Joining up the dots… Saudi healthcare reform

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November 2017

Saudi Arabia's ambitious programme of social and economic renewal, Vision 2030 (announced in April 2016), has healthcare squarely in its sights. Vision 2030 (Vision) is informed by a fundamental need to diversify the country away from the hydrocarbon sector, aiming simultaneously to revitalize the economy and to rationalize/reduce state spending. The key economic driver remains the market price for oil, which continues to hover in the USD 50-55 per barrel range.

The challenges in healthcare are significant. Taking just one key indicator of health, according to a 2013 report by the Saudi Ministry of Health, about 25 percent of Saudis are diabetics. Saudi Arabia has 4 million diabetic patients who require 5.5 million consultations and follow-up visits a year. By comparison, recent World Health Organisation statistics show global prevalence of diabetes among adults over 18 years of age rose from 4.7% in 1980 to 8.5% in 2014. Set against those statistics the Saudi health care system has benefited from substantial investment in recent years. As a result, average life expectancy in the Kingdom has risen from 66 years to 74 years over the past three decades. Moreover, under-five mortality rates have decreased from 44 to 16 per 1000 live births in the last 20 years. However, having a population which suffers from chronic health conditions such as diabetes constitutes a double financial drain through: (a) significant lost opportunity in terms of their economic contribution; and (b) the accrual of significant costs associated with care.

The Government views healthcare as the sector with the best potential for privatization and is reported to be studying whether to sell off all public hospitals and pharmacies. The Kingdom faces rising medical expenses related to areas such as accidents, smoking and obesity (which may manifest through diabetes). Health Minister Tawfiq al- Rabiah recently quoted Health Ministry estimates that medical costs will rise to about 250 billion SR by 2030. According to the Saudi Arabian General Investment Authority (SAGIA), in 2014, the government spent USD18 billion on healthcare. However, the spend on healthcare is only 3.2% of GDP, a per capita spending level with less than half of that for the average of OECD countries and less than the majority of GCC countries. Increasing private sector participation in the healthcare sector from 25 to 35 percent is part of the Vision, which also seeks to provide free and quality healthcare to the 20 million Saudi citizens. Against that backdrop, this article will attempt to 'join the dots' and anticipate some of the legal and regulatory challenges ahead for healthcare reform.

Foreign Direct Investment

SAGIA governor Ibrahim Al-Omar has recently announced plans to allow foreign investors to own companies fully in the health sector, indicating that this will open up investment opportunities worth USD180 billion over the next five years, although the date for implementation remains to be announced. Currently foreign entities can only own hospitals with a minimum bed requirement and cannot own any other healthcare institutions. SAGIA has identified a raft of investment opportunities ranging from diabetic

care through to medical cities and primary healthcare centres (and it is reported that the Ministry has received at least six bids to act as financial adviser for the privatization of 55 primary healthcare centers in Riyadh alone). Many of these initiatives will ultimately be procured through a PPP mechanism, in which foreign investors and service providers are likely to play pivotal roles. Total private investment in the health sector is expected to reach USD100 billion (SR375 billion) by 2020, adding 12,500 new beds every year. At present only five healthcare companies with a total capital investment of SR3.66 billion are listed on the Kingdom's stock market. The prospect of bundling together a fresh class of asset in terms of PPP projects and taking these to market is also likely to appear on the Saudi radar screen.

PPPs

Public Private Partnerships or PPPs are a key pillar of the reforms across all spending departments of the government. The government intends to transfer responsibility for healthcare provision to a network of new companies that compete both against each other and against private sector operators. Under this structure, hospitals and health centres will be detached from the Ministry and made into standalone companies (or groups of companies), competing with each other as regards quality, competence and productivity. The Ministry will gradually relinquish its role as a service provider and adopt a more regulatory and supervisory role.

To facilitate this reform, Saudi Arabia intends to establish an entity to monitor, inspect and regulate the provision of care services to make sure that national standards are established and achieved. This entity will offer a specialized quality monitoring system to oversee care provision in public and private hospitals, manage PPP outcomes and will be responsible for defining standards, for reporting quality outcomes at the hospital level, accrediting hospital reporting systems, overseeing PPP projects, gathering outcome data, and publishing comparative performance reports. In an era of increasing fuel prices and decreasing fuel subsidies, the carbon footprint and sustainability of new assets and services will, increasingly, become determining factors for measuring success. SAGIA indicates that potential investors could include data management companies and private Saudi investors.

The corporatization of existing service provision is thus a key plank in healthcare policy over the next period, and within that overall framework PPPs will have a fundamental role (both in terms of providing services and also perhaps in monitoring outcomes). The advent of corporatization is further intended to promote and prioritize specialization in health care services and, over time, will enable citizens to choose their preferred service provider.

Taking diabetes care as one example, Saudi Arabia currently has 4 million diabetic patients who require 5.5 million consultations and follow-up visits a year. This situation is already stretching the capacity of the 460 treatment centres. According to SAGIA (which has specified diabetes care as an investment opportunity), this situation creates significant opportunities for Saudi private hospital owners, Saudi health insurance companies, and international healthcare providers to increase capacity by building 500 outpatient chronic disease management clinics.

The services offered should include on-site blood analysis and diagnosis, diet and nutrition consultations, insulin pump services, medical endocrine disorder assessments, heart check-ups, and ophthalmology, kidney and podiatry assessments. Critically, the government intends to support this initiative by: (a) extending current contract duration limit beyond three years (b) defining a referral approach from MOH and appropriate payment mechanisms.

The challenges of embarking on this exercise in the health sector are, however, of an entirely different order of magnitude to other corporatization, projects especially when the initiative is combined with PPP. The existing procurement law of the Kingdom (the Government Tenders and Procurement Law) has served well as a method of procuring input-based, client specified assets and some limited ancillary service provision. It is, however, unsuited to the procurement of complex outputs or outcome based services

where the costs of assets and services are bundled into a “unitary charge” delivered against attainment of key performance indicators over a long term concession period.

Saudi Arabia’s National Centre for Privatization (NCP) which has responsibility for PPPs commenced operations earlier this year. The NCP, which directly reports to the Kingdom’s minister of economy, was established to identify the strategies, regulations, and organizational frameworks of privatization plans and PPP projects in various sectors, such as health, education, transport and municipal services. In order to encourage foreign investment and PPP investment in particular, the government will have to present a clear strategy, with an accompanying regulatory framework, addressing a number of key issues, notably (a) cost recovery mechanisms; (b) underpinning covenant support of state counterparties (whether corporatized or not); (c) the use of special purpose vehicles; and (d) the position as regards compensation on termination. Through a group of sectoral committees the NCP will address these issues and navigate the necessary fiscal approval processes.

Human Resources

Wherever PPPs (or corporatizations) have been implemented the status of the workforce has always been a primary cause for concern. The position in the Kingdom will have the same dynamic – PPP is a challenging concept for many in the public sector bringing significant risks and significant opportunities at the same time. Around the world various approaches have been adopted which both protect transferring employees’ rights but also enable the private sector to drive efficiencies and value for money. These approaches have sometimes varied across sectors and grades of staff but generally seek to preserve existing contractual rights of employees whilst improving standards of performance.

The issue is also as complex at the end of a project as at the beginning so long term PPP projects have to cater for the position at their expiry as well their inception. The state often has a role in underwriting to some extent employment costs. For example, in the event of Authority default it would be usual to see the government underwrite any redundancy or other ancillary costs. All of these issues (and the associated issue of pension rights) will require careful calibration across the KSA market and a high level of upfront stakeholder engagement.

Insurance

The aim is to provide citizens with the highest quality of health care whilst, at the same time, allowing the government to focus on its legislative, regulatory and supervisory roles. Whereas there has always been a thriving private sector in the country this is something of a sea-change in wider provision and regulation. The move to an outcome-based approach to commissioning and provision will pose institutional and financial challenges – not least as regards the creation and calibration of appropriate cost-recovery-mechanisms in a domestic population which is, in the context of healthcare, under or indeed not insured at all.

The Vision explains that the state will work towards developing private medical insurance to improve access to medical services and reduce waiting times for appointments with specialists and consultants. A recent report issued by Asharqia Chamber of the Eastern Province indicated that ‘…insurance companies will be the biggest beneficiaries of the new healthcare system as they will get an opportunity to provide insurance coverage to millions of Saudis and expatriate workers, making an annual revenue of 50 billion SR with a per capita premium of 2,500 SR.’ Embedding an insurance driven health regime in the new health economy of the country will be challenging, especially as regards the cost-recovery mechanisms necessary for long term PPPs.

Challenging Times

From the snapshot presented above, it is abundantly clear that Saudi healthcare market has many moving parts, each of which is iterative to varying degrees on the others and many of which present their own unique clinical, regulatory, fiscal and legal imperatives. A great deal of groundwork has been laid in terms of the next phase of implementation of the Vision and the National Transformation Program. The key challenge now will be to maintain momentum across the Vision and to foster confidence in the market that the Kingdom can deliver on its healthcare covenant.