CASE STUDY

Making Modern Healthcare Affordable in a Small Country

Georgia Healthcare Group: Universal Healthcare Delivered Through the Private Sector in Georgia

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IFC International Finance Corporation
WORLD BANK GROUP
Creating Markets, Creating Opportunities

ABOUT IFC

IFC—a sister organization of the World Bank and member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work with more than 2,000 businesses worldwide, using our capital, expertise, and influence to create markets and opportunities in the toughest areas of the world. In FY18, we delivered more than $23 billion in long-term financing for developing countries, leveraging the power of the private sector to help end poverty and boost shared prosperity.

ABOUT THE CASE STUDY

Expanding access to quality and affordable healthcare is a central element to eliminating extreme poverty and promoting shared prosperity. The World Bank Group has a goal to end preventable deaths and disability through Universal Health Coverage (UHC). In many developing countries, governments do not have the capacity to serve the entire population and private healthcare providers often play a critical role in meeting societal needs.

IFC is developing case studies that demonstrate the ability of the private sector toward achieving global and national healthcare goals. Through a focus on efficiency and innovation, certain business models can provide better outcomes at a lower overall cost to society.

WRITTEN BY

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PHOTOS

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The Georgian population embraced UHC rapidly, leading to a surge of patients receiving care.

OVERHAULING HEALTHCARE IN GEORGIA

A few days after returning from his vacation at the Black Sea, Maxim Rakovenko began to itch all over his body. He thought he was having an allergic reaction. It persisted and four months later, the 35-year-old IT Specialist from Tbilisi, Georgia found a lump the size of a golf ball in his neck. He went to his family doctor at EVEX Varketili Polyclinic, conveniently located in his neighborhood, where he had an ultrasound. It was a brand new outpatient polyclinic providing a diverse range of services, with state-of-the-art medical equipment, all housed in one location.

His family doctor referred Rakovenko to Dr. Aida Gozalova, the Head of the Onco-Hematological (blood cancer) Department of EVEX Medical Corporation, who offered encouragement. "Diagnosis is not a death sentence," she told him. Timely detection of the disease made it possible to fight it. An accurate diagnosis of onco-hematologic disease was possible because of the high-tech equipment and modern treatment methodologies at EVEX Regional Hospital, which had opened in March 2018.

After a biopsy, Rakovenko was diagnosed with Hodgkin's Lymphoma, a rare type of blood cancer. He started a three-month course of chemotherapy, which was followed by three weeks of radiotherapy treatment. Half of the treatment cost was financed by Georgia's Universal Health Coverage (UHC) Program. "The timely treatment, conducted by a team of qualified doctors, coupled with the caring attitude of the hospital staff, helped me to recover. I am happy to be fully cured now and want to thank each medical staff member who supported me throughout the process," said Rakovenko.

For 70 years, the healthcare system in Georgia was funded and delivered through the state. But after the collapse of the Soviet Union in 1991, investment, along with quality of care, declined sharply. The Soviet model of care was hospital-centric, and there was an oversupply of hospitals, beds, and doctors, yet there was a dramatic shortage of nurses. The market was fragmented. Medical staff were not well trained, and there were significant problems with quality and even simple hygiene. As a result, Georgia struggled for decades with high rates of mortality. While mortality has improved in recent years, there continues to be a high incidence of hepatitis C and tuberculosis. Meanwhile, cardiovascular disease, cancer, and diabetes cases are rising and adding to the burden on the health system.

In 2013, the Georgian government introduced several reforms, including privatization of service delivery and the introduction of a basic UHC program. The private sector has become a collaborative partner with the government in the provision of services.

Half of the treatment cost for Maxim Rakovenko's Hodgkin's Lymphoma (blood cancer) was paid by Georgia's Universal Health Coverage (UHC) Program, which is funded by the public sector but delivered by the private sector.

Nikoloz (Nick) Gamkrelidze, CEO of Georgia Healthcare Group (GHG) and the parent company of the EVEX brand of hospitals and polyclinics explains how his company is contributing to better services. "Several years ago, Rakovenko would have had to receive treatment outside Georgia to survive. Over the last 10 years, GHG has spent nearly $300 million in upgrading post-Soviet era facilities that were in a decrepit state. We have built new hospitals and clinics that were outfitted with modern equipment. Between 2015 and 2017, we spent about GEL 3 million (about $1 million) per year training medical staff. GHG is helping to transform healthcare in Georgia."

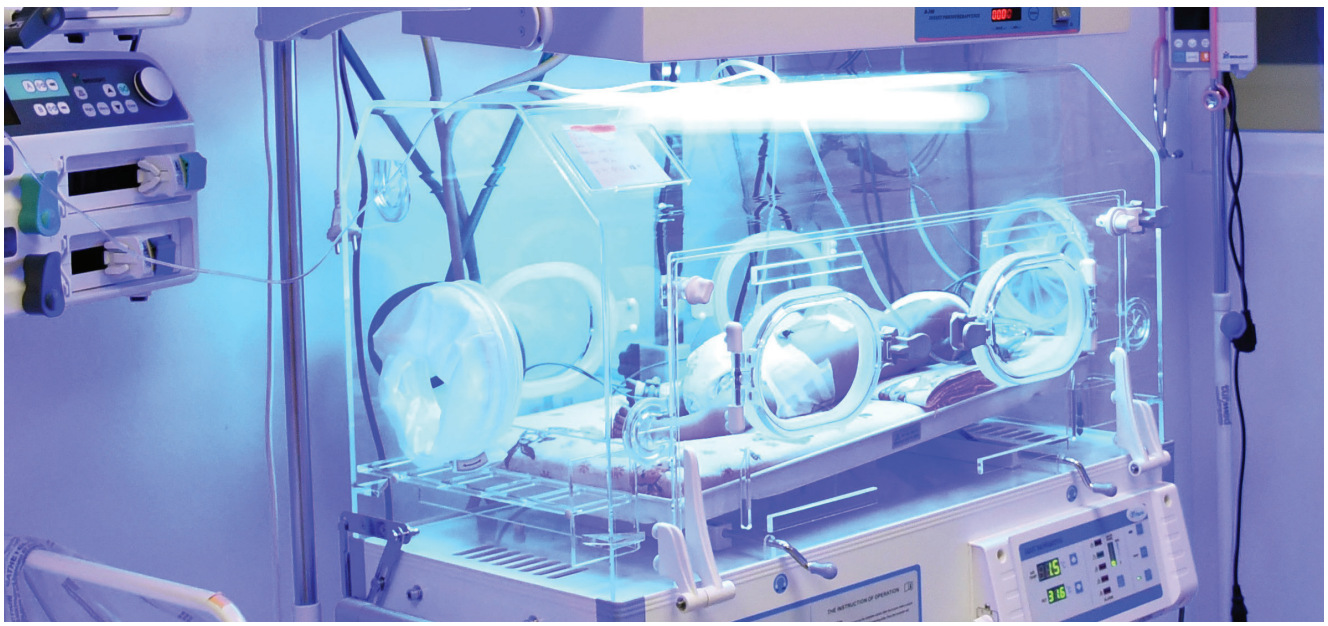
"Over the last 10 years, GHG has spent nearly $300 million upgrading and building hospitals and clinics to transform healthcare in Georgia."

Nikoloz Gamkrelidze
CEO of GHG

Georgia is a small country in the Caucasus region with a population of 3.7 million. In 2017, it had a GDP of $15.2 billion, a GDP per capita of $4,100, and 14 percent unemployment. Between 2007 and 2017, the economy grew an average of 4.5 percent, although high levels of income inequality persist. Roughly one in every five Georgians lives below the poverty line. Before reforms, many Georgians had been spending about one-third of their income on healthcare, while others were self-treating, or going untreated because they could not afford care. "With the introduction of a basic UHC program, equitable access to lifesaving treatment is now available to most of the population but with a key difference," Gamkrelidze said. "UHC in Georgia is still funded by the public sector, but care is about 85 percent delivered by the private sector."

UHC was embraced by the Georgian population and led to a surge of patients receiving care. From January 2017 to June 2018, there were approximately 375,000 patient visits to GHG hospitals and there were 3.2 million patient visits at GHG polyclinics.

GHG, a publicly traded company on the London Stock Exchange (LSE), was founded in 2015 as the holding company of the EVEX brand. The first EVEX hospital was opened in 2008. GHG has grown rapidly to become the largest healthcare provider in Georgia through its fully integrated network of hospitals, clinics, pharmacy and health insurance.



For decades, Georgia struggled with high rates of mortality, but this has been improving. In 1995, infant mortality was 41.6 per 1,000 live births. Aided by investment in health, the rate dropped to 8.6 per 1,000 live births by 2015.

IFC's funding helped GHG to renovate hospitals, expand polyclinics and introduce new services.

As of June 2018, GHG's ecosystem covered 75 percent of the geographic areas it served. It operated 37 referral and community hospitals with 3,320 beds, accounting for about one-third of the market. Beginning in 2015, it started to ramp up clinics to promote efficient provision of primary care. It currently has 12 clusters of 17 district polyclinics and 24 express outpatient clinics. In 2016, it entered the pharmacy space. Through acquisitions, it has become the largest pharmaceutical retailer and wholesaler in the country with nearly 260 pharmacies. Through its insurance company, Imedi-L, it provides health insurance to 157,000 people, making it the second-largest health insurer in the country.

In September 2016, IFC had an opportunity to play a catalytic role in GHG's growth. With $25 million of debt funding, IFC supported renovation of two acquired hospitals in Tbilisi and other facilities, as well as the expansion of outpatient services (polyclinics) across the country. The funding also supported introduction of new specialized services, including diagnostics, pediatrics, cardiology, and oncology. These investments promoted access to specialized services, some of which did not previously exist in Georgia.

In addition to overhauling facilities, GHG is improving its medical quality by standardizing processes and working on implementation of Joint Commission International (JCI) accreditation requirements to improve patient safety and quality. GHG is the largest employer in Georgia with about 15,500 full time employees, including 3,600 physicians and 3,300 nurses. It is training the next generation of doctors through 24 residency programs and is continually training its doctors, nurses and other medical professionals.

In 2017, GHG had GEL 747.8 million ($298 million) in gross revenues. About 67 percent of gross revenues for the healthcare services segment were derived from UHC.

Before UHC, many Georgians refrained from seeking medical treatment until their conditions were so dire that they were forced to go to the hospital and then faced catastrophic expenditures.

UNIVERSAL HEALTH COVERAGE IN GEORGIA: A SYMBIOTIC RELATIONSHIP BETWEEN THE GOVERNMENT AND THE PRIVATE SECTOR THAT OFFERS LESSONS FOR OTHER COUNTRIES

DESIGNING A "WIN-WIN" HEALTHCARE SYSTEM

Around 2007, the government had been surveying its vast network of hospital infrastructure decaying across the nation. Recognizing that it did not have the resources to adequately address the problem alone, the government launched a "privatization initiative" and invited the private sector to help overhaul the industry. Through a tender process, the government granted the winning bidders exclusive and concessional use of healthcare assets in the respective regions. In exchange, the private sector would make the major capital investments, modernize the infrastructure, and assume responsibility for healthcare delivery across the country.

Nikoloz Gamkrelidze, then CEO of Aldagi, a health insurance company, wanted to grow by adding healthcare facilities. GHG (Aldagi at the time) became the winning bidder for several regions under the privatization initiative. In accordance with the contract terms, it established one hospital and three outpatient centers in Tbilisi. Gamkrelidze quickly concluded, "If we were going to be in this business, it was better to do it at scale, and we acquired two other regions from another big insurance company, Imedi-L. We renovated their hospital and our hospitals and that made us very strong."

As a small nation with many fiscal constraints, Georgia did not have the resources to become a healthcare provider itself.

The government assumed the role of policymaker, regulator, and payer—reimbursing private sector healthcare providers for delivering treatment to patients in private facilities.

Although the infrastructure was upgraded, and the government had promoted private health insurance as a solution, many Georgians could not afford it. Georgia had made enormous progress in growing its economy, but in 2013, more than a quarter of the population still lived below the national poverty line. The average monthly salary was around GEL 500 ($300) and insurance for a family could cost between GEL 50 and GEL 200 ($30 and $120). One-third of household disposable income was being spent on healthcare and a large share went to pay for medications. About half of the population was not insured at all. Many Georgians refrained from seeking medical treatment until their conditions were so dire that they were forced to go to the hospital and then faced catastrophic expenditures. The situation was perpetuating unequal access to healthcare, and it became a political issue in the country.

In October 2013, following a presidential election filled with campaign promises to bring universal health coverage to all Georgians, the Georgian Dream Party had to deliver quickly. As a small nation with many fiscal constraints, it did not have the resources to become a provider itself. Since the private sector was active in overhauling facilities, the government designed a UHC program that would make social insurance public again, while relying on the private sector for service delivery. The government assumed the role of policymaker, regulator, and payer—reimbursing private sector healthcare providers for delivering treatment to patients in private facilities.

The symbiotic relationship between the government and the private sector brings benefits to patients.

THE EVOLUTION OF UHC IN GEORGIA

When the UHC package was introduced in 2013 with a budget of GEL 70 million ($42 million), it offered a publicly financed entitlement of very basic healthcare services to the entire population. The UHC program covered most emergency care, some basic outpatient elective services, and some elective inpatient services, subject to certain limits. Citizens could choose their provider, and any provider could participate.

The program became very popular and visits to doctors, hospitals and emergency rooms increased rapidly. In 2014, the first complete year of the new UHC program, 3.2 million people participated. Pent-up demand resulted in a steep increase in government spending, which rose to GEL 340 million (about $193 million) that year. About 45 percent of UHC costs were attributed to previously uninsured persons who came from lower- and middle-income households.

Between 2014 and 2015, UHC triggered budget overruns of nearly 40 percent, which widened the fiscal deficit. The World Bank, through a Public Expenditure Review, raised concerns about the long-term financial sustainability of the program. If UHC was to survive over the long term, the government had to curb costs.

The government wanted to keep key service programs it was already offering alongside UHC because these provided universal access for key initiatives including prenatal and postnatal care, hepatitis C, tuberculosis, diabetes, mental health, immunization, dialysis, renal transplants, and cancer screening. Further, under UHC, services were already subject to price caps. It maintained emergency care coverage at 100 percent but subject to a maximum limit of GEL 15,000 (about $6,000) per person, per year.

In 2017, the government recalibrated parts of the UHC program. It reduced the size of the eligible population by excluding all upper-income earners and some middle-income households. For elective services, it introduced co-pays for almost all beneficiaries, and it trimmed the scope of covered benefits, particularly for the costliest services. Reimbursement for ICU was placed on a sliding scale that reduced rates progressively over the course of the stay.

All prescription medications continued to be excluded, except those dispensed in a hospital. With the savings generated from the above changes, the government made some essential drugs available to vulnerable groups for the first time.

The goal of the reform was to make spending more efficient, contain costs, and align expenses with what the government could afford. Even with the reductions, in 2017, the government spent GEL 710 million ($283 million) on UHC, which was about 1.9 percent of GDP. The total government healthcare expenditure was about 3 percent of GDP, while upper- middle- income countries spend an average of 4.3 percent. The UHC estimated budget for 2018 is GEL 704 million (about $286 million) and is projected to be GEL 754 million (about $306 million) in 2019.

GOOD PARTNERS WORKING WELL TOGETHER

The symbiotic relationship between the government and the private sector brings benefits to both sides. In Georgia, this model of cooperation aligns the incentives for both sides by focusing in on their areas of strength, while promoting healthcare value for money. Benefits to the government include providing fiscal agility, speed to market, and improved quality.

BENEFITS FOR THE GOVERNMENT

1. **Fiscal Agility.** The asset-light model that the Georgian government adopted for UHC was very efficient at keeping a large share of healthcare expenses off the national balance sheet by shifting them to the private sector. Since UHC in Georgia is paid for by general tax revenues, it reallocated expenses and did not have to raise additional funds to pay for UHC. The model ensured that medical labor expenses remained in the private sector, enabling the state to avoid paying pensions of thousands of healthcare professionals for decades to come.

The UHC cooperation model provides fiscal agility, speed to market, and improved quality to the government.

Governments can save on infrastructure build-out and upgrade costs by shifting these to private providers. In the last decade, GHG's total capex was about $300 million, which paid for purchasing buildings, medical equipment, furniture, and computers, construction and upgrading of hospitals and clinics from a zero base, and purchase of intangible assets, mainly software.

2. **Speed.** The private sector can be an efficient partner. It has an interest in streamlining bureaucracy and is intrinsically motivated to deliver rapid results. GHG showcased this in its efficient modernization of the hospital and polyclinic infrastructure. Complete overhauls have been done on 54 hospitals and clinics. The average turn-around time of a hospital is between two and three years.

3. **Improved Quality.** With the right incentives, the private sector can deliver quality service at a lower cost and with greater efficiency. GHG is elevating the standard of care by introducing western standards and harmonizing care across its integrated network through standardized protocols and procedures. Clinicians and nurses are being retrained and the next generation of residents are getting hands-on experience and learning in flagship facilities. Compliance is assessed in annual performance reviews. Starting in 2019, coordination of care will be enhanced through new technology platforms.

BENEFITS FOR THE PRIVATE SECTOR

The private sector benefits from accelerated growth, increased scale and efficiencies, and a reliable payment source.

GHG's scale allows it to deliver value for money while setting prices in the average range, without overcharging, thereby helping the government and citizens to spend scarce public funds more efficiently.

Irakli Gogia
CFO of GHG

1. **Rapid Growth.** Healthcare service providers benefited greatly from UHC implementation. Between 2014 and 2017, GHG added 10 hospitals and 12 district polyclinics. UHC is a reliable source of increased patient volumes and the introduction of UHC improved hospital utilization rates. In 2012, the year prior to the introduction of UHC, GHG's net revenues from the healthcare services segment (hospitals and polyclinics) were GEL 67.7 million ($41 million). By 2017, the same segment brought in GEL 263.4 million ($105 million) in net revenues of which 67 percent was from UHC. Between 2012 and 2017, GHG's gross revenues at referral hospitals grew at a CAGR of 43 percent and 31 percent for polyclinics.

2. **Scale and Efficiencies.** Governments are interested in providers that can operate on large scale because they can deliver better quality at lower cost. With an integrated care model, GHG is the largest healthcare purchaser in the country. It negotiated better pricing with suppliers. In medications and disposables, GHG estimates that its larger bargaining power saves about GEL 2.5 to 3 million per year (about $1 million), and on non-medical supplies it saves about GEL 500,000 (about $200,000) a year. Between 2016 and 2017, GHG saved about GEL 10 million (about $4 million) on the importation of pharmaceuticals by negotiating better pricing for a variety of products.

   GHG has centralized its back-office functions and generates economies of scale through shared services in HR, accounting, and legal. Irakli Gogia, the GHG Chief Financial Officer, explains, "We are very good at cost management—better than our competitors." GHG's scale allows it to deliver value for money while setting prices in the average range, without overcharging, thereby helping the government and citizens to spend scarce public funds more efficiently. Its scale allows it to invest in future growth and institutionalize healthcare.

In 2007, the government recognized it did not have the resources to adequately revitalize hospital infrastructure decaying across the nation. UHC helped to provide patient volumes and a reliable payment source that enabled GHG to make high capex investments, such as for a linear accelerator, to treat cancer with radiotherapy.

3. **Reliable Payment Source.** GHG has had a good experience with the government's reimbursement cycles. Prior to UHC, GHG would absorb losses from unpaid bills from patients that did not have the means to pay their hospital bills. That issue has been reduced significantly. There is a timetable for both sides to submit information. The government pays on a timely basis. On average, payment is received in about 4.5 months. While that timetable still raises GHG's working capital need, the government invoice correction rate is very low at less than 1 percent.

AREAS FOR MUTUAL FUTURE WORK

While the "UHC Cooperation Model" has many strengths, there are some areas that have improvement potential.

1. **Shifting Expenses to Less Costly Settings.** In 2017, 90 percent of UHC expenses went to hospitalizations. In Georgia, there is a cultural tendency to seek care in hospitals because patients believe that is where there is good quality care. Georgians tend to be suspicious of the caliber of care in clinics due to the legacy of the last 25 years. GHG's investments in polyclinics over the last two years has improved quality in outpatient facilities, which should help shift patients to lower cost facilities.

   While the government would like to financially support more robust preventive care in less expensive settings, it has not had the fiscal space to do so. It is aware that by shifting care out of the most expensive, inpatient facilities, it could bring down costs to the overall UHC program, and at the same time, improve health outcomes. In the future, it intends to focus more on this.

GHG's investments in polyclinics over the last two years has improved quality in outpatient facilities, which should help shift patients to lower cost facilities.

2. **Varied Payment Schemes.** The government reimburses services based on either capitation, bundled payments, or fee-for-service schemes. Capitation, a fixed monthly rate for a specified number of limited services, is only used for primary care. Registered patients have access to general practitioner and specialist consultations, basic lab tests, X-rays, and ultrasounds. The capitation rate is currently below market prices and may not be enough to provide good quality outpatient care. Governments should be cautioned that setting rates too low can lead to "cutting corners" on quality care.

   About 70 percent of UHC payments are for bundled services, such as ICU care or joint replacements. Bundled payments are good for predictable services and generally exclude complications. ICU care is currently bundled, but since there is no advanced medical directive law, patients can be hooked up to a ventilator for extended stays, meanwhile the reimbursement schedule has been reduced to unsustainable levels. This needs a rethink. In the interim, GHG will introduce palliative care to help provide dignified end-of-life care in a more cost-sustainable way. Fee-for-service is mainly used for elective and planned surgeries and has limited coverage under UHC.

3. **Increasing Costs.** In Georgia, prices for health services rise by about 5 percent per year due to inflation. Some segments such as medical equipment, consumables, and pharmaceuticals face higher increases, on the order of 10 percent or more because purchases are in Euros or U.S. dollars. The main concern of the government is price containment because costs are escalating annually. This is where efficient providers with scale can help to offset increasing costs.

4. **Realistic Fee Schedules.** Facilities are free to establish prices, but the reimbursement rate is calculated from a base of the lowest-cost provider, without taking into consideration investments and quality of services. This led to a proliferation of low-quality providers and some prices on the schedule that may not cover actual costs. The government intends to ringfence the universe of providers through selective contracting by taking into consideration quality as well as price. Providers must also have the capacity to provide services to a minimum number of patients annually.

5. **Quality Supervision.** The hospital rationalization process spurred new market entrants who were primarily interested in benefiting from government programs. The market is open to any service provider and patients can choose from all of them. Getting a hospital license was not a cumbersome process and most of these operators only owned one "hospital" with less than 40 beds. More regulation is needed to protect patients from poor quality providers. Governments should promote minimum standards for patient safety.

6. **Enhanced Geographic Distribution of Facilities.** A decade ago, when facilities were granted under the hospital privatization scheme, the packages included a fixed amount of immovable assets. Today, some community hospitals are located too close to referral hospitals, leading to duplication. These can be converted to outpatient facilities that are connected to hospitals through the ambulance system. The system can be further consolidated to enhance better quality care and cost effectiveness. Good geographical distribution will help save the government money.

GHG's health ecosystem generates synergies across all the segments, while providing a better patient experience.

GHG'S BUSINESS MODEL

GROWTH OF AN INTEGRATED PROVIDER

GHG's strategy is to manage care from an integrated approach that delivers better care at a lower cost. In 2002, GHG's master plan was prepared by Kaiser Permanente, (KP), an insurer and a provider of integrated healthcare in the United States that promotes healthier communities with a total health approach. Based on KP's model, GHG organizes medical services in geographic clusters in a hub and spoke network that efficiently integrates hospitals, polyclinics, labs, pharmacies, and insurance. The entire ecosystem generates synergies across all the segments, while providing a better patient experience.

GHG organizes medical services in geographic clusters in a hub and spoke network that efficiently integrates hospitals, polyclinics, labs, pharmacies, and insurance.

1. **Hospitals.** Currently, GHG owns 16 large referral hospitals, offering secondary and tertiary level services with about 2,800 beds and 21 smaller community hospitals with about 500 total beds. To address the service gaps in the country, over the last two years, GHG introduced over 100 new services including an oncology center, pediatric oncology, and pediatric cardiac surgery. In 2017, the hospital segment brought in about GEL 248 million (about $99 million) in net revenues and UHC was a main driver of this.
2. **Polyclinics.** To appropriately manage patients so that they receive the right care, at the right time, in the most cost-effective setting, KP's system is designed to have the first point of patient interaction with general practitioners at polyclinics. Polyclinics bring evidence-based care into communities and provide greater convenience for patients by offering multiple services inside one building.

   Expensive equipment is placed in the large hubs, which are centrally located, and conveniently offer a wide range of services in the same building. Services vary by location, but may include general practitioner and specialist consultations, diagnostics, clinical, biochemical and serological laboratory tests, radiology, some specialist and same-day surgery, and pharmacy. GHG is starting to shift some services, such as ophthalmology and laparoscopic surgeries, out of hospitals to polyclinics.

UHC covers some limited services that are delivered at polyclinics, such as annual physicals, pre-natal care, diabetes and vaccinations. All patients who wish to benefit from UHC must register with a primary care physician. Now that the highly fragmented polyclinic segment is benefiting from GHG's increased investment and better quality, that should help to shift traffic away from hospitals. It should position polyclinics to be the main driver of catching diseases earlier and treating patients in the least expensive settings, thereby bringing healthcare costs down. To effectively achieve this, additional financial support from UHC may be needed.

GHG has 12 geographic polyclinic clusters that consist of 17 district polyclinics and 24 express outpatient clinics. Generally, each cluster has a large scale, district polyclinic (1,800-2,500$m^{2)}$, which acts as a hub for multiple services and is surrounded by three to five smaller clinics (120-1,000m^2) that feed the hubs. The district polyclinics require investment of about GEL 2 million (about $800,000), while the smaller clinics require investment of about GEL 300,000 (about $120,000).

By September 2018, GHG had 126,000 registered UHC patients and 1.9 million patient visits to polyclinics. In 2018, it rolled out and ramped-up new polyclinics increasing foot traffic significantly to 1.3 million patient visits in the first half of 2018 (1H 2018). In 2017, polyclinics brought in GEL 15.7 million (about $6.2 million) of net revenues. This segment had EBITDA margins of 13.2 percent, and this figure is expected to rise once the rollouts are completed. It is a strategic segment that GHG plans to grow through private health insurance and self-pay patients. It currently has ten district polyclinics that are in the capital of Tbilisi and seven district polyclinics that are in the regions. Since 2016, GHG has added 10 new centers and it plans to have more than 20 polyclinics within two years.

Polyclinics bring evidence-based care into communities and provide greater convenience for patients by offering multiple services inside one building, including some services that were formerly offered inside hospitals.

3. **Labs.** Laboratories have been underdeveloped in Georgia. GHG partnered with BioLab Medical Unit, another LSE company, to develop a centralized, 5,000m^2 "Mega Lab," which can perform complex lab tests such as for oncology and molecular lab genetics. The lab will open in November 2018 and will introduce these services in Georgia for the first time. The Mega Lab will be ISO certified and will complement the ISO certified labs in its reference hospitals. It plans to apply for JCI accreditation.

4. **Pharmacy (Retail and Distribution).** The pharmacy is often the patient's first point of contact with GHG and it is an important feeder line into the network. Many pharmacies are co-located with polyclinics and help grow this business, particularly as a new law requires prescriptions to only be dispensed with a doctor's order. This is intended to combat a significant opioid and drug resistance problem, and change a long-time practice, whereby patients could get any kind of drug from the pharmacy, on-demand. GHG was the first in the country to introduce an "e-pharmacy" technology platform to transmit doctor's prescriptions, while promoting greater customer convenience.

Prescribed medications that are not administered in hospitals are not covered by UHC, nevertheless, this is a space that GHG has invested in, particularly in securing good quality medications. Low quality drugs are rampant across Georgia. Most of the drugs that GHG purchases are either US "Food and Drug Administration" or "European Medicines Agency" approved. The drug approval is printed on the receipt so that the patient knows the quality is guaranteed. GHG is working to increase the availability of generics that come from countries that have already endorsed the quality.

GHG entered the pharmacy space in May 2016 with the acquisition of GPC. It followed with the acquisition of Pharmadepot in January 2017 and currently has about 260 pharmacies, making it the largest player. In 2017, the pharmacy segment brought in GEL 450 million ($179 million), or about 60 percent, of gross revenues and it had an EBITDA margin of 8.6 percent.

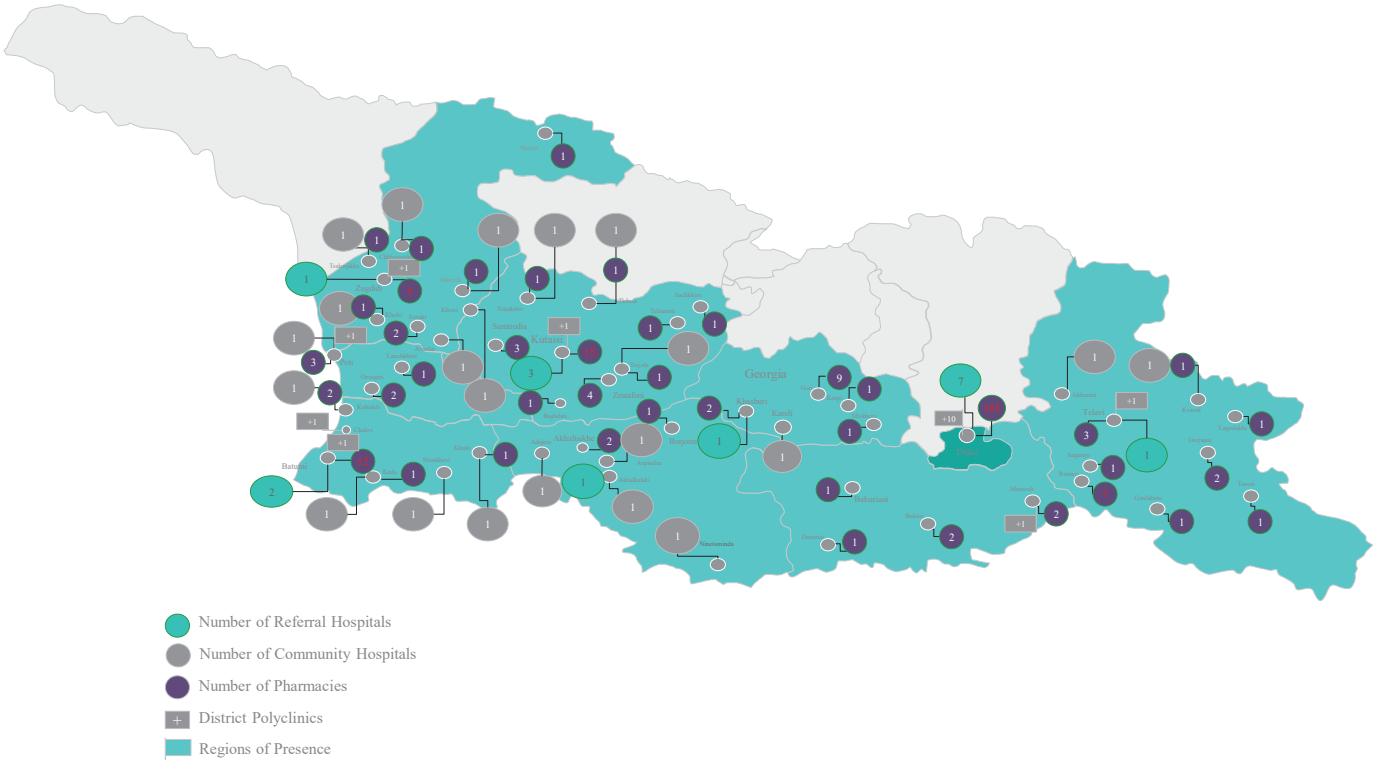
5. **Private Health Insurance.** Insurance also provides a feeder line into the GHG network. Currently, about 38 percent of Imedi-L patients seek care or medicines in GHG facilities. GHG can process claims more efficiently within its network, which helps promote stickiness and cross-selling of healthcare products. As UHC scales back its coverage for high- and middle-income groups, private health insurance has been growing. Nationwide, about half a million are insured and as of January 2018, GHG insured about 155,000 individuals through Imedi-L. About 95 percent of those insured receive coverage through employer programs

and the balance are self-pay. In 2017, this segment represented GEL 53.7 million (about $21 million) in gross revenues for GHG and an EBITDA margin of -0.8 percent. The latter improved in the 1H 2018 to 2.7 percent.

GROWTH

GHG is a relatively young company; it is only 10 years old, but it has grown rapidly, largely through acquisitions. In 2009, GHG had less than 1 percent of market share of hospital beds, but through a series of acquisitions, this has grown to 25 percent. In GHG's early days, it obtained the dilapidated hospitals and clinics from the government for free, but now these are purchased from other providers at fair market value prices. With the completion of Mega Lab, it will complete all its major development projects. Future growth for hospitals will be asset light through management contracts as the return on investment is much higher than when making a high capex investment. Currently, GHG facilities cover 75 percent of the total population.

GHG'S GEOGRAPHICAL FOOTPRINT



COMPETITION

There are four other players offering integrated healthcare services, pharma, and health insurance, including Aversi, another IFC client providing good-quality service. But all are much smaller in size. In the healthcare services segment, the next largest company has just 5 percent market share by beds.

Quality care is good for the patient, as these liver transplant patients can attest to, but it is also an important element of an economically sustainable business model.

QUALITY CARE

GHG is working to elevate the standard of care in Georgia. Due to the high number of acquisitions, GHG has been standardizing processes and medical quality across the network. It is adapting western standards to the Georgian market, where feasible, through a quality control framework.

Gregory Khurtsidze, the Chief Clinical Officer, explains, "Quality care is good for the patient, but it is also an important element of an economically sustainable business model. Quality care reduces readmission, which is also financially important since UHC will not pay for the first round of services if there has been a follow-up hospital re-admission. There is much less litigation and there are fewer malpractice cases. More satisfied patients build a good name for your brand and will attract more patients. In 2017, we participated in the testing of a 'Healthcare Quality Assurance Standards' assessment tool developed by IFC, which helps providers to prepare for accreditation. We are working toward JCI accreditation, starting with the major referral hospitals."

To embed quality care in decision-making across the organization, GHG changed the culture of hospital governance in 2018. Previously, the commercial director's job was business development but now decisions will be taken jointly with the clinical director. Starting in 2019, employee evaluations will be based both on financial and quality targets.

THE MEDICAL SKILLS GAP

Following the collapse of the Soviet Union, many doctors left the country. In the ensuing years, the quality of medical education was not rigorous. In response to the skills gap, GHG has adopted a multi-pronged strategy to attract expatriates with western training, retrain the existing talent base, and train a new generation of doctors.

In 2013, GHG began to negotiate support contracts with Georgian doctors living abroad who are experts in their field in Europe and the United States. Some returned to Georgia and became heads of the centers of excellence, while others remotely participated in medical advisory boards through video conferences.

Patients have a high level of distrust of local doctors, particularly those reading pathology and biopsy results. They often request a second opinion. GHG is working to reduce the price of second opinions, which can add $600 to $1,000 to costs. By partnering with the chief of the pathology lab in the Netherlands, who is Georgian, to leverage digital pathology, it is getting reliable results while cutting the price by 50 percent.

GHG recruited expatriates to help retrain current clinicians and residents to international standards. GHG is bringing physicians from the hospitals it has acquired in the regions to the flagship hospitals in Tbilisi to do additional rounds with teams of top GHG doctors. Once the technology platforms are deployed, GHG will be able to monitor physician compliance with established guidelines and identify additional training needs for those who have made mistakes.

GHG has begun to address a huge structural problem in Georgia; doctors regularly perform functions that are done by nurses and physician's assistants in western countries. By emphasizing nurses' education, improving their credentials, and conducting yearly examinations that are rewarded with increased pay, GHG intends to generate cost savings to the government by shifting functions currently done by the doctor who is paid 3 to 4 times more than the nurse. It also intends to correct the doctor-to-nurse ratio. In 2016 and 2017, GHG spent GEL 3 million (about $1 million) in training, per year and more than 5,150 doctors and nurses have been retrained.

To elevate and standardize the quality of care, GHG is retraining the existing talent base and the next generation of doctors to western standards.

GHG runs the most popular residency program in the nation. It offers 24 residency programs with about 260 residents who do rounds in multi-specialty hospitals. The first cohort of residents will graduate in 2019 and will work for GHG. In the future, GHG would like to establish a university to educate future doctors.

TECHNOLOGY PLATFORMS

The most significant benefits of an integrated medical network will soon be felt when GHG rolls out its three newest technology platforms: doctor ordering systems, an Electronic Medical Record (EMR) platform, and a mobile application for patients that will also be available outside GHG's network. GHG is currently changing the underlying business processes to make workflows more efficient and will later roll out the platforms. GHG will be the first provider in the country to introduce these types of platforms.

1. **Doctor Ordering Systems.** Soon, most patient information will be generated by doctor-ordering technology systems. This platform will incorporate inpatient and outpatient care, radiology procedures, lab tests, doctor's orders, consultations with specialists, nurses' tasks, the course of medical treatment, and a dosage calculator. The platform will also contain costs by accurately controlling the ordering of medical consumables from the warehouse.

2. **EMR.** To date, patient medical records across the entire nation have been managed on paper. Starting in March 2019, GHG's EMR platform will be deployed across GHG's hospitals and polyclinics. Purchasing various platforms was cost prohibitive, thus GHG recruited a team of in-house developers and invested $1.2 million to create its own proprietary technology platform that will help to more efficiently manage and deliver better care to its patients. The platform includes patient medical records, electronic imaging, archiving services, GHG's medical standards and will help provide education to physicians. Khurtsidze explains, "With over 15,000 employees, we can't grow with old techniques. We need to leverage technology and new methods of conducting business."

3. **Patient Mobile App.** GHG is developing a non-GHG branded mobile application that will increase access to primary care and will be available to Georgians nationwide. The app will help patients find doctors, book appointments, access medical records, see test results, manage the medication process with downloadable calendars, provide healthcare reminders, and provide guidance on how to identify good quality medications. Patients can even make payments on the platform.

   Currently, there are very long lines to get UHC or insurance guarantee letters from providers, but the app will take the process digital and eliminate the wait. Currently, a "short" outpatient visit can require a 4.5-hour investment of time. Technology will help to save time and make the process more efficient. The platform will also be available outside the GHG network, helping to transform the whole Georgian system. It will always be free for patients.

4. **Data Analytics.** In early 2018, GHG created a data analytics department to start using data as the new IT platforms are being rolled out. GHG will have patient data that includes the full medical history, clinical notes, prescriptions, and insurance. It is getting help from McKinsey and Microsoft to identify correlations. By mid-2019, GHG will start to run the analytics, subject to legal safeguards.

   UHC requires billing and medical data to be shared with the government. Currently, this is done on paper, but it will be faster and more effective with the platform, particularly with the National Center for Disease Control, which requests volumes of information and has low compliance rates. David Vakhtangishvili, Deputy CEO for IT, explains, "With technology, we will have a powerful tool to share data analytics with the government. GHG is the only provider in the nation making such large-scale investments on platforms and other providers are approaching GHG for help."

REVENUES

In 2017, GHG had GEL 747.8 million (about $298 million) in gross revenues. Retail pharmacy, which was introduced in 2016, brought in the largest share with 59 percent of revenues or GEL 450.3 million (about $179 million). This was followed by hospitals which brought in 32 percent or GEL 247.6 million (about $99 million). Insurance delivered 7 percent with GEL 53.7 million (about $21 million) while polyclinics contributed 2 percent with GEL 15.7 million (about $6 million).[1] The EBITDA margins were greatest for the hospitals with 27.4 percent, followed by polyclinics with 13.2 percent; pharma was 8.6 percent and medical insurance was -0.8 percent although this increased to 2.7 percent in the 1H 2018.

SUSTAINABILITY

UHC is the main contributor to healthcare services revenues. In 2017, it brought in 67 percent. Nevertheless, the impact of the government scaling back the UHC program in 2017 resulted in lower revenues of around GEL 10 million (about $4 million). Acknowledging the limits of the UHC budget, GHG has adopted a diversification strategy that targets an increase in revenues from private insurance and out-of-pocket payors. GHG's strategy is to attract more patients who seek elective services in hospitals and polyclinics. The polyclinic segment is projected to expand at a faster pace in the next five years—at CAGR 9.8 percent as opposed to the hospital segment which will grow at CAGR of 7.2 percent. This strategy will help GHG to continue to serve UHC patients in a commercially sustainable manner.

1 These figures are net of intercompany eliminations; as such, they do not add up to the 748 million total.

The UHC model in Georgia helped GHG to become a financially strong company, ensuring the sustainability of its success over the long term.

GHG participated in the pilot testing of IFC's Hospital Quality Assessment tool, which helps healthcare providers evaluate their quality. It includes a custom roadmap to help align to international standards.

THE ROLE OF IFC

The relationship with GHG commenced through Bank of Georgia, the largest financial group in Georgia. IFC was one of the investors in the bank and had a good working relationship, which was extended to GHG. Bank of Georgia's good track record with IFC was important, given that GHG was only about eight years old when IFC invested in it.

Gamkrelidze explains why GHG was interested in working with IFC, "Of course, we were interested in the access to capital. Interest rate and loan tenor were good, but the main driver for us was the access to healthcare expertise and the technical assistance that IFC could give GHG. In 2017, I attended IFC's Global Health Conference, where I had the opportunity to network with others in the same line of business around the globe. The exposure to those who have more experience was very valuable for us. After the conference, IFC helped to arrange a Skype call with the CEO of Fybeca, a retail pharmacy chain from Ecuador, and I learned a great deal from their experience. Two years ago, GHG did not have any pharmaceuticals in our portfolio, and now we have 30 percent of the pharma distribution market. Such experiences are very beneficial to us. IFC helped to catalyze additional market growth."

IFC was interested in working with GHG because it was a well-managed company that provided a good example of how the private sector can work well with the government to deliver universal health coverage, a priority initiative for the World Bank Group. Georgia is demonstrating how UHC can become a reality with the cooperation of the government and the private sector. Lessons from this can be useful as other governments implement their own versions of UHC.

In 2017, GHG agreed to participate in the pilot testing of IFC's Hospital Quality Assessment tool. IFC uses the tool to help healthcare providers evaluate their quality by conducting an in-depth analysis of their current standards and practices, conducting a detailed gap-analysis, and developing a step-by-step customized guide to align with international level standards. IFC appreciates GHG's support in testing this new tool, which is now available to interested companies.

The IFC conference played a catalytic role in helping GHG to develop new business concepts.

By delivering healthcare services to market quickly, GHG has contributed to Georgia's future and stimulated economic growth.

CONCLUSION

Countries around the world have committed to implementing Sustainable Development Goals (SDGs). Implementation of UHC is a key element of goal number 3 "to ensure healthy lives and promote well-being for all, at all ages." GHG is helping the Government of Georgia move toward achieving SDG 3 with a strategy that promotes greater access to healthcare, while providing financial protections to the most vulnerable populations. GHG is addressing the medical skills gap, and it is offering essential services including maternal, newborn, child health, infectious, and non-communicable diseases treatments in communities where Georgians live and work. As GHG expands the availability of quality primary care at outpatient polyclinics, it can help control costs and reduce premature mortality from non-communicable diseases through prevention.

As countries are embracing UHC principles, all are struggling with affordability. Georgia's model of cooperation proves that UHC can be delivered to a wide range of citizens very quickly and efficiently by leveraging the scale that the private sector can deliver.

The experience in Georgia yields some lessons.

1. **Design a Sustainable UHC Program.** Consider a publicly funded, privately delivered UHC model to smartly tackle under-investment and address gaps in infrastructure, people, processes, and technology. Assess what is affordable and avoid overpromising what is beyond fiscal capacity.
2. **Align Interests.** Design the model so that the public and private sectors are aligned and cooperate to deliver for their citizens effectively. Incentivize patients to seek primary care on a timely basis and to seek care in the lowest-cost, most appropriate setting. Much can be done on an outpatient basis before conditions become dire and expensive.
3. **Focus on Quality.** Promote efficient, quality care for the patient and design regulations that promote the delivery of good quality through accountability. Promote fair competition by setting the minimum quality level and then promote quality-based competition.
4. **Promote Integrated Healthcare.** Providers with scale can generate efficiencies and savings that can be passed on to the government through lower prices. Integrated providers can offer good quality, convenience, lower costs, and technology.

The private sector and GHG have been able to get healthcare services to market quickly, which has contributed to the economic engine of the country. Healthcare is now one of the largest sectors of the Georgian economy. GHG is the largest employer with over 15,000 employees that pay taxes.

UHC in Georgia has been good for the country, for patients, and for business. The relationship is symbiotic. UHC gave GHG the opportunity to invest in this sector and to increase GHG's presence in the different regions. As the largest provider in the country, GHG is committed to help the government to ensure the long-term sustainability of UHC and it is actively supporting the government with this national initiative.

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