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## How to invest profitably in the Healthcare Sector in Sub-Saharan Africa: The five determinants.

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**The following blog is an excerpt of an article I wrote for the Pharmaceutical Executive magazine in May regarding the factors affecting FDI in the healthcare sector in sub-saharan Africa. This article was born after a year of research, where over 100 papers were studied, and over 30 healthcare and investment experts on the continent were interviewed. According to the results of the research, five areas were identified:**

**1. The question of affordability.** According to Vijay Mahajan's *Africa Rising* (2009), the low-hanging fruit—or the elite (Africa One)—is the target of most private for-profit healthcare investments in sub-Saharan Africa. These models tend to be fragmented with minimal capitalization and are non-scalable, putting them beyond the reach of the middle class (Africa Two), where the real per capita growth is taking place.

Lack of properly developed affordable health insurance schemes also compounds the affordability problem, further worsening the ability of Africans to pay for healthcare treatment.

**2. The question of tangibility.** The issue of tangibility as a determinant of FDI into healthcare can be divided into three areas:

» Lack of data: African healthcare data is at best fragmented, unreliable and vertical, hence,

increasing risk and, therefore, unappealing to investors.

» Healthcare infrastructure and uncertainty of demand: Healthcare investing involves huge sunk costs; the issue of affordability leads to uncertainty of demand, which in turn discourages high-level investment.

» Lack of tangibility: Healthcare is an intangible asset, which cannot be measured, unlike a mobile phone or FMCGs.

**3. The question of intellectual capital.** The issue of "brain drain" or the 'flight' of human capital from the continent has been one of the most problematic areas in healthcare in Africa. As a result, partly at least, sub-Saharan Africa has the lowest availability of qualified medical resources in the world.

**4. The question of uncertainty and risk.** Dr. Ernest Darkoh, founding partner of Broadreach Healthcare, an African-based healthcare consultancy, bemoans the "perception of risk putting many investors off making major investments in healthcare in Africa despite the good opportunities available."

Aside from the general perceived and actual risks in investing in Africa, political risks and instability also tend to affect the healthcare sector more disproportionately compared to other sectors due to healthcare provision being perceived as a right, not an option, by most African countries.

Linked to political risks are regulatory risks—government resistance to reforms, an inadequate and discriminatory regulatory structure, continued threats of strike action by healthcare professionals, and the reluctance to privatize public systems. The availability of cheap money in the form of aid is also a massive put off for potential for-profit investors.

**5. The question of competitive strategy.** Governments and host countries may need to promote and market healthcare more vigorously to attract increased FDI into the sector. However, any marketing strategy must be backed up by advantageous location-specific advantages on the ground. The most critical factors facilitating healthcare FDI in Africa are market openness, good quality government institutions, regulation harmonization and a good regulatory environment.

Many first-time investors into healthcare in Africa have had bad experiences, and, thus, have now become very tentative. To enter an African market, it is vital to choose the right country, the right risk profile, and the right model. This necessitates a lot of research work and market analysis. Alliances with domestic African healthcare businesses may increase penetration efficiency and decrease risk.

The next blog after this will focus on an important but often missed issue in healthcare financing: scalability and systems thinking. See also blogs at [www.bluecloudhealth.com](http://www.bluecloudhealth.com) featuring seasoned blogger and policy analyst Dr Alex

The full article is published in the May 2014 edition of the Pharmaceutical Executive. See also the interview I gave Mr Bill Looney, Chief Editor. ([www.pharmexec.com](http://www.pharmexec.com))

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The next blog in this series will be systems thinking and scalability in 'African healthcare systems'

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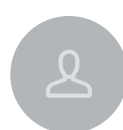
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