

African demands for post-Covid healthcare align impact with investor opportunity in 2021

By [Jason Mitchell](#)

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The Covid-19 emergency has focused minds on the urgent need for improved healthcare across Africa, aligning unprecedented opportunity for positive social impact with competitive returns.



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In Nigeria, Africa's biggest economy at \$495bn, public spending on healthcare amounts to just 3.75% of GDP, compared with 4.8% in Kenya, 8.11% in South Africa and 13.42% in Sierra Leone. Outside of the continent, Brazil spends 9.47% and the United States 17%, based on [latest available figures](#) from the World Bank.

A massive \$82bn investment in healthcare real estate assets and an additional 386,000 additional beds are required to bring Nigeria in line with the worldwide average of 2.7 beds per 1,000 people, according to a Knight Frank [report](#). The country needs an additional 4,000 beds and an investment of \$870m just to keep up with its 2019 bed ratio, given population growth. With 206-million people, Nigeria's population is forecast by the United Nations to [almost double by 2050](#). This would make it the world's third most populous country after India and China and render the current healthcare trajectory unsustainable.

At barely 4.5% of the Nigerian government's budget, expenditure on health is significantly below the 15% benchmark set by the African Union in 2001, according to the World Bank. The [country ranks 56th out of 60 countries](#) surveyed globally by the Economist Intelligence Unit on the ease of citizen access to quality healthcare services.

Even Nigeria's elites struggle to access adequate healthcare at home. Abba Kyari, President Buhari's chief of staff, died age 67 in April from coronavirus, while Abiola Ajimobi, the former governor of Oyo state, died age 71 of underlying health conditions made worse by Covid-19 in June.

Nigeria's capacity for testing for coronavirus has been woefully inadequate. Nigeria had [tested around 0.2%](#) of its population compared with [6% tested in South Africa](#), as of 1 September 2020.

Investment Fund for Health in Africa-II

Even before coronavirus, interest in African healthcare assets had been growing. International Finance Corporation, part of

the World Bank, and the biggest investor in African private healthcare, teamed up with the Investment Fund for Health in Africa-II (IFHA-II), in late 2019 to launch a \$115m company to acquire healthcare service businesses in eastern and southern Africa.

Backers of IFHA include European development finance organisations, such as Swedfund, along with the likes of Pfizer and Stichting Social Investor Foundation for Africa (SIFA's contributors include Aegon, Heineken, Shell, and Unilever). Nigeria-based Flying Doctors Healthcare Investment Co., which operates an air ambulance service and has been rapidly building mobile testing centres for Covid-19, has invested \$200m in healthcare technology companies and plans to set up a \$1bn fund for further investment in healthcare and wellness across Africa.

"There is a very compelling opportunity for the development of world-class healthcare facilities across Africa, but especially Nigeria. Most of the public hospitals here were constructed over 40 years ago and only a handful have received any investment since then," says Hafeez Giwa, managing partner at HC Capital Properties.

Gathering pace

In the post-Covid world, investor interest in African healthcare is gathering pace, particularly among property investors. In a poll of 140 participants in a Knight Frank [webinar](#) on African healthcare in June 2020, 80% said they had changed their investment strategy to consider healthcare property due to the pandemic. International investors are focused most on hospital-related real estate and hospital operating companies, partnering with local experts to understand the domestic business landscape. Built-to-suit transactions – in which the investor builds a clinic or hospital that meets the exact specifications of an operator who then pays rent on it – hold the most potential, according to Knight Frank.

Another option is a management agreement, similar to in the hospitality sector, where the investor retains ownership of the hospital building and business and introduces an established operator to run the business against a management fee. Under this arrangement, the investor in healthcare can benefit from reduced risk as an established healthcare operator will be managing the facility on their behalf.

Affordability

Key to unlocking healthcare opportunities is making services affordable. "High-quality healthcare has always been a priority for Nigeria's middle class, but the big issue has been balancing quality care with affordability. If affordable healthcare could be provided, the opportunities would be immense. A big part of that is delivering world-class quality property for hospitals and clinics in a cost-efficient manner," Giwa says.

In Nigeria, 72% of healthcare expenditure is out of pocket – more than double the sub-Saharan average of 35% – putting a hefty burden on household incomes. Only 5% of healthcare costs are covered by insurance. By 2030, that proportion could jump to 20% or 30% if the federal government makes some form of health insurance obligatory for employees, says Tosin Runsewe, chief executive officer at AfyACare Nigeria.

Health insurance costs will fall in line with increased take up. "Up to 70% of the disease burden in Nigeria relates to primary healthcare needs. This includes vaccinations, diarrhoea, malaria and infections. If we could attain a critical mass of 40m-60m Nigerians with healthcare cover, the cost of this treatment could be met through health insurance premiums of around only 20,000 Naira (\$50) a year, half the current average cost. There is an array of opportunities for investors in private primary healthcare clinics that can provide services at an affordable cost," he says.

Even the wealthy, accustomed to travelling for treatment, would prefer world-class healthcare at home, especially after the restrictions on flights during lockdown. "International travel for healthcare not only takes a toll on the patient but also on the caregivers and sets families back financially," Shehzad Jamal, partner in healthcare and education at Knight Frank, says.

This opportunity alone is significant as [Nigeria loses up to \\$1bn a year to outbound medical tourism due to inadequate in-country healthcare](#).

Government initiative

Government initiatives are unlocking the flow of private investment. In April, in response to the Covid-19 crisis, the Central Bank of Nigeria started providing a 100bn Naira (\$262m) credit facility for a number of healthcare-related industries, including local pharmaceutical companies, healthcare product manufacturers and healthcare service providers. Bank of Industry, a Nigerian development finance institution, is providing a further 50bn Naira.

Public private partnerships (PPPs) are assisting as governments struggle to allocate the required funds to develop and operate hospitals. Nigeria has had a PPP framework in place since 2005 that is ripe for ramping up.

Other countries are investing heavily in technology, such as online and distance diagnostics, with Rwanda among the pioneers in sub-Saharan Africa.

Property assets

African healthcare property to produce an internal rate of return in excess of 15%, in line with internal rate of return (IRR) on real estate assets across other sectors, along with the opportunity to catalyse significant social impact:

"There are two types of investors that are interested in backing healthcare property assets. On the one hand, there are local institutional investors and local pension funds that, in Nigeria's case, are Naira investors and do not have any concerns about currency risk. On the other hand, there are development impact investors and institutions that are excited by the prospect of delivering high-quality healthcare to lower- and middle-income Nigerians.

"From our perspective, we are investing in healthcare because of the extreme need and as a result of the government initiatives making it easier to develop world-class assets that can be positioned to provide affordable healthcare. I do think we have seen a permanent change in thinking in which people will place a lot more emphasis on quality healthcare at home. There are huge opportunities for investors and operators who can offer high-quality healthcare at affordable prices," Giwa says.

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