities currently have no incentive to provide this sort of public health service. Indeed, Sood and Wagner found that only 34 percent of private providers offer immunizations. Yet private providers serve half of the country’s patients. Does convenience then become a factor in how many people seek out this care?

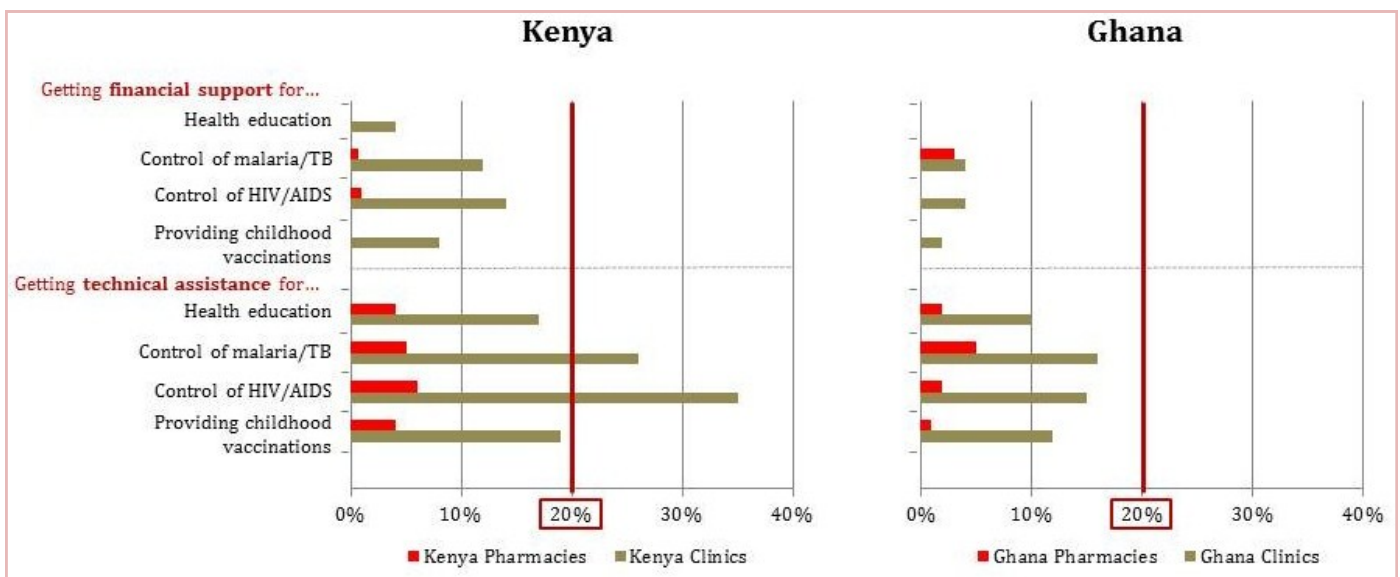


Fig. 2 Governments offer private providers minimal financial support and technical assistance

Sood and Wagner's work indicates that the answer is yes. Generally, in areas of Kenya where more of the healthcare providers are for-profit, children are less likely to get vaccinated. These results are robust to controlling for a variety of confounding factors. This link is strongest in districts where fewer private providers supply immunizations: Where only 25 percent of all for-profit facilities offer immunizations, the number of vaccinated children is relatively very low. In contrast, in districts where 75 percent give immunizations—much closer to the public-sector share—children are no longer less likely to be immunized.

It appears that when a Kenyan family cannot get immunizations from its customary private provider, this becomes a disincentive that joins other disincentives—such as time missed from work and the cost of a treatment that has no immediately visible benefits—to tip the scale against obtaining the service. Although people could almost certainly seek immunizations from a public facility, they do not.

Government engagement with private providers could help rectify this problem. Dr. Sood has shown that for-profit facilities in Kenya are more likely to provide a public health service when the government offers them assistance to do so. If such assistance were targeted for immunizations, more private facilities would be likely to provide them. People using these facilities would then find it more convenient to have their children vaccinated and uptake would likely improve. This approach has ample precedent in the Kenyan government's policy of supporting private facilities to provide HIV testing. The success of this policy of engagement serves as a model not just for Kenya, but for developing countries around the world.

What Barriers to Growth Does the Private Healthcare Sector Face?

In general, private providers in developing nations can only be part of a sustainable healthcare solution if they can increase both the quantity and the quality of the services they provide, or in other words, grow as businesses. A lack of government engagement is one clear constraint to growth. But what other challenges does the private sector face?

Drawing on the survey data of Kenyan and Ghanaian clinics and pharmacies, Dr. Sood and colleagues show that in both countries, inadequate access to capital presents by far the most significant barrier to growth. Few private providers utilize practices common in developed nations—such as bank

loans—for financing (particularly in Kenya), depending instead on internal funds and informal sources such as friends and relatives.

Beyond better access to capital, pharmacies in both countries could benefit from improved business processes. Few now use electronic systems for keeping patient records, accounting, or controlling inventory. Pharmacies also report relatively weak systems for managing human resources and assuring quality. Though drawn from Kenya and Ghana, these findings suggest that private healthcare providers in developing economies globally may face the same barriers to growth and health care can be improved by targeting policies to eliminate them.

These Insights Lay the Groundwork for Urgently Needed Healthcare Policy

Equipped with the results of this body of research, policymakers concerned with health care in the developing world now have a clearer way forward. This work strongly suggests that the private sector can play an important role in improving the performance of health systems, but that much needs to be done to realize that potential. Policies are in order that will align incentives for action in the private sector with national health goals, encourage private facilities to deliver public health services, improve access to capital, and promote good business practices. The overall aim of such policies should be to spur vibrant, engaged private healthcare sectors within developing nations that can work closely with governments to move more efficiently and quickly toward achieving Millennium Development Goals.

SOURCES

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