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FDI IN INDIAN HEALTH CARE: REAL ESTATE A ROAD BLOCK?

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Abstract
With the manifold augmentation of the Indian healthcare system over the past few years keeping pace with the swift growth of population becomes a major challenge staying abreast with the current technological development and the huge investment it loads, paves way for a study of a better management of the issues related. The world average of a four beds per 1000 population is far to reach, in a country like India where it still lags behind with less than one currently, the difference instead of merging with four is moving the other side with population growth, with other issues escalating along with this it stands up as major concern.

Reaching that high a standard means a colossal amount of investment in the sector, which the government cannot contribute completely and the onus lies on private investors and funding agencies. This creates an opportunity for foreign inflow of money.

Foreign Direct Investment, though allowed for 100% in healthcare in India still remains far from reach with many hurdles associated with the inflow of capital and land being one of the major road blocks in the implementation of the same.

The present paper discusses about the availability of this scarce resource LAND in creating or hampering the business opportunity in the healthcare sector. The rules and regulations that stand as a binding factor. And the huge market it promises for the investor.

Key Words: Hospitals, Foreign Investment, Land, Private Investors.

Introduction

Foreign direct investment (FDI) is a key driver of international economic integration. With theright policy framework, FDI can provide financial stability, promote economic development and enhance the well being of societies.Foreign Direct Investment (FDI) is now recognized as an important driver of growth in the country.Government is, therefore, making all efforts to attract and facilitate FDI and investment from NonResident (NRIs) including Overseas Corporate Bodies (OCBs) that are predominantly owned bythem, to complement and supplement domestic investment. To make the investment in Indiaattractive, investment and returns on them are freely repatriable, except where the approval is subject to specific conditions.

The main drivers of growth in the healthcare sector are India’s booming population; growing middle class; increasing purchasing power; growth in infectious, chronic degenerative and lifestyle diseases; and rising awareness of personal healthcare.

Market Size

The hospital and diagnostics centre in India received foreign direct investment (FDI) worth US$ 1,597.33 million, while drugs & pharmaceutical and medical & surgical appliances industry registered FDI worth US$ 10,318.17 million and US$ 622.99 million, respectively during April 2000 to March 2013, according to data provided by Department of Industrial Policy and Promotion (DIPP).

MajorPlayers

Many foreign players have entered the Indian healthcare market due to the large market. Some of these foreign players are Pacific Healthcare of Singapore, which is a JV with Vital Healthcare in Hyderabad; Columbia Asia Group, a Seattle-based hospital services company; Wockhardt Hospitals; Steris, a US-based medical equipment company that has set up a wholly-owned arm in India; and Amcare Labs, an affiliate of Johns Hopkins International of the US, which has set up a diagnostic laboratory in Hyderabad through a JV with the Apollo Group.

Domestic hospitals have a long-standing reputation in the healthcare sector; some of the prominent private Indian hospital chains that offer world-class medical treatment include Max Healthcare, Fortis, Escorts Healthcare, Moolchand Hospital, Manipal Group of Hospitals, Woodlands Multispeciality Hospital, Anandlok Hospital, Jitendra Narayan Ray SishuSeva Bhavan and General Hospital, Apollo Group of Hospitals, Sarvodaya Hospital, Suguna Ramaiah Hospital, Chinmaya Mission Hospital, Manipal Hospitals, Narayana Hrudayalaya, CSI Kalyani General Hospital, KHM Hospitals, Kumaran Hospitals, P. D. Hinduja National Hospital, Joy Hospital, Sir H. N. Hospital and Research Centre, Sowmya Hospital, etc.

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Literature Review

Foreign direct investment (FDI) is a key element in this rapidly evolving internationaleconomic integration, also referred to as globalisation. FDI provides a means for creating direct,stable and long-lasting links between economies. Under the right policy environment, it canserve as an important vehicle for local enterprise development, and it may also help improvethe competitive position of both the recipient ("host") and the investing ("home") economy. Inparticular, FDI encourages the transfer of technology and know-how between economies. Italso provides an opportunity for the host economy to promote its products more widely ininternational markets. FDI, in addition to its positive effect on the development ofinternational trade, is an important source of capital for a range of host and home economies.

The significant growth in the level of FDI in recent decades, and its internationalpervasiveness, reflect both an increase in the size and number of individual FDItransactions, as well as the growing diversification of enterprises across economies andindustrial sectors. (OECD benchmark definitions).

Dr.sarvamangala (2013) in her paper 'An Analytical Study of Foreign Direct Investment in Indian Health care sectors' identifies that majority of investors prefer urban areas as location for investing into healthcare and hospitals in particular are a lucarative source for their investment.

"As incomes rise and the number of available financing options in terms of health insurance policies increase, consumers have become more and more engaged in making informed decisions about their health and are well aware of the costs associated with those decisions. In order to remain competitive, healthcare providers are now not only looking at improving operational efficiency, but are also looking at ways of enhancing patient experience overall". Opines Dr. B. K. Rao, chairman of Sir Ganga Ram Hospital.

Definition: Foreign Direct Investment

Foreign direct investment enterprise is defined as "an incorporated or unincorporatedenterprise in which a foreign investor owns 10 per cent or more of the ordinary sharesor voting power of an incorporated enterprise or the equivalent of an unincorporatedenterprise" (Direct Investment Technical Expert Group).

Finance Minister P Chidambaram in his Budgetary proposals intending to follow international standard for defining FDI and FII says "where an investor has a stake of 10 per cent or less in a company, it will be treated as FII and, where an investor has a stake of more than 10 per cent, it will be treated as FDI".

FDI is defined as cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the enterprise. Ownership of at least 10% of the voting power, representing the influence by the investor, is the basic criterion used.

Indian Real Estate: A Definition

The term 'real estate' covers the sale, purchase and development of land and residential and commercial buildings, including offices, trading spaces such as theatres, hotels, restaurants and retail outlets, hospitals and care homes infrastructure projects such as bridges, ports and highways, industrial building such as factories, and government buildings.

Land: A Definition

Land includes benefits to arise out of land, and things attached to the earth or permanently fastened to anything attached to the earth." LARR BILL.

Objective of The Study

The objectives of the study are to provide the current status of legislations relating to land availability and its allocation to Hospitals with FDI and to identify some of the challenges and opportunities for Foreign Direct Investments in healthcare sector.

Methodology

The paper intends to study the Foriegn Direct Investment in Indian healthcare sector with specific interest of land and its related issues.

The study is descriptive in nature and based on the secondary data that is gathered from the books, various articles and reports from the authorized departments.

Need For The Study

India is a continent occupying 2.4% of the land mass with 15% of the world population. Eighty per cent of the latter are in the far flung villages where medical care is hardly existent. Of the 592,215 doctors registered in the Medical Council of India more than 80% work in the urban centres while 80% of Indians live in the villages (**BM Hegde**, BMJ).

The main drivers of growth in the healthcare sector are India’s booming population; growing middle class; increasing purchasing power; growth in infectious, chronic degenerative and lifestyle diseases; and rising awareness of personal healthcare. Starting from a baseline of less than $1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012.

Sector Overview

The Indian healthcare industry is expected to reach USD 280 billion by 2020. Large investments by private sector players are likely to contribute significantly to the development of India’s hospital industry, which comprises around 80% of the total market, according to the report ‘Indian Hospital Services Market Outlook’ by consultancy RNCOS. As per estimates by ratings agency Fitch, the sector is poised to grow to USD 100 billion by the year 2015 and further to USD 275.6 billion by 2020.

The Indian healthcare sector comprises the sub-sectors of hospitals, medical infrastructure, medical devices, clinical trials, outsourcing, telemedicine, health insurance and medical equipment. India presently has 0.5 million doctors, 0.9 million nurses and around 1.37 million beds, and has the highest number of medical and nursing colleges, at 303 and 3,904, respectively. In addition, the cost of medical treatment in India is one-tenth that compared to costs in the US and Europe.

The hospital and diagnostics centre in India received foreign direct investment (FDI) worth US$ 1,597.33 million, during April 2000 to March 2013, according to data provided by Department of Industrial Policy and Promotion (DIPP).

Discussion

The concentration (about 75%) of health infrastructure, medical manpower and other health resources is in urban areas, where a bare 27% of the population locates. Further the shifting demographics, disease profiles and the swing from chronic to lifestyle diseases in the country has led to enlarged expenses on healthcare delivery. Regardless of this, the bulk population of the country suffers from a poor standard of healthcare infrastructure which has not kept up with the growing economy. Although centres of excellence in healthcare delivery do exist, these facilities are limited to the large metros and are therefore insufficient in meeting the current healthcare burden.

By the year 2020, the country's population will have grown to 1.3 billion and by 2050, it will have crossed the 1.6 billion mark. To serve the estimated additional 200 million people in the next 10 years, an additional 600,000 hospital beds will be needed. Add to this the current shortfall of two million beds. This means, a total of 2.6 million additional beds in the next 10 years, which translates to an average demand of 260,000 beds every year. So how many more hospitals will India need to build in the next decade? Assuming an average of 250 beds per hospital, India will need to build nearly 1000 hospitals annually. This, of course, is a simplistic estimation, but it gives us a fairly good idea of the magnitude of the hospital bed demand the country is expected to be faced with in the coming years.

Dr. Rupa Chanda in her report on FDI in the healthcare sector commissioned by the World Health Organisation and the Ministry of Health, Government of India has pointed out that difficulty in acquiring large tracts of land especially in big cities, escalating and prohibitive land prices at favorable locations and non-availability of institutional land at a discount for non-trust or non-society modes of operation as the major constraints in attracting foreign investors

Foreign direct investment incentives may take the following forms:

1. low corporate tax and individual income tax rates.
2. tax holidays.
3. other types of tax concessions.
4. preferential tariffs.
5. special economic zones.
6. EPZ – Export Processing Zones.
7. Bonded Warehouses.
8. investment financial subsidies.
9. soft loan or loan guarantees.
10. free land or land subsidies.
11. relocation & expatriation.
12. infrastructure subsidies.

13. R&D support.
14. derogation from regulations (usually for very large projects).

Regulatory Norms

Regulations Binding Foreign Investment In Hospitals

1. **Land Acquisition Act, 1894:** This Actauthorises governments to acquireland for public purposes, such asplanned development, provisions fortown or rural planning, provision forresidential purposes for the poor orlandless, and for carrying out anygovernment education, housing orhealth scheme. In its present form,the Act hinders speedy acquisition ofland at reasonable prices, resulting incost overruns.
2. **Real Estate And Construction:** only NRI and PIOs were allowed to make FDI. Restrictions were levied even on that. After the amendments (2005) on the rules governing, 100% FDI is allowed in real estate and construction
3. **Private Equity Issue To Foreign Investors:** The equity instruments should be issued within180 days from the date of receipt of the inward remittance or by debit to the NRE/FCNR(B)account of the non-resident investor. In case,the equity instruments are not issued within180 days from the date of receipt of the inwardremittance or date of debit to the NRE/FCNR(B) account, the amount of considerationso received should be refunded immediately tothe non-resident investor by outward remittancethrough normal banking channels or by credit tothe NRE/FCNR(B) account, as the case may be.
4. **Rules For A Foreign Project**
   a. Minimum area to be developed is 50,000 sqmtrs.
   b. Minimum capitalization of US$ 10Million for wholly owned subsidiaries and US$5 Million for joint ventures with Indianpartners. The funds would have to be brought inwithin six months of commencement ofbusiness of the Company.
   c. Original investment cannot be repatriatedbefore a period of three years fromcompletion of minimum capitalization.However, the investor may be permitted toexit earlier with prior approval of theGovernment through the FIPB.
   d. Original investment cannot be repatriatedbefore a period of three years fromcompletion of minimum capitalization.However, the investor may be permitted toexit earlier with prior approval of theGovernment through the FIPB.
   e. At least 50% of the project must be developedwithin a period of five years from the date ofobtaining all statutory clearances.

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Conclusion

In a country like India where resources are meager, adequate provision of a proper healthcare to one and all only by the government is practically impossible. With private players joining their hands to cater to this basic need of a common man will provide a solution to the existing problem, eventually benefiting the entire society. For a foreign investor and their counterpart in India this marathon with many hurdles of legislations becomes a tiring race which often ends up unfinished. The Indian government is keen to simplify most of the legislations and so far has done many of them. To encourage the growth of this sector steps should be taken towards the right direction that it makes economic sense both for the investor and benefit to the society at large

List of Abbreviations

NRI -non residentindian
DITEG -Direct Investment Technical Expert Group
FDI -Foreign Direct Investment
PIO - person of Indian Origin
UNCTAD - United Nations Conference on Trade and Development
OCB -Overseas Corporate Bodies
DIPP -Department of Industrial Policy and Promotion

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