

7 Summary of findings

This study has attempted to understand the extent to which there is FDI presence in the hospitals segment of India's healthcare sector and how this presence is affecting the sector at large. One of the main findings of this study is that despite the opening up of hospitals to 100 percent FDI participation under automatic route and despite quite a few approved FDI hospitals, there are very few such hospitals in reality. While it is difficult to give exact numbers on the ground, according to some experts there are at most three or four such hospitals. However, if one takes an expanded view of foreign financing to include other modes of funding (partly in keeping with regulatory treatment of these other modes under FDI), which include FII, private equity, IPOs, multilateral development agency funding, external commercial borrowing, and venture capital, then one finds that these alternate modes, and in particular private equity funding is more prevalent than FDI funding (although domestic debt remains an important source of financing for most hospitals). This preference suggests that there are issues affecting the hospital segment, which make it less attractive for long term FDI kind of investment as opposed to other forms of foreign financing.

The study also finds that the long gestation period of investment in hospitals, the relatively low rates of return compared to that in many other high growth sectors impede FDI in this area. While external factors influence foreign investors in their decision to invest in this segment, the main factors that influence overall profitability of hospitals pertain to domestic factors, in particular:

- High upfront costs due to physical infrastructure (land) constraints;
- High input costs for medical devices and technology resulting from reliance on imports, the structure of this industry, and lack of local manufacturing capacity;
- Manpower constraints in terms of quantity and quality arising from inappropriate regulations on medical education suppliers and inadequacies in medical education;
- The low level of insurance penetration resulting from limited opening up of the insurance sector and lack of a universal health insurance scheme to make healthcare affordable to a larger number of people;
- Other regulatory inadequacies affecting standards and practices in healthcare establishment, and
- Lack of policy clarity and thrust on healthcare as a priority area.

In terms of the impact of foreign investment, the usual positive implications such as infrastructure development, increased capacity, improved standards and available technology, and various spillover benefits emerge from the discussions. In terms of negative implications, the usual concern areas such as higher costs and greater segmentation between the public and private players and greater geographic segmentation are highlighted.

The survey results, albeit limited by the small number of hospitals covered, no major difference is apparent on the cost front while differences emerge in terms of the nature of treatment and orientation of the for profit corporate hospitals, in terms of being more technology and intervention oriented, more dependent on high end and specialized equipment and personnel, and utilizing their working capital more intensively. The survey results also reveal that such hospitals are likely to create higher paying jobs and thus are likely to attract good quality persons from existing institutions, especially in the public sector and the smaller and mid size establishments. Thus some inferences can be drawn about the likely positive impact of greater foreign investor presence in

terms of technology investments, greater availability of high end and specialized procedures, and improved quality of persons, with possible negative impact in terms of resource diversion and greater competition for smaller and public sector establishments.

But on the negative side, it is evident that such hospitals do not address the geographic divide that exists in healthcare delivery in India, i.e., the divide between rural and urban areas and between regions across the country, notwithstanding some efforts at corporate social responsibility and telemedicine. This is because all players want to locate where supporting infrastructure already exists and there is a paying population. It also emerges that such hospitals tend to provide less personalized care and substitute such care with technology. Such hospitals also lead to further competition for quality manpower, which is already in short supply, and thus are likely to drive up wages and possibly costs of services.

The analysis suggests that India should make a full commitment on mode 3 in hospitals, the main reason being that such a commitment would give predictability to the policy environment, which is currently lacking. Moreover, additional investment with perhaps some conditions in terms of technology transfer and corporate social responsibility or outreach activities is likely to be beneficial overall. Policy space can be reserved through such additional conditions and by continuing to exclude publicly funded institutions from the ambit of the commitments. However, the study also highlights the fact that making a binding commitment would not automatically lead to huge additional investment given the many constraints plaguing this sector.

The study also throws up several policy measures required by government and initiatives required by private players to make the hospital segment more attractive to both domestic and foreign investors if the ultimate aim is to expand capacity, improve standards, and make healthcare affordable and accessible to a wider segment. Some of these measures include:

- Facilitating land acquisition- some subsidization of initial project costs or PPP arrangements with possible cost discounting or cross subsidization arrangements built into the valuation of land;
- Consider other forms of obtaining land- through leasing arrangements, joint development with real estate developers and arrangements with public sector units owning land and hospital facilities and government facilitation of such arrangements;
- Freeing up medical education and encouraging private hospitals to enter into medical education and training to expand the supply of medical personnel at all levels
- Incentivising domestic manufacturing of medical devices and technologies through increased investment in this sector and tie-ups with foreign companies and efforts to standardize output
- Opening up the health insurance sector to enable greater scrutiny of processes and standards of hospitals, which would also help attract foreign funds, as well as introduction of a national or community based health insurance scheme to increase affordability of healthcare and mitigate potential adverse effects of corporatization on equity;
- Improving the regulatory framework for health insurance by standardizing norms for payouts, coverage, reduce malpractice;
- Facilitating public private partnerships in hospitals, with private sector hospitals entering into limited period management contracts with public hospitals, under well-defined revenue sharing arrangement, along with CSR responsibilities through cross subsidization mechanisms

- Greater sharing of resources (equipment, knowledge, research facilities) between public and private hospitals and between larger private hospitals and smaller local players
- Establishing a regulatory framework and an independent regulator in the healthcare sector to address issues of standardization, classification, information disclosure, etc.; and,
- Improved regulation and monitoring of mid and small size establishments to improve standards and quality, weed out substandard establishments, and enable consolidation in healthcare delivery.

It needs to be pointed out that there have been repeated demands to grant infrastructure status to the healthcare sector so as to facilitate access to viability gap financing and improve cash flows for private players; the study finds that there are practical difficulties in implementing this proposal. The main problem is that the sector lacks a supra-regulatory body, unlike sectors such as transport, ports, and telecom. In order to get infrastructure status, the existence of such a regulatory body is required. The feasibility of setting up such a body may be questioned given there are incumbents such as the Medical Council of India and there are likely to be conflicts of interest with regard to regulatory jurisdiction. The real issue as highlighted by this study is not whether the industry gets infrastructure status but the availability of cheaper domestic financing and tax benefits in view of the long gestation of hospital projects, both of which are possible on a case-to-case basis, even without infrastructure status.

The study also reveals that the maturity of the healthcare market is an important determinant of how successful a country is in attracting foreign investment into hospitals. Corporate hospitals need to be seen as delivering to not only surgical and critical care but also for chronic and preventive care in the consumer mindset. As put by one expert, “Healthcare business is still doctor driven in many parts and has not achieved the brand status the other services have. This could be a major impediment for companies to come in and do business.” Thus, the very model of healthcare delivery as perceived by consumers needs to change and this can in part be facilitated by increased insurance penetration and greater affordability of healthcare.

To conclude, it is hoped that the findings of this study and its conclusions will help the government to formulate its strategy under the GATS and also provide the requisite enabling environment to take advantage of liberalization in the healthcare sector. The study shows clearly that without a proactive role by government in terms of initiating domestic reforms in the healthcare sector and creating an enabling environment, the benefits of liberalization may not materialize.