

Trends and Patterns of Health Expenditure in India

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Abstract

Accessing the health system requires out-of pocket spending for many of India's poor, which leads to augmented poverty. Further, India's socio-economic status is poorly reflected in the Human Development Index (HDI) 2010, which ranked India only in 119th place in terms of human development. To propel the process of structural transformation, rejuvenation of healthcare facilities is imperative which in turn calls for increased health expenditure. Against this setting, the paper attempts to examine the trends of health expenditure in India over the last few decades.

The analysis reveals that, levels of public spending on healthcare in India are amongst the lowest in the world. Further, the paper attempts to ascertain that the state has a significant role to play in the delivery of health services in India. The purpose of this paper is to study the rationale behind promoting regulated private expenditure for the development of effective health infrastructure.

Overall, health expenditure is affected by host of structural deficiencies, most importantly the looming reliance on private sector investment and foreign donors. The paper aims to suggest relevant measures to improve the role of government in providing world class health facilities to the needy at an affordable price including health insurance schemes and increased budgetary allocation at both national and state government levels.

Key Words: Health, public-private expenditure, development, government

Introduction

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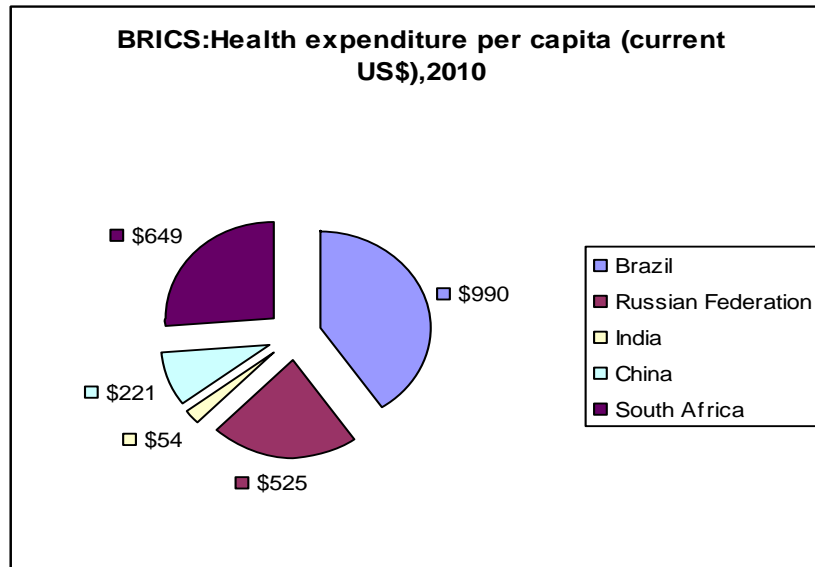
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Health is no longer treated as a mere by-product of economic development, but as one of the several key determinants of economic development and empowerment. The role of healthcare in improving a nation's wealth and spurring economic growth is well established. Improving health expenditure of a population can be beneficial for economic outcomes at the individual and the national level. Governments have a major role to play in providing and regulating health services particularly in developing countries with large concentration of the poor because health spending is a merit good. But health expenditure in India is dominated by private spending which not only result in out-of-pocket (OOP) spending but also adversely affects the current social welfare and labour productivity.

India's Per Capita Health Expenditure

The health sector challenges in India, like those in other developing countries, are formidable. India – together with Brazil, Russia China and South Africa – is one of the BRICS countries, which have been identified as taking on greater political and economic influence on the world stage. However, in terms of health expenditure, India's per capita health expenditure is far less than the other BRICS nations (Chart 1). Among BRICS, Brazil has recorded remarkable success in expanding its health coverage, to embark on health sector reforms. An important reason contributing to the slow progress in health sector in India is the poor access to primary and preventive health care services.

Chart 1



Source: World Health Organization, National Health Account database

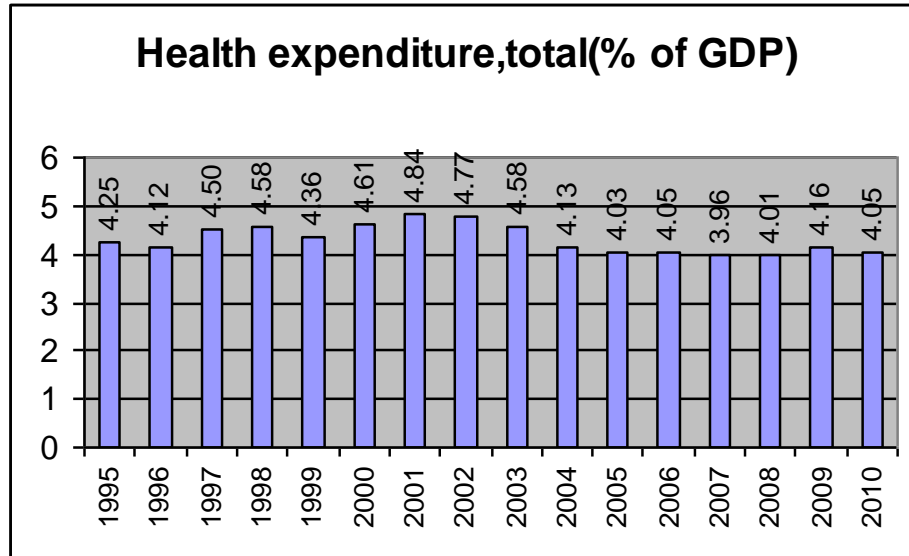
Status of Health Expenditure in India

Total health expenditure is the sum of public and private health expenditure. It covers the provision of health services (preventive and curative), family planning activities, nutrition activities, and emergency aid designated for health but does not include provision of water and sanitation (WHO 2010). Total healthcare expenditure in India was 4.2% of GDP in 2010 (Chart 2) which is more than its neighboring countries such as Pakistan and Sri Lanka, but far less than the European Union (EU) Member States expenditure on healthcare which typically accounts for about 9 % of GDP, having increased from about 7 % in 1980. Despite poor health indicators, spending on health care in India is well below what is required. The low levels of spending will have an adverse impact on the creation of a preventative health infrastructure.

Chart 2

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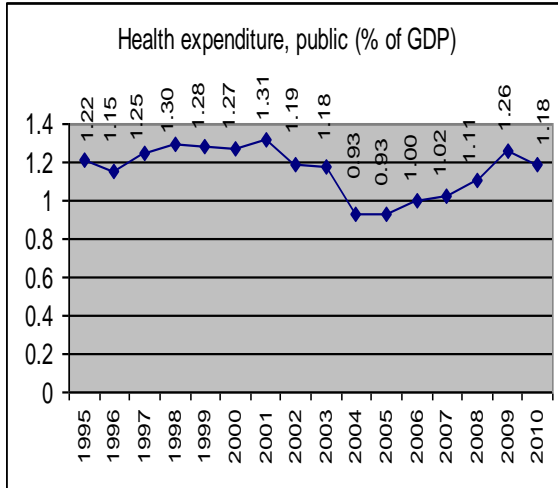
Source: World Health Organization, National Health Account database

Public Health Expenditure

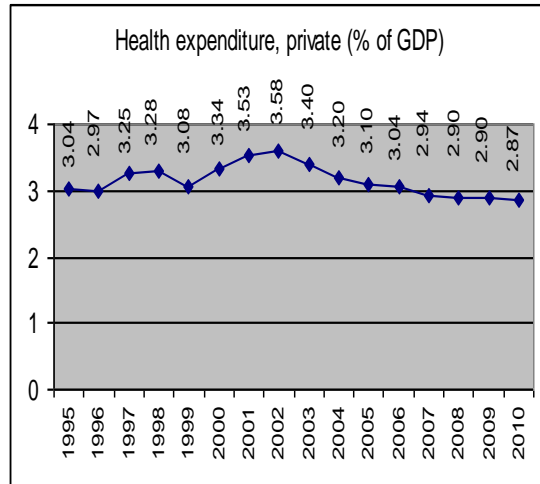
Public health expenditure by definition includes health expenditure by the Centre, States and local bodies. Public expenditure on health in India is around 1 per cent of GDP during the period 1995-2010 (Chart 3(A)) though health expenditure has increased in absolute terms, the proportionately higher growth of GDP has resulted in a moderate increase in the share of health expenditure to GDP over the years.

Chart 3(A)

Chart 3(B)



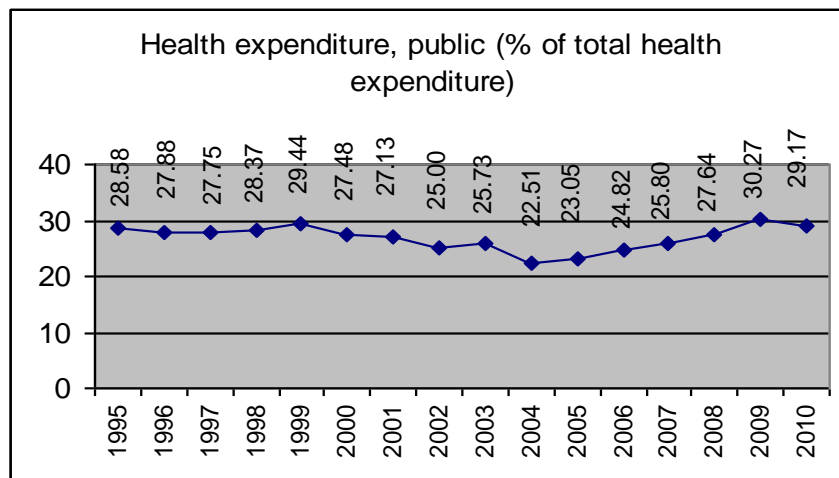
Source: WHO, National Health Account database



Source: WHO, National Health Account database

Total expenditure on health in India as a percentage of GDP was broadly in line with the level achieved in other countries at similar per capita income levels (*Planning Commission, mid-term appraisal XI plan*), but it is skewed too much in favour of private expenditure (Chart 3(B)). Despite efforts to increase public spending including the adoption of National Rural Health Mission (NRHM) in 2005 and the recent introduction of *Rashtriya Swasthya Bima Yojana (RSBY)*, the public health expenditure increased only marginally (Chart 4).

Chart 4



Source: World Health Organization, National Health Account database

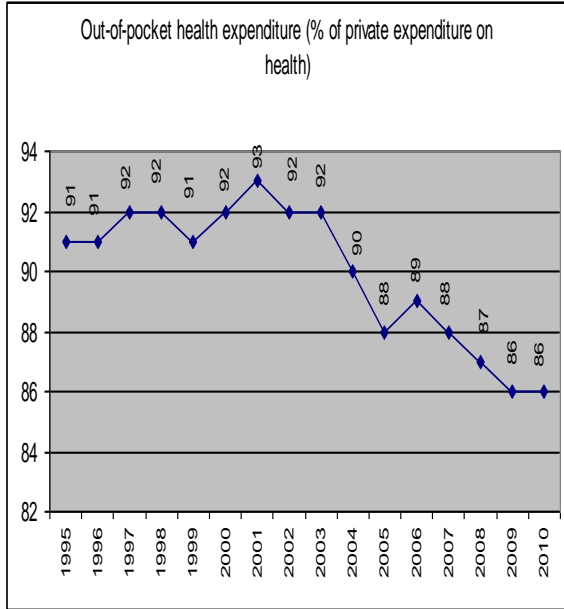
The value for Health expenditure, public (% of total health expenditure) in India was 29.17 as of 2010. As the chart above shows, over the past 15 years this indicator reached a maximum value of 30.27 in 2009 and a minimum value of 22.51 in 2004. The inadequate level of public health provision has forced the population to seek private health providers, resulting in substantial out-of-pocket (OOP) spending.

Role of Private Sector

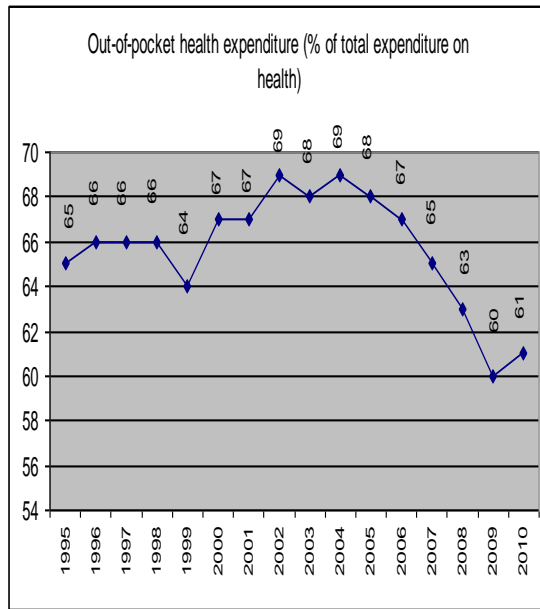
Private sector has an important role to play in the delivery of health services in India and expenditure in the private sector contributes to 70.8% of total health expenditure in 2010. Private health expenditure in India includes OOP, health insurance and expenditure towards health by firms and NGOs. Among all these components, out-of-pocket expenditure has the single largest share in the total health expenditure of the country (Chart 5(B)). Nearly 90 percent of the private expenditure in India was in the form of OOP expenditure on health by households (Chart 5(A)), a share that is one of the highest in Asia (Van Doorslaer and others, 2007). The high OOP expenditure has put an increasing financial burden on the poorer sections of the population due to the fact that the share of visits to private health facilities has increased in recent years (Rao and Choudhury 2012). OOP spending in India is over four times higher than the public spending on health care and out-of-pocket expenses are inherently regressive and puts a dis-proportionate burden for health care (WHO 2010).

Chart 5(A)

Chart 5(B)



Source: WHO, National Health Account database



Source: WHO, National Health Account database

Increase in private spending particularly OOP indicates that even poor households are willing to spend more to ensure minimal health care and on the other hand waning preference to access the public health services are due to their worsening quality of service and increase in user charges even in the public health system. Recent initiatives by the central and state government to augment public spending on health care have met with only limited success despite various efforts taken to offset the fiscal disabilities of the poorer states.

Healthcare under Concurrent List Functions

In India, the health sector falls under the concurrent list and for state government health expenditure, the financing responsibility primarily lies with that of the state government. The analysis of states health expenditure (public/private) in terms of per capita reveals low level of per capita public expenditure in most of the states except for few Union Territories and states of Arunachal Pradesh, J&K, Mizoram, Nagaland & Sikkim as their per capita private expenditure is three or four times more than the per capita public expenditure (Chart 6).

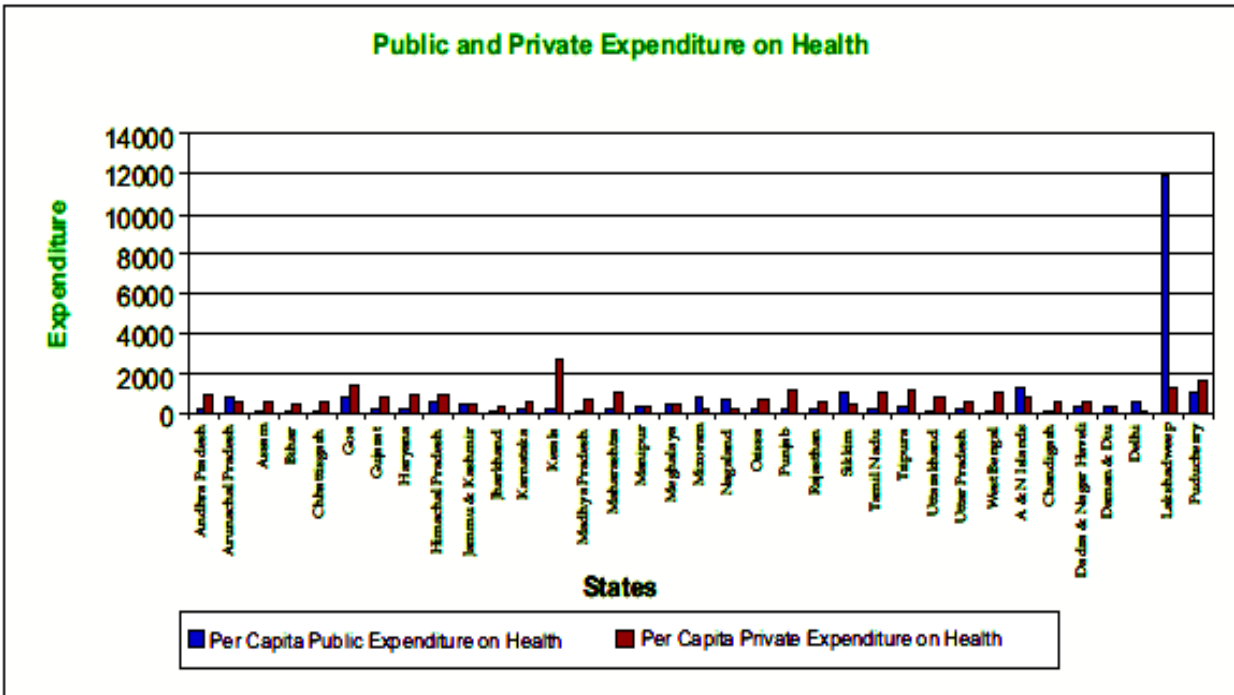
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Chart 6



Source: Adopted from National health profile 2010

Dominant Role of Private Health Sector

The overall trend of Indian health expenditure points out that both at the all India and state level, private sector is dominating and therefore it has a vital role to play in the delivery of health services in India. However it is essential that there is effective monitoring of these by government as it would result in heavy economic burden on poor specially marginalized communities/sections pushing them further down the economic ladder. This calls for increased public spending but in reality, there is no direct and clear relationship that can be made between government health expenditure and health outcomes of the people. However the expenditure on public health does have a direct impact on certain health indicators such as the spread of communicable diseases and

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further, slow progress of basic health indicators such as life expectancy at birth, infant mortality and maternal mortality, can be partly traced to insufficient public expenditure and intervention. Above all, World Bank estimate highlights that 2.2 % of India's population goes into poverty every year because of catastrophic health expenditure. All these warrant a slew of reforms to enhance public spending on healthcare and to channelize private expenditure.

Key Measures to Improve Health Expenditure

- (1) To address, the problem of low public spending, evidently the total outlay for healthcare has to increase both at national and state levels. Moreover, budgetary allocation made for health insurance scheme for the poor *Rashtriya Swasthya Bima Yojana* (RSBY) should also be increased to allow for more beneficiaries to be covered.
- (2) Regulatory reforms including enhancing the limit of Foreign Direct Investment (FDI) is necessary to stimulate private sector efforts in improving financial access to healthcare.
- (3) Providing tax incentives to employers and families to take up health insurance would also aid growth of this sector.
- (4) Creating a broad framework for public private partnership (PPP) model to meet the demand supply gap in healthcare.
- (5) The government should focus to promote the profitability of the private sector by providing tax incentives particularly for modern health care technologies.
- (6) Donors should opt for result based financing/management to be accompanied by measures improving accountabilities and incentivisation.

At the outset, it is clear that the active participation of government is considered necessary to increase public spending on healthcare delivery to meet the needs of its population – particularly the poorest of the poor. At the same time, the government needs

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to work more closely with the private sector to ensure quality control to fulfill its assurance to provide healthcare to all.

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