Healthcare Investment in KSA

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The healthcare sector in the Kingdom of Saudi Arabia ("KSA") is the largest in the Middle East and has huge potential for further development.

Partly responsible for this is KSA's population growth rate, which is the highest in the GCC. The healthcare sector in KSA is made up of many industries – from medical devices and pharmaceuticals to hospitals and health care information technology ("IT"). Healthcare investment in KSA can potentially reap vast rewards and this article will explore the subject in more detail.

Current Climate in Saudi Arabia

Saudi nationals are entitled to free health care, which is also available to religious pilgrims. However, in 2014, the government announced that nationals working in the private sector would no longer be able to access free treatment in government hospitals. This announcement was expected as all Saudi nationals in the private sector must have private health insurance provided for by their employers. This is the same for expatriate workers, whose employers must provide private health insurance for them and their dependants within KSA.

The high demand for healthcare services, which is continuously increasing in KSA, is largely due to the following factors:

- A rapidly growing population;
- Rising life expectancies;
- Increasing per capita incomes; and
- A high incidence of lifestyle related diseases.

Public spending in KSA on healthcare and social affairs of around USD 43 billion is estimated to be around 19 percent of the national budget in 2015, making it second only to education in terms of percentage of government spending. By comparison, KSA spent an estimated USD 35.9 billion, or 4.8 percent of GDP, on health care provision in 2013. The spend is expected to rise to an estimated USD 48.3 billion by 2018. In 1970 there were 74 hospitals with just over 9,000 beds in KSA. By 2005, there were 350 hospitals with nearly 48,000 beds serving 22.7 million people.

The Saudi national budget for 2015 budget announced funding for 27 new hospitals and health facilities, in addition to the continuing construction of 117 hospitals and 8 medical cities. Overall, the health ministry is planning to raise hospital capacity to 68,000 beds by 2016.

Private sector spending for health care in KSA currently accounts for 25 percent of the total. This is set to rise as the government seeks to increase the private sector's participation in healthcare in order to reduce the burden on government spending whilst increasing the quality and efficiency of the healthcare system. The Saudi government is making every effort to promote private health care, via private health insurance, loans to build private hospitals and public-private partnerships.

Future Trends in Health care

The population in KSA is expected to grow significantly over time. As a result it is envisaged that health care expenditure will increase dramatically. Demand for hospital beds is likely to grow to

70,000 and the number of hospitals is likely to rise to 502. KSA is expected to become the largest healthcare market in the GCC, accounting for 58.2 per cent of the total market in 2018, according to a report by investment bank Alpen Capital.

The new Private Health Institutions Regulations have been implemented this year which allows for foreign ownership of hospitals in KSA whereas, previously, ownership was limited to Saudi wholly owned entities and nationals. It is envisaged that the amended regulation is an attempt to further liberalise the country's healthcare sector and open it for increased foreign investment from global healthcare companies. Furthermore, the new law will also allow citizens who are not healthcare professionals to run hospitals in the country. However, a Managing Director of a hospital must still be a Saudi national.

There is growing interest from foreign investors in the KSA healthcare market as it is very attractive in the current world economic environment. Further regulatory developments (if implemented) will potentially attract further private sector investors who will continue to bring world-class knowledge and skills to this developing market. It is understood that the Ministry of Health is working with the Saudi Arabian General Investment Authority to coordinate a strategy to achieve the following objectives:

- Create an effective regulatory system that will allow for private sector investment in healthcare and the production and distribution of pharmaceuticals and medical supplies; and
- Cultivate a favourable atmosphere to attract private healthcare providers and investors.

Regulation of Healthcare

Healthcare in Saudi Arabia is governed by:

- The Ministry of Health (the "MOH");
- The Saudi Commission For Health Specialties;
- The Saudi Food and Drug Authority (the "SFDA");
- Saudi Arabian General Investment Authority("SAGIA"); and
- Bureau of Investigation and Prosecution.

The MOH is the key regulator for healthcare whilst the other authorities may also be relevant depending on whether the subject matter is a hospital, pharmaceuticals or medical devices and the investment vehicle.

In order to establish and own a hospital the following are required:

- MOH preliminary approval;
- Ministry of Commerce and Industry ("MOCI") approval (and SAGIA approval if the applicant is a foreign national or entity);
- Final approval from the General Directorate of Health Affairs.

The SFDA monitors and controls the import and distribution of medical devices and pharmaceuticals. It has established a comprehensive marketing authorisation program intended to safeguard public health as it relates to medical devices and pharmaceutical products. Various processes have to be undertaken before a product is allowed onto the KSA market.

Opportunities

KSA's ever developing healthcare sector offers investors many attractive opportunities. Although already the Middle East's largest healthcare market, it is far from mature and will continue to grow at a significant pace. The amended investment rules regarding hospitals and compulsory healthcare insurance policies will assist with this growth in the coming years. KSA's aging, yet mostly affluent, population, affords investors an unprecedented opportunity to benefit from new developments in healthcare. Over the coming years, a variety of opportunities are likely to open up in virtually every aspect of the Saudi healthcare sector. The “Saudi Arabian Healthcare Outlook 2020” report, by RNCOS business consultancy services, said that the healthcare sector in the Kingdom is anticipated to expand at a compound annual growth rate of around 9 percent during the period 2015-2020.

On key metrics for hospital beds per 1,000 population, however, KSA is among the lowest in the world even though there has been significant improvement in the last few years. Currently, only around 38 percent of hospitals in KSA are privately operated. The increased need for hospital beds presents ample opportunity for hospital owners and operators alike and facilitates the shift towards the private sector. With the recent change in the Private Healthcare Institutions Regulations, this opportunity is now open to foreign investors.

The Saudi pharmaceutical market is heavily reliant on imported drugs and around 80 percent of the market is accounted for this way. Pharmaceutical sales are growing as a result of population growth and there is scope for investment. However, strict controls on price and the inability for foreigners to distribute their imported pharmaceuticals (a Saudi distributor must be appointed) could act as a deterrent. Nevertheless, the sector is characterised by a growing domestic manufacturing base, mainly for generic and over the counter drugs, as well as licensing arrangements with branded research-based foreign innovative drug manufacturing firms. Yet, the Saudi market is almost completely dependent on imports for medical devices.

The healthcare IT market in KSA is estimated to grow by at least 12 percent by 2019. The need to maintain a standard record format has led to the transformation of traditional medical records to electronic health records. The increased necessity for private health insurance and the need for monitoring of illnesses are also contributing to the growth of this market. Mobile health solutions are becoming increasingly popular as they allow healthcare providers to send information and reminders to patients and allow doctors to monitor patients in remote locations and transmit data digitally through applications.

The following are particularly considered growth areas within KSA:

- Generic pharmaceuticals – domestic manufacturing is actively encouraged and is also open to foreign investors who are then able to distribute their products in KSA (foreigners are able to import pharmaceuticals but cannot distribute them).
- Medical devices – the manufacturing of such is a rapidly growing market and more effective regulations will make it more attractive to produce locally.
- Healthcare IT – as the infrastructure for technology improves in KSA, healthcare IT will continue to develop. It is key for operational effectiveness in the sector and huge investment is being made in cloud, mobility, virtualisation, telemedicine, and remote patient monitoring.
- Education – there is a shortage in medically trained personnel in KSA, As a result the government supports the development of more medical education facilities. Some of these will be available for private sector investment and partnerships with leading international educational institutions to build the country’s medical education capacities will be encouraged.

Foreign Investment in the Saudi Arabian Market

All direct foreign investment in KSA requires a SAGIA licence. The grant of such a licence is not a formality and a number of conditions must be fulfilled before such licence will be granted. Each case will be considered on a case by case basis. The applicant must be able to demonstrate that it will add value to KSA, assist with the transfer of knowledge or technology and contribute positively to the Saudi labour force. In general SAGIA will only grant licences to internationally recognised entities of substance, quality and reputation in their chosen field of activity.

All healthcare applicants must have prior approval from MOH. However, notwithstanding MOH approval, SAGIA may elect not to grant an investment licence for reasons stated above.

It is not possible for a foreign entity to import and distribute pharmaceuticals or medical devices in KSA (it is able to manufacture such products in the country and as a result distribute them) and a commercial arrangement will need to be entered into with a Saudi distributor in order to distribute imported products. An arrangement can take the following forms:

- Franchise Agreement;
- Distribution Agreement.

Both franchise and distribution agreements are a commercial agency and require registration with the MOCI under the Commercial Agency Law. Furthermore, this is a requirement for SFDA approval for a distributor of pharmaceuticals and medical devices.

Conclusion

The Saudi healthcare market is going from strength to strength across all its industries. It is relatively young and still developing with unlimited scope for growth. The government is taking this sector seriously and we can expect to see further changes to regulatory controls in order to achieve the goal of increased private sector involvement and investment.