Leveraging investment for more resilient health care systems

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Private enterprises across all sectors have played an indispensable role in the immediate response to the COVID-19 crisis

From the early days of the pandemic, companies in the health sector reinforced their efforts to meet rising demand, scaling up their production of medical and protective equipment and devoting their research and development capacities as well as compound libraries to the development of new treatments and vaccines. In addition, many private hospitals actively cooperated with governments for the provision of beds, equipment and staff, while private health insurers worked on new approaches to facilitate cost sharing and simplify access to care for all.

Companies across other sectors have supported these efforts, quickly adapting their production lines to provide emergency support. Luxury brands and producers of alcoholic beverages, for instance, switched from producing perfume and liquor to making hand sanitizer, the clothing industry started producing facemasks, medical gowns and other personal protective equipment (PPE) and automotive companies evaluated options to produce urgently needed medical devices such as ventilators.

Business will be a strategic solutions partner to achieve health systems resilience

Despite gradual lifting of restrictions in many countries, the COVID-19 crisis is not yet behind us. The pandemic has triggered the deepest global recession since the Great Depression and governments globally are struggling to address the double challenge of fostering economic recovery, while trying to prevent a second wave of infections. Scaling up testing and enabling across-the-board distribution of a vaccine – once available – will require considerable investments, from both the public and private sector.

Moreover, the crisis has exposed critical vulnerabilities as it overwhelmed health care systems globally. Reinforcing both health infrastructure and health care provision will be vital to ensure proper 'pandemic preparedness' and foster resilience going forward - as referenced also in our *Business at OECD* '5 recommendations to the OECD on health policy'.[1]

[1] http://biac.org/wp-content/uploads/2020/07/FIN-10062020-Business-at-OECD_A-call-to-action_Business-recommendations-for-future-OECD-work-on-health.pdf

Why scaling up investments in health is critical

While a lot of focus is currently on COVID-19, we should not forget that investments in health related products, services and information are also critical to delivering on the sustainable development goals (SDGs) and the 2030 Agenda. SDG 3 calls to "ensure healthy lives and promote well-being for all at all ages". It further explicitly comprises target 3.8, which envisages "universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all".

Meanwhile, ageing populations and an increasing prevalence of chronic and non-communicable diseases are exerting further pressure on health systems, while rapidly emerging and evolving treatments and technologies are driving up expenditures. Private investment, supplementing public efforts, is hence critical to ensure the health of all going forward.

The COVID-19 pandemic has made it abundantly clear that our health systems must become more resilient. It has also reinforced attention to the potential of digitalization. Digital technologies can change the way the healthcare sector is operating, making available new diagnostic capabilities and tailor-made treatments, enabling more efficient organization of processes and connecting different 'components' such as the pharmaceutical, medical technology, biotechnology, diagnostics and insurance sectors with hospital and health service providers.

Policy asks for the OECD

→ **Look into comparative studies on how OECD countries and other major health care markets promote and incentivize investments in the health care sector**, paying due attention to fostering innovation.

How the private sector can contribute to sustainable health care

1. Supporting public-private partnerships (PPPs)

Leveraging private sector participation in the direct government-led provision of health care via public-private partnerships (PPPs) can improve value for money considerations. Involving private sector companies in health can support upfront investments required by the state, thus freeing up capital for other public projects. Beyond this, the private sector's key advantages lie in its greater flexibility, its ability to respond, adjust and scale up quickly, its managerial expertise and its technological and innovation capabilities. By establishing PPPs, public health systems can thus benefit from the private sector's agility and its knowledge base, allowing patients and the public to benefit from high quality health services while sharing the costs.

PPPs can for instance provide a useful mechanism to support governments and citizens in achieving universal health coverage (UHC). Private sector partners can thereby contribute at almost all stages of the process, from building up the necessary infrastructure to developing innovative models of service delivery.

The PPP model can also be fit to support developing economies. In addition to traditional hospital management and equipment deals, PPPs can also target public insurance functions as well as large-scale primary care, thereby supporting efforts towards UHC in the developing world.

Partnerships with private companies can further allow the public sector to benefit from the latest clinical and technological innovation developed by private sector companies. Using new technologies to improve access and lower healthcare costs, in turn, is key to addressing present and future health challenges. One prime example is telemedicine which, as the recent COVID-19 crisis has shown, have so far been insufficiently deployed in many countries around the world due to the lack of clear legal frameworks to support virtual care and insufficient investment in digital health.

In order to be effective, however, PPPs must be designed carefully. It is key that the right kinds of priorities and projects are selected as applications for PPPs, including through dialogue with all parties involved. PPPs should further have clearly defined objectives. They should be assessed on a regular basis using pre-defined performance metrics. Moreover, decisions to award PPP contracts must be based on the principles of inclusiveness, transparency, and fair competition.

A key hurdle in establishing PPPs frequently observed by private sector actors, however, is a certain degree of scepticism or even reluctance to involve the private sector. This reticence stems from perceptions that collaborating with the private sector or outsourcing parts of health care delivery to private companies is not in patients' interests or incompatible with the fundamental right to healthcare. What is urgently needed is more analysis on the performance of the private sector in public healthcare contracts and data on how private company services compare to those of similar public or non-profit operators. Additionally, it is important to develop a better insight into consumer attitudes to receiving private healthcare. Such analysis could help address potential misperceptions and give politicians a sound evidence-base and confidence to partner with the private sector in health care delivery.

Policy asks for the OECD

→ **Propose and promote a clear and defined evidence-based approach to measure PPPs' efficiency** in health care delivery (i.e. assess clinical outcomes, cost to the state and patient satisfaction) to inform policy discussions.

→ **Collect best-practices and develop guidance to ensure greatest value for money** of PPPs in health-related sectors.

→ **Conduct research on consumers' / patients' preferences** to being treated by private or public healthcare providers if the costs are the same.

2. Fostering foreign direct investment

Foreign direct investment (FDI) is a key driver of development. FDI constitutes an important source of capital, complementing domestic private and public investments, and can contribute to the development of the host country by generating jobs, supporting the inclusion of local suppliers in global value chains and fostering local skills development as well as technical expertise via technology spillovers.

FDI in the health sector, more specifically, can help improve the quality of local health systems (medical supplies and equipment, health infrastructure and availability of health workers) and support the achievement of universal health coverage.

Fostering FDI in health in particular in developing countries, where health systems tend to be more fragile and where health service providers are often only poorly equipped, leaving the developing world with considerable needs to catch-up – also bearing in mind that we have less than a decade to achieve the Agenda 2030. Business-led multi-stakeholder partnerships and innovation can further help leverage collective action towards the achievement of health-related Sustainable Development Goals (SDGs) as was also highlighted at our Annual Forum on Health in October last year (report available here).

Policy asks for the OECD

→ **Develop additional analysis on the challenges and opportunities of FDI in health related industries**, with a special focus on the potential of FDI in health care systems in developing countries.

→ **Consider including a health dimension into the OECD's FDI Qualities work**.

→ **Extend the OECD FDI Regulatory Restrictiveness Index** to include health infrastructure and health services.

Private investments in health are facing growing hurdles

Companies looking to invest in health face different types of obstacles. Some of them reflect stakeholders' concerns about the role of private sector in healthcare delivery or participation of foreign players in the local health market. Others are structural and related to the complexity of the health sector and associated regulatory frameworks, particularly in health services, as well as general market environment and ease of doing business.

Thus, previously mentioned negative perceptions of private involvement in health care provision may translate in barriers such as:

- Economic disincentives such as price controls and disadvantageous contract terms and conditions;
- An uneven level playing field and discrimination in favour of non-profit investors;

- Overly prescriptive requirements on the contracting parties in PPPs.

Depending on the respective environment, companies have also reported demand side challenges, such as a lack of private demand (specifically in less developed countries) and the imposition of additional taxes on privately provided health care goods and services.

More specifically, barriers to FDI in the health sector include:

- Legal limitations on and excessive scrutiny of foreign investments;
- (Disguised or explicit) preferential treatment of domestic players;
- Complexity and non-transparency of domestic regulation, obscuring investment decisions;
- Fragmentation of health regulation across countries, complicating regional strategies;
- Scarcity of qualified personnel and medical staff as well as underinvestment in education and training;
- Complex authorization processes and restrictions on the employment of foreign staff;
- Challenges in the sourcing of medical goods and prohibitive import tariffs on medical goods;
- Corruption and a lack of fair competition in public procurement and tendering processes;
- Little venture capital incentives;
- Lack of measures for the promotion of innovation and digitalization.

The experiences of the current COVID-19 crisis have triggered new national security concerns in the dimension of health. As a result, several countries have extended their lists of relevant industries or have lowered their trigger thresholds to ensure that health-related industries are under the scope of FDI screening mechanisms.

As recent OECD research confirms, 20 countries already subject investments into critical health infrastructure to screening or will do so in the near future. This number has risen from only 14 since the onset of the crisis. Similarly, the number of countries screening acquisitions of biotechnologies or medical device companies has almost doubled, from 11 to 20.[2]

Safeguarding essential security interests is legitimate and recognized by international investment law. Nonetheless, it is important to ensure that new measures implemented in the context of the crisis are proportionate, transparent and limited in time. It is also critical that they are not misused as a vehicle for disguised protectionism and that they do not delay or increase the uncertainty of new projects, the latter being vital to strengthening health care systems.

Other challenges companies have been observing related to the pandemic are:

- Restrictions on the movement of medical personnel and supply shortages;
- Localization requirements and prioritization of local production;
- Financing challenges arising from increased caution and risk aversion in local banks.

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[2] OECD Policy Brief Investment screening in times of COVID – and beyond (June 2020)

Moreover, companies have noted that delays in passing telemedicine regulation and reluctance to include private hospitals in response lines for the provision of hospital beds, have significantly hampered the potential of the health care system to respond to the pandemic.

Relatedly, in the context of the current COVID-19 pandemic, governments have sought access to personal health data to manage public health responses. On this point, we advocate for government access to be limited to aggregate and anonymized data, unless authorities demonstrate a significant need in the course of an independent review and approval process. At the same time, however, foreign firms accessing patient data gathered by the public system is also a growing concern.

Policy asks for the OECD

→ Conduct additional **research on obstacles to investment in health** with a special focus on **new barriers emerging in the context of the COVID-19 crisis**.

What is needed to leverage private investments in health

Given the potential of private sector involvement for the expansion and improvement of health care delivery, lessons learned from Covid-19 show why due emphasis on healthcare in the overall government strategy and adopting new approaches to linking healthcare goals with private health investment are pivotal.

More specifically, bearing in mind the above-mentioned obstacles, we outline the following policies to support and encourage private investments in health:

→ **Reducing legal hurdles to and risk associated with private engagement in health care provision**, for instance by allowing for majority equity ownership of foreign investors, actively promoting PPPs in care delivery, and enabling non-equity participation of foreign investors in healthcare;

→ **Providing financial incentives** such as tax incentives, promotion of venture capital investments or research or intellectual property development incentives;

→ **Facilitating private investment decisions**, for example by improving the availability of public data about local healthcare markets and increasing the transparency of national health care regulations;

→ **Improving the ease of doing business,** for instance by relaxing restrictions on the employment of foreign workers, providing special lines of financing for healthcare companies and enabling import and resale of medical equipment;

→ **Scaling up medical skills and supporting a sound health ecosystem**, including by developing a professional healthcare cadre and investing in the medical education system;

→ **Ensuring high standards of intellectual property protection** in order to incentivize both domestic and foreign R&D;
→ **Establishing a digital strategy** and enabling digital health services to foster telemedicine approaches.

Lastly, with a view on the discussions on how to improve the resilience of international supply chains we underline that the introduction of localization requirements and the prioritization of local production cannot reduce dependency. In fact, such measures may even trigger a spiral of reciprocal measures. Instead, governments should pay due attention to supply chain realities, ensure open borders, and promote a diversification of the supplier base on both national and international levels. The establishment of buffers via regional reserves may also be interesting an approach to explore with a view on reinforcing resilience and strengthening pandemic preparedness going forward.

Going forward

We stress the importance of boosting investments in health in order to manage the current pandemic and better address future potential crisis. The OECD can play an important role in this regard, providing evidence on private investment in health care, developing guidance on how to leverage the potential of PPPs and FDI in health related sectors, and addressing obstacles to private investment so global business can make a constructive contribution to the provision of better health care for all.