Investing in the Saudi Arabian Healthcare Sector
Contact Information

Abu Dhabi
Richard Shediac
Partner
+971-2-699-2400
richard.shediac@booz.com

Beirut
Ghassan Barrage
Senior Executive Advisor
+961-1-985-655
ghassan.barrage@booz.com

Dubai
René Perillieux
Senior Executive Advisor
+971-4-390-0260
rene.perillieux@booz.com

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by Ghassan Barrage, Ziad Fares, René Perillieux,
THE NEW SAUDI ARABIAN HEALTHCARE MARKET

Over the coming years, Saudi Arabia is likely to experience a sharp increase in its healthcare needs. Most observers believe that population growth, a slowly aging society, and the conditions that affluence often exacerbates, such as obesity, diabetes, and cardiovascular diseases, as well as cancer, will create a tremendous new demand for healthcare services.

At present, the Saudi Arabian government funds most of the demand for healthcare capital and operating expenditures. However, analysts believe that government alone will be unable to continue to meet this demand. They have concluded that the only way to ensure that Saudi nationals’ health needs will be met without adversely affecting economic progress is to increase private sector participation in the health care system. Only by attracting partners from the private sector who can bring world-class medical knowledge, management skills, and capital to the sector will Saudi Arabia be able to make high-quality healthcare available to everyone in Saudi society. The government has recognized this situation, and has identified healthcare as one of the key sectors targeted in its wide-ranging privatization program (Exhibit 1, page 2).

Today, the Ministry of Health (MoH) is working with the Saudi Arabian General Investment Authority (SAGIA) to prepare the sector for this essential but difficult transition. As a first step, the two agencies have studied the best practices of the countries with the most successful healthcare systems and drafted plans that adapt these practices to the unique needs and circumstances of Saudi Arabia. While MoH and SAGIA are still working out the details, the underlying goals have already been established:

• Create a stronger institutional set-up and effective regulatory framework to promote private sector investment in healthcare and the production and distribution of pharmaceuticals and medical supplies,
Develop a business environment that will make Saudi Arabia a more attractive destination for private healthcare providers, and

Attract investors and other partners to the Middle East’s largest market for healthcare.

The takeaway for healthcare providers and producers of pharmaceuticals and medical supplies is clear: the Middle East’s largest market of healthcare consumers will become increasingly open to private investment.

This paper looks first at the demographic and economic trends that will drive this transition and make Saudi Arabia a promising market from the perspective of a healthcare provider, then at what steps Saudi Arabia intends to take to encourage private healthcare businesses to operate in the Kingdom, and finally, at which services and what kinds of expertise will be needed most during this transition.

Exhibit 1

Saudi Arabia Privatization Program

<table>
<thead>
<tr>
<th>SECTOR TARGETED FOR PRIVATIZATION</th>
<th>OBJECTIVES OF PRIVATIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Telecommunications</td>
<td>- Enhance effectiveness of national economy and promote competition</td>
</tr>
<tr>
<td>- Sector Targeted For Privatization</td>
<td>- Create investment opportunities for the private sector</td>
</tr>
<tr>
<td>- Water desalination; distribution and waste water treatment</td>
<td>- Broaden participation of citizens in producing sectors of the economy</td>
</tr>
<tr>
<td>- Air transport and airport services</td>
<td>- Promote local and foreign investment</td>
</tr>
<tr>
<td>- Postal services</td>
<td>- Create employment opportunities for nationals</td>
</tr>
<tr>
<td>- Healthcare</td>
<td>- Improve the quality and cost effectiveness of services provided to citizens</td>
</tr>
<tr>
<td>- Education</td>
<td>- Reduce public spending</td>
</tr>
<tr>
<td>- Social services</td>
<td>- Increase Government revenues</td>
</tr>
<tr>
<td>- Sports clubs</td>
<td></td>
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<tr>
<td>- Rail transport, roads (e.g., toll roads) and ports</td>
<td></td>
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<tr>
<td>- Industrial cities</td>
<td></td>
</tr>
<tr>
<td>- Government hotels</td>
<td></td>
</tr>
<tr>
<td>- Grain silos</td>
<td></td>
</tr>
<tr>
<td>- Municipal services</td>
<td></td>
</tr>
<tr>
<td>- Agriculture</td>
<td></td>
</tr>
<tr>
<td>- Government investments in public companies</td>
<td></td>
</tr>
</tbody>
</table>

√ Underway
Source: Supreme Economic Council
Between now and 2016, the population of Saudi Arabia is expected to grow by more than 20 percent, from 23 million to 30 million. Over the same period, health expenditures are expected to increase dramatically, even faster than the rate of population growth. Demand for hospital beds is likely to grow from 51,000 to 70,000, demand for hospitals is likely to rise from 40,000 to 54,000 — and the number of hospitals is likely to rise from 364 to 502. There are several reasons MoH planners see such a sharp rise in health needs:

- **Saudis will become older.** Rising affluence is expected to result in longer lives for more Saudis. The percentage of the population over 60 is rising, and is expected to more than double by 2020. By 2020, the number of old people is expected to grow from approximately 1 million (4 percent of the population) to roughly 2.5 million (7 percent of the population). At the same time, as incomes increase, Saudis are likely to spend an increasing amount of money on healthcare treatments, such as leading-edge therapies.

- **But wealth will not always bring health.** As most countries have learned, affluence is not an unmitigated benefit to health. This is true in Saudi Arabia as well, where greater material wealth is leading to a deterioration of physical condition. Today, the average Saudi national is overweight. The average Body Mass Index (BMI) of Saudi nationals 15 years and older is 30 kg/m², far above the global average of 23. A

Some surveys give the Saudi health system a “C” grade, ahead of Lebanon and Jordan but behind Kuwait and far behind most of Europe. Even in basic respects, Saudi nationals are underserved today. Just judging by such common metrics as numbers of hospital beds or physicians, Saudi Arabia lags.
score greater than 25 is considered overweight. Many Saudis also smoke: roughly 24 percent of all adult males smoke, and 14 percent of school children and adolescents. Such bad personal choices are likely to continue to translate into expensive and chronic conditions. For example, diabetes is rampant: about 20 percent of the Saudi population over 20 years old has type 1 or type 2 diabetes, compared to 5 percent of the global population. Treatments for diabetes and cardiovascular diseases are expected to triple and quadruple respectively in the coming 20 years.

- And the costs of treatment will continue to rise. Paying for care of such chronic conditions is difficult now and is likely to grow worse. For example, the spending on cardiovascular diseases, already high today, is expected to grow rapidly to reach around one fifth of healthcare expenditures by 2016. Also, modern advances in medicine are continuously bringing increasingly complex and expensive treatment. With more extensive travel, and rapidly spreading information through the media and the Internet, Saudis will become increasingly demanding in terms of the type and quality of healthcare that they expect to receive in the Kingdom. As a result, expenditures on healthcare in Saudi Arabia are expected to escalate very rapidly.

Past experience at MoH suggests that the long-run trend is toward rapidly increasing expense for healthcare. Between 1999 and 2005, government saw a 7.2 percent annual compounded annual growth in its healthcare budget. The Kingdom spent US$13 billion on healthcare in 2005, and this spending is expected to grow to over US$20 billion by 2016 (Exhibit 2).

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**Exhibit 2**

*Saudi Healthcare Market*

<table>
<thead>
<tr>
<th>CARE PROVISIONING BREAKDOWN BY SOURCE—2005 (NUMBER OF HOSPITAL BEDS)</th>
<th>PROJECTED SAUDI EXPENDITURES—2006 TO 2016 (US$ BILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private Beds</strong> 11,135</td>
<td><strong>Total = US $13 Billion</strong></td>
</tr>
<tr>
<td><strong>Government Beds</strong> 39,995</td>
<td><strong>$20.0</strong></td>
</tr>
<tr>
<td><strong>Private Spending</strong> US$3.2 Billion</td>
<td><strong>CAGR (2006-2016)</strong></td>
</tr>
<tr>
<td><strong>Government Spending</strong> US$9.8 Billion</td>
<td><strong>9%</strong></td>
</tr>
<tr>
<td><strong>Total = 51,130 Beds</strong></td>
<td><strong>12%</strong></td>
</tr>
<tr>
<td><strong>78%</strong></td>
<td><strong>23%</strong></td>
</tr>
<tr>
<td><strong>22%</strong></td>
<td><strong>53%</strong></td>
</tr>
</tbody>
</table>

*Government’ includes non-MoH entities such as the Armed Forces, National Guard, Red Crescent Society, etc.

Source: Central Statistics Department, MoH Statistics
A BLUEPRINT FOR CHANGE

Currently, the government dominates the healthcare sector in Saudi Arabia. Private sector spending for healthcare in Saudi Arabia accounts for 25 percent of the total, compared to 55 percent for the U.S. or 76 percent in India. Increased private sector participation in healthcare is generally accepted as essential to achieve the Kingdom’s objective to increase the efficacy of the Saudi healthcare system while reducing the burden on government spending. Present plans call for a transition of the Kingdom to a mixed healthcare system, in which government participation is limited largely to healthcare coverage of the poor and military, with a variety of private healthcare options available to everyone else (Exhibit 3).

Specifically, the MoH has developed a plan to fundamentally restructure its activities in order to reduce its role as the payor of first resort and at the same time boost its capabilities as a regulator of private healthcare services. This plan calls for the following main changes in the current MoH healthcare system:

1. MoH will concentrate its healthcare provision activities on preventive and curative primary care

2. A new government entity will be established, the General Organization for Hospitals, separate from MoH, and all MoH hospitals assets will be transferred to this new organization to prepare the ground for increased

Exhibit 3
Evolution Planned for the Saudi Healthcare Sector

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td></td>
<td>Best-In-Class/Desired Health System Position</td>
<td></td>
</tr>
<tr>
<td>Patient</td>
<td>Patient</td>
<td>Patient</td>
<td>Patient</td>
</tr>
<tr>
<td>Healthcare Delivery</td>
<td>Healthcare Delivery</td>
<td>Healthcare Delivery</td>
<td>Healthcare Delivery</td>
</tr>
<tr>
<td>Service Funding</td>
<td>Regulation</td>
<td>Service Funding</td>
<td>Regulation</td>
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<tr>
<td>Regulation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Predominance of public sector activities—“Command and Control” model</td>
<td>• Emergence of private sector involvement in healthcare and increasing private insurance</td>
<td>• Widespread private sector healthcare delivery options</td>
<td>• Near-absence of public sector healthcare</td>
</tr>
<tr>
<td>• Private sector involvement limited to few care providers</td>
<td>• Decreasing burden on government due to private insurance</td>
<td>• Public sector provisioning limited to selected patients (e.g., the poor/military)</td>
<td>• Government role limited to ensuring oversight, with limited subsidies</td>
</tr>
<tr>
<td>• Mounting pressures for establishing a comprehensive regulatory framework</td>
<td></td>
<td>• Increasing healthcare regulations</td>
<td>• Comprehensive regulations to ensure fair play</td>
</tr>
</tbody>
</table>

Source: Booz & Company
public private partnerships in healthcare provision

3. A National Health Fund will be established under the Ministry of Finance, also separate from MoH, to fund directly healthcare services provided to patients.

The initial phase of this program will last three years, and will concentrate on modernizing the overall government IT infrastructure, establishing a new healthcare regulatory framework.

In parallel, SAGIA is working with various government entities to improve the overall investment environment in Saudi Arabia. The aspiration is that Saudi Arabia will be ranked among the 10 most competitive economies in the world, in terms of investment attractiveness. To achieve this objective, programs are underway to further open and liberalize the economy, enhance the availability of manpower and other national resources, establish improved regulations, and reduce government red tape.

INVESTMENT OPPORTUNITIES

All these changes are likely to create vast new opportunities for international healthcare companies and other healthcare providers. Over the coming decade, a variety of opportunities are likely to open up in virtually every aspect of the Saudi healthcare sector, as outlined in Exhibit 4, and summarized briefly below.

**Tertiary care.** Long waiting periods at public hospitals, bed shortages, increasing incidence of chronic diseases, and the deteriorating quality of care in with some areas are creating opportunities for multidisciplinary hospitals, specialized centers of excellence including such complex areas as oncology and organ transplants.

**Secondary care.** The high incidence of chronic diseases such as cardiovascular diseases, and diabetes as well as the capacity saturation at public hospitals and the limited availability of specialists mean that there are great opportunities for specialty centers in plastic surgery, dermatology, cardiology, and diabetes. Opportunities also exist to establish community in several areas.

**Ambulatory care and testing centers.** The high incidence of chronic diseases, a government-sponsored focus on preventative care, and the increasing numbers of people on private health insurance is also likely to create opportunities for physician practice groups, disease management clinics, and diagnostic imaging sectors.

**Generic pharmaceuticals.** The growth in population as well as the drug coverage mandated under the new insurance law will encourage domestic manufacturing of products such as analgesics and vitamins, as well as more complex products such as prescription antibiotics and beta-blockers.

**Medical devices manufacturing.** Rapidly growing market and more effective regulations will make it more attractive to produce locally many common medical supplies and devices, such as sterile bandages, catheters, and dentures, EKG machines and X-ray film.

**Insurance.** All employers will be required to provide health insurance. Initially, this policy will be applied.
to non-Saudis, but eventually, it will be extended to cover all workers employed in the economy.

**e-Health.** The growth in the numbers of players in the health care sector as well as the increasing sophistication of care available is likely to generate complexity. To cope with this development, the MoH wishes to encourage the establishment of a national electronic records system for healthcare. Accordingly, health systems integrators and potentially telemedicine specialists are likely to be in high demand.

**Education.** In some ways, the most basic medical shortage that Saudi Arabia now faces is a shortage of doctors and nursing staff. To satisfy current needs, more medical schools and residency programs must be developed. Accordingly the government supports the development of more medical education facilities, and some of these will be available for private sector investment. Saudi Arabia will actively seek to create partnerships with leading educational institutions to build the country’s medical education capacities.
CONCLUSION

Saudi Arabia is in the midst of an exciting transition to a more open, market-driven economy. Over the past ten years, the government has pushed a variety of changes that have made Saudi Arabia a better place to do business, including its decision to join the World Trade Organization. In fact, if present trends continue, by 2010, SAGIA believes that Saudi Arabia may well be one of the ten best places to do business in the world.

One crucial component in this program—for citizens individually and for the nation as a whole—is the creation of a more market-driven healthcare system. The fully nationalized system that served an earlier era well is no longer suited for the complex, dynamic country that Saudi Arabia is now becoming. For both economic and public health reasons, the government is committed to a course of change that will in the end create a system that is more responsive to the health needs of Saudi consumers.

This transition to a market-driven healthcare system will not only be good news for Saudis and the Saudi economy. For international healthcare providers and investors, the coming liberalization of the sector will mean increased access to the largest healthcare market in the Middle East, and an exciting opportunity to help millions of Saudis live longer, healthier lives.

Over the next few decades, Saudi Arabia is expected to face a sharp increase in its health care needs. A rising population, a growing percentage of Saudi nationals over 60, and a surge in the illnesses of affluence are all expected to create tremendous new demand for health care services. Planners within the Saudi government believe that the current, largely state-funded health care system will be unable to meet these needs. To cope with that growth in demand, plans are being made to encourage the development of a private health care sector. This is likely to create a tremendous opportunity for a broad range of foreign health care companies to participate in the Middle East’s largest health care market.
About SAGIA

The Saudi Arabian General Investment Authority (SAGIA) is a service entity aiming to provide services and facilities to promote investment and economic development in the Kingdom of Saudi Arabia. SAGIA was established in April 2000 under the directives of the Supreme Economic Council (SEC) as a catalyst to promote inward investments, facilitate exchange of best practice between the public and private sectors, as well as act as an intermediary between the global business community and the Saudi Government and its ministries and agencies. It also aims to contribute to economic policy-making substantiated by research and strategic criteria. SAGIA’s role is complementary and supportive to the bodies directly concerned with the various investment sectors and working to finalize the investors’ procedures. The mission of SAGIA is to create a pro-business environment while providing comprehensive services to investors, and fostering investment opportunities in energy, transportation and knowledge based industries.

Six core roles maximize SAGIA’s impact on Saudi economics and investor interests.

1. Facilitation: SAGIA’s promise to investors begins by providing comprehensive transactional support services that transcend licensing and extend through to the completion of a project and beyond.

2. Investor-to-Opportunity Matchmaking: Targeted and focused matchmaking defines SAGIA’s marketing and promotion activities.

3. Special Incentives for Lesser-developed Regions: In cooperation with regional authorities inside Saudi Arabia, SAGIA’s regional development focus leverages a region’s strength for the investor’s profit.

4. Special Incentives for Entrepreneurs: Feeding the leaves and branches of a healthy economy requires cultivating an entrepreneurial spirit. SAGIA does this by partnering with The Centennial Fund, a national, non-profit foundation dedicated to mentoring and funding Saudi entrepreneurs.

5. Dedicated Sector Services: SAGIA offers its comprehensive investment facilitation package to all investors seeking opportunities in any of the economy’s open sectors. To maximize the Kingdom’s competitive advantages and set the stage for further economic diversification, however, SAGIA dedicates sector-specific resources and services in Strategic Business Units.

6. Pro-Business Advocacy: Being competitive in the global economy means a business environment characterized by healthy practices, policies, and procedures.

Easing Your Path

The Saudi Arabian General Investment Authority (SAGIA) is the gateway to investment in Saudi Arabia, easing the path of investors and facilitating their progress through the required procedures by providing comprehensive services.

The focal points for investors are SAGIA’s One Step Shops in Riyadh, Jeddah and Dammam. Here investors receive personal attention as they are furnished with all necessary information, including details of the benefits and incentives to which they are entitled; guided through the licensing process; and given direct access to all relevant government ministries and agencies in the one location. Post-licensing services such as assistance with land acquisition, site development and the obtaining of utilities is also available.

For potential investors the web portal, www.investinsaudi.com, ensures easy and effective access to SAGIA and provides regularly up-dated investor-related business information and details of SAGIA-identified opportunities.

For more information kindly visit our website: www.sagia.gov.sa

About the Authors

Richard Shediac is a partner with Booz & Company based in Abu Dhabi. He leads the firm’s healthcare activities in the Middle East and has participated in various strategy, operations improvement, and organization projects in the Middle East, Europe, and Asia.

Ghassan Barrage is a senior executive advisor with Booz & Company in Beirut. He has extensive management consulting experience in strategic planning and organization development in various industries in Europe and the Middle East, including healthcare.

René Perillieux is a senior executive advisor with Booz & Company in Dubai. He leads the firm’s work with European public health organizations and providers, and specializes in strategy, innovation, technology management, and large-scale transformation for private and public organizations.
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Our founder, Edwin Booz, defined the profession when he established the first management consulting firm in 1914.

Today, with more than 3,300 people in 58 offices around the world, we bring foresight and knowledge, deep functional expertise, and a practical approach to building capabilities and delivering real impact.

We work closely with our clients to create and deliver essential advantage. For our management magazine strategy+business, visit www.strategy-business.com.

For the Ideation Center, Booz & Company’s leading think tank in the Middle East, visit www.ideationcenter.com.

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