Medical Equipment Market in Azerbaijan:
Opportunities for U.S Business Development

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January, 2005

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This report provides an overview of commercial and investment opportunities in the medical equipment sector of Azerbaijan. The report contains a concise snapshot of the medical equipment market and a SWOT Analysis of the Azeri medical market, which provides strengths, weaknesses, opportunities and threats of this market for the U.S. exporter.

Medical Snapshot

Azerbaijan, having regained its independence just fourteen years ago, is a country rich in energy resources and providing many opportunities and challenges for U.S. business. The medical equipment market, while small, is likely to grow in coming years given massive investment in Azerbaijan's oil and gas wealth and development of its medical infrastructure. Following the collapse of the Soviet Union, reforms in the Azeri healthcare industry led to major restructuring in public and private sectors.

Previous cradle-to-grave medical care, however poor, disappeared almost overnight. The limited public financing for healthcare does not nearly cover the basic needs of the Azeri population in healthcare services. Based on interviews with leading local medical equipment importers, government affiliated hospitals account for 50% of orders, general, government-funded hospitals about 30%, and 20% are private clinics. U.S. firms are advised to bypass the government bureaucracy and aim marketing plans directly at potential importers. U.S. companies providing consulting services and distributors of medical equipment and supplies are urged to pursue opportunities with the multilateral development banks that currently have a number of projects ongoing in Azerbaijan. In 2002, unprofitable and ineffective medical departments will be privatized, further boosting growth of the import market.

Best prospects for the U.S. exporters: What is moving in the Azeri Medical Market?

Based on extensive interviews with local importers and discussion with international financial institutions based in Baku, there is a strong market demand for the following U.S. equipment in Azerbaijan:

- Medical testing equipment used in industrial relations;

- Ultrasound scanners;
- Electrocardiographs;
- X-ray equipment;
- Laboratory analyzers;
- Electronic surgery devices;
- Endoscopes;
- Gynecologic instruments and appliances;
- Catheters, drains, and other expendable materials

State and Private Medical Infrastructure in Azerbaijan

State medical organizations include specialized facilities such as tuberculosis hospitals and dispensaries, psychiatric clinics, an ambulance service, emergency clinics, dental clinics, blood transfusion stations, and sanitary epidemiological stations. The most widespread diseases in Azerbaijan include respiratory infections, cardiovascular diseases, and tuberculosis. Tuberculosis remains a major problem in Azerbaijan as it does in the region -- an average of 50 people per 100,000 are believed to carry this disease) and. As of October 1, 2001 315 HIV-positive Azerbaijan citizens had been registered. Endemic goiter is also widespread in the Azeri population.

Below is statistical information on the network of medical establishments**,** submitted by the Ministry of Health in 2004:

Statistical Overview of Medical Infrastructure in Azerbaijan, 1999-2004

Number	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
Number of hospital establishments	714	714	714	713	719	724
Number of hospital beds	65864	64723	64612	63809	64928	65756
Central districts hospitals (CD)	63	63	61	62	64	65
Available beds at CD hospitals	14401	14721	13916	14223	14690	14802
Rural local hospitals (RL)	365	366	354	360	362	369
Available beds at RL hospitals	11985	11925	11711	11867	11878	12004
Number of year-round sanatoriums	23	24	24	25	27	30
Sanatoriums specialized in TB treatment	10	9	9	10	11	10
Number of infant orphanages	4	4	4	4	4	4
Available beds in these orphanages	400	400	400	420	420	410

Statistical Overview of Outpatient and Clinic Services, 1999-2004

Number	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
Number of clinic departments of hospitals and maternity wards	595	597	597	604	602	605
Number of independent clinics and emergency wards	836	834	840	842	850	852
Number of rural emergency wards	685	685	685	682	679	679
Number of medical posts	97	110	123	119	126	128
Number of dental clinics	48	49	57	59	61	63
Number of anti-tuberculosis dispensaries	29	25	25	26	26	26
Number of oncological dispensaries	8	8	8	8	7	7

Number of dermatovenerologic dispensaries	20	20	21	21	20	20
Number of psychoneurologic dispensaries	11	11	11	11	12	12
Number of endocrinology dispensaries	5	5	5	5	5	5
Number of physical rehabilitation dispensaries	8	8	8	8	8	8
Number of narcological dispensaries	9	9	9	10	10	10
Number of cardiological dispensaries	4	4	5	5	5	5
Number of clinical departments of hospitals and dispensaries	1573	1573	1573	1565	1564	1564
Number of first-aid stations – total	69	70	79	86	86	86
Number of independent stations	26	29	29	29	29	29
Number of sanitary departments	89	89	90	90	90	90
Number of medical assistant's posts	155	148	140	136	132	128
Number of medical obstetric posts	1817	1847	1824	1837	1831	1846

State clinics and hospitals are directly managed by the Ministry of Health and are financed by the state budget. Procurement of new, modern equipment in public hospitals is complicated due to lack of financing. U.S. firms should concentrate on well-funded public hospitals and private clinics for sales opportunities. Public healthcare institutions must provide certain types of medical assistance free of charge. These services include pediatric care, emergency and trauma care, emergency dental assistance, and treatment of tuberculosis and AIDS. For all other services, including diagnostics, consultations, and laboratory exams, patients must pay directly from their own pockets. Medical insurance beyond the dysfunctional state system is not widespread in Azerbaijan, resulting in a “cash business” for many private clinics and hospitals that have the personnel and equipment to do the job.

State hospitals and clinics financed by the state budget and managed by the Ministry of Health procure equipment through the Ministry’s procurement division, but are also eligible to apply to local importers. Given the bureaucracy in Azerbaijan, the U.S. Department of Commerce advises U.S. exporters to work directly with the importer and bypass as much red tape as possible. Most equipment in state-run Azeri medical institutions is old, having been purchased and installed over ten to fifteen years ago. There is a strong tendency for patients to transfer from public hospitals and clinics to private or well-funded, government-affiliated ones for better service despite higher prices. U.S. companies are advised to follow this market to make the sale.

There are specific government-affiliated hospitals well-financed by different state organizations. These hospitals serve various government personnel for free, but charge for walk-in clients. These hospitals’ purchasing power is relatively high given the financing of profitable state organizations. A short list of these organizations follows:

The United Hospital of Oil Prospectors

The United Hospital of Oil Prospectors is financed by the State Oil Company of the Azerbaijan Republic (SOCAR), with over USD 2.5 million invested in a recent renovation of the facility. United Hospital services more than 70,000 SOCAR employees. This versatile 500-bed hospital has strong prospects for growth given the expanding oil sector and SOCAR’s strong financial position.

Caspian Maritime Hospital

The Caspian Maritime Hospital is financed by the Caspian Shipping Company (CASPAR), a state-owned monopoly in shipping services throughout the Caspian Sea and beyond. The Caspian Maritime Hospital is a complex of four hospitals (one for children), four clinics and one sanitary epidemiological station located in Baku and three coastal regions of Azerbaijan. Its General Hospital in Baku has 650 beds. This hospital is identified as the best in the country for endoscopic invasive surgeries.

Central Clinic Hospital (CCH)

The Central Clinic Hospital is a new 110-bed facility that opened in 2001. The Central Clinic was previously a hospital for Soviet VIPs and government officials. It was fully renovated by the Turkish company AHSEL in 2000-2001. Total investment in the hospital was over USD 30 million, secured through export credit agencies for a period up to twenty-five years. This is a multi-profile hospital, offering a wide range of services. CCH is state-owned, however the Turkish medical company AYMED operates the hospital.

Many doctors have received training in Turkey. Almost all the equipment is state-of-the-art equipment from Siemens. Expendable materials and supplies are sourced from the U.S., Germany, France and Turkey.

The small but growing private medical sector is made up of small, limited profile clinics, which are targeted mostly toward wealthy Azeri citizens and expatriates living in Baku. The procurement capability of those clinics is high but limited due to the narrow range of services they offer. Most state and private clinics source equipment directly from the manufacturers and distributors, which tend to be from Europe (specifically Turkey and Russia), and the United Arab Emirates.

In June 2001, the World Bank approved the Azerbaijan Health Reform Project for USD 5 million. The project is composed of three components: setting up of prophylactic centers in the districts of Khachmaz, Shamkir, Salyan, Geychay and Sharur ($3.63 million); strengthening of the Health Ministry's reform plan ($0.87 million) and support of the project management group ($1 million). Funding for the project, worth $5.5 million in total, will be provided largely from the World Bank, with a small portion from the Government of Azerbaijan. The World Bank Group Health Reform Project for Azerbaijan aims to test ways to strengthen and reform district primary health care services.

SWOT Analysis of the Azeri Medical Market

Strengths:

1. Need for top quality medical equipment and services: suppliers should recognize the need for top quality materials, with preference for U.S. and European brand names.

2. Growth likely in the medical equipment market given rapid economic expansion due to the massive international investment in Azerbaijan’s oil and gas wealth. Azerbaijan’s established oil and gas sector will also continue to expand, opening up new opportunities for private clinics serving oil and gas companies.

3. No domestic production of medical equipment in Azerbaijan. This opens opportunities for U.S. suppliers. Some medical equipment suppliers are interested in externally financed multi-functional, turn key production facilities for plastic based medical equipment like hypodermic needles, catheters and syringes.

4. Pharmaceutical products are duty-free. Medical equipment is subject to 0%, 0,5%, 3% and 5% ad valorem custom duties.

5. Low operating costs, including rent, labor, etc.

Weaknesses:

1. Low purchasing power: Azeri importers often lack strong financial backing. Purchases are based on private capital thus limiting longer-term purchasing power. A letter of credit confirmed by a Western bank is strongly recommended for any initial transaction with an Azeri importer. Although U.S. manufacturers enjoy name recognition and a reputation for high quality, the current purchasing power of Azerbaijani entities is very low. However, Azeri importers are also interested in low-cost refurbished equipment.

2. Poor access to reasonably priced credit: as the risk environment is high, banks do not offer very good credit terms.

Opportunities:

1. Following the collapse of the Soviet Union, reforms in the Azeri healthcare industry led to major restructuring in public and private sectors.

2. Major tenders for onshore and offshore field development as well as pipeline transportation are expected from various oil and gas consortia in the 2005-2006 period.

3. Baku is ideally situated as a business development hub throughout the Caspian region, with air, rail, sea, and road links for market projection into the Caucasus and Central Asia.

4. Azeri firms are interested in establishing long-term relations with U.S. suppliers.

5. The U.S. Overseas Private Investment Corporation (OPIC – www.opic.gov) is interested in developing commercially-viable projects in Azerbaijan when a U.S. equity investor in present, and U.S. investors should keep this in mind during project planning.

Threats:

1. Legislative, customs, and tax environments are challenging and make doing business in Azerbaijan difficult.

2. Third country competition: German, Japanese, French, Russian, and Turkish firms have strong market share and developed distribution networks.

   a. Russian-made equipment is usually purchased by state financed public hospitals due to its low price. Given historical links with Moscow, Russian medical schools also influence buying decisions given the large amount of Azeri specialists trained in Russia. For more than 70 years, Azerbaijani public hospitals and clinics were able to purchase only Soviet equipment. Azeri doctors are still familiar with Russian equipment brands, trust their quality and in some cases would probably go for the new model of the same equipment they have had in their hospitals for a long time. This bias to buy Russian should be considered and factored into a sales pitch, which could include Russian-language materials, training sessions, etc.

   b. Japanese medical equipment, especially Aloka and Shimadzu brands are also popular among public and private medical institutions. Quality and comparably low prices make Japanese equipment attractive for local hospitals and clinics. A recent USD 5 million Japan International Corporation Agency (JICA) assistance project will study equipment installation in two public maternity and children hospitals. Most of the equipment to be installed is Japanese origin. There is no representative office for Japanese equipment in Azerbaijan, but local medical importers work through regional offices in Russia and Western Europe.

Into 2001, German-sourced medical equipment dominated the Azeri market. Siemens has a strong market share among state and private clinics in Azerbaijan. Siemens supplied much of the equipment to the Central Clinical Hospital, and AKA bank (Ausfuhrkredit – Gesellschaft GMBH - a union of 35 German Banks supporting German and European export projects) received a USD 12 million sovereign secured credit for the CCH order.

Price Construct to Baku, Customs Clearance and Market Access

U.S. exporters should consider the following when doing a price construct for the Azeri market: customs and import duties are generally about 10-15%, plus 18% VAT. As noted above, pharmaceutical products are freed from any custom duties and medical equipment is subject to 0%, 0,5%, 3% and 5% ad valorem custom duties. To avoid unnecessary customs delays, let the Azeri importer handle the customs clearance. A 20 foot container of general, non-hazardous cargo from Baltimore to Baku is on average $4,000 per container. Transit time is approximately 35-40 days, via Poti, Georgia.

To export medical equipment into the Azerbaijani market you will need the following documents:

- License for the medical equipment import, issued by the Ministry of Health valid for a period of three years (this is usually handled by the importer);
- Contract betwen inporter and supplier, registered in the Ministry of Economic Development;
- Written approval of the Ministry of Health for the particular type of equipment to be imported;
- Invoice;
- Bill of lading.

These documents will be claimed by Azeri customs prior to import into Azerbaijan.
If the import of the equipment is done by a hospital or clinic for its own use, there is no need for an import license, as the Ministry of Health assumes the procurement action for the hospital's needs. Dealing with state authorities on document preparation, customs clearances, and certification is a challenging process in Azerbaijan. We strongly recomend U.S. companies work through local importers, as their experience can help cut the red tape.

Advertising is also a very important issue. There are only a few medical magazines in Azerbaijan and their circulation is limited. As many Azeris are bilingual, Russian medical periodicals are very popular and are considered informative in all aspects. During Soviet times, most Azeri medical specialists were educated and trained in Russia. American companies can leverage this by using their offices in Russia to help them enter the Azerbaijani market. Familiarity with the Russian language and short shipment times from Russia to Azerbaijan will also speed up the deal. The Internet is also a very good source of information for importing companies and for the procurement divisions of hospitals and clinics.

Baku International Healthcare Exhibition (BIHE 2005) – November 2-5, 2005

BIHE (Baku International Healthcare Exhibition) is held annually and is the only specialized medical exhibition in the country. It is organized by the British exhibition company ITE Group PLC. ITE's partner in Azerbaijan is Iteca Caspian Ltd. BIHE has been held since 1995 and more than 60 companies from Azerbaijan, Russia, Israel, Turkey and the U.S. exhibited at BIHE 2004. That year the exhibition received about 12,000 visitors, an increase of 20% over the previous year. The Ministry of Health officially supports BIHE.

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