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INVESTING IN INDONESIAN HEALTHCARE

Opportunities for Australian businesses

Asia Taskforce is an initiative of

Business Council of Australia

Asia Society Australia

Knowledge partners

pwc

The University of Sydney Business School

BACKGROUND

This Discussion Paper has been prepared as part of a series of short reports on specific topics identified by the Business Council of Australia and Asia Society Asia Taskforce (Taskforce) together with Knowledge Partners PwC Australia and the University of Sydney Business School, to supplement the findings and recommendations contained in the Interim Report. One of the objectives of the Taskforce was to identify specific industry sectors and countries where Australia has a comparative advantage and where there is local demand.

The paper is intended to contribute to a discussion about how Australian capability and talent can be involved in helping Indonesia reach its economic potential. It provides a starting point for Australian healthcare businesses to define the opportunities and, perhaps most importantly, illustrate how organisations can navigate the inevitable risks by bringing the 'Team Australia' approach outlined in the Interim Report to life.

Key points:

In this Discussion Paper we aim to:

- Draw attention to the opportunities that the Indonesian Healthcare sector presents
- Outline the role that foreign investment has played and will play in funding Indonesia's healthcare needs
- Identify several specific areas in healthcare where Australian companies have comparative advantages
- Highlight the role that technology can play in the delivery of the Indonesian Government's healthcare objectives
- Highlight case studies of the real-life experience of Australian companies which have successfully entered the Indonesian healthcare market.

INTRODUCTION

The Indonesian economy has achieved consistent economic growth over the last two decades, delivering better social and economic outcomes for its large and ever-expanding population of around 270 million people.

Growth in GDP has hovered around 5 percent per year over the last two decades making Indonesia just the fifth Asian economy to join the US$ 1 trillion club. PwC projects that Indonesia will become the world's fourth largest economy by 2050, up from 16th place in 2017, overtaking a number of advanced economies including Japan, Germany and the United Kingdom.[1]

Ongoing urbanisation will support Indonesia's growth and economic advancements.[2] However, improving overall health outcomes is also a prerequisite for achieving higher and more equal growth.

Indonesia continues to grapple with a high national prevalence of child undernutrition and pronounced inequalities at a subnational level. This is linked to poorer educational outcomes and in the longer term, it is correlated with lower income levels as an adult. The burden of disease also remains high in Indonesia, which can impact the labour force through lower productivity.[3]

Indeed, healthcare is one area where Indonesia lags, with relatively low levels of spending on healthcare per capita. Unsurprisingly, this translates to lower capacity in healthcare infrastructure compared to its ASEAN peers and neighbours, and that of advanced economies. This is reflected in a number of key indicators, such as hospital beds and doctor-to-population ratios (see Table 1). The COVID-19 pandemic has put a further spotlight on these issues.

Although both government and private sector investment in healthcare has been rising, Indonesia still faces a steep hike in investment to improve health outcomes across the board, particularly as its population continues to grow, which will place additional demands on already under-resourced healthcare systems. Growing affluence brings further challenges in the form of a growing elderly population, chronic diseases, cancer and obesity, and higher expectations of standards of care.

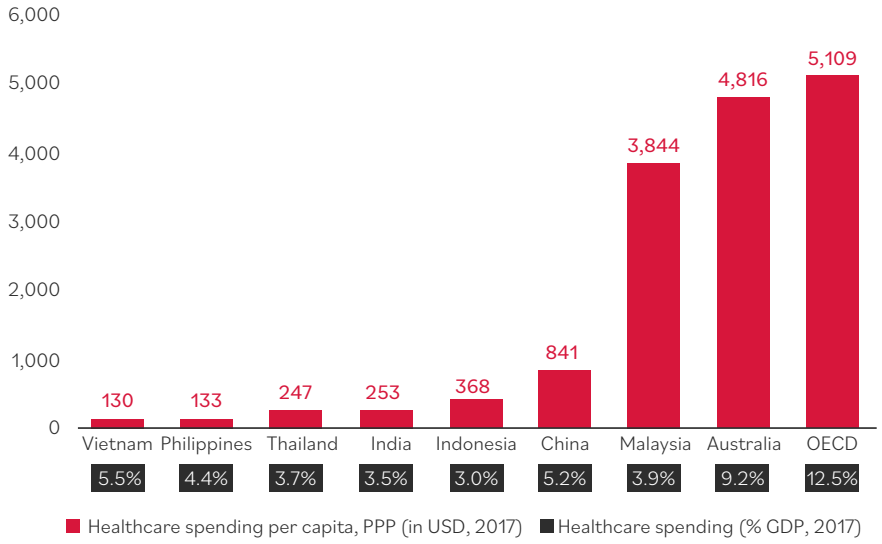
Researchers at Universities Indonesia (UI) estimate that the additional investment in health infrastructure (e.g. hospitals and medical facilities) amounts to between US$10.2 and US$16.4 billion per year, in order for Indonesia to achieve adequate capacity levels by 2030.[4] This represents a 20 to 30% uplift on current expenditure levels.

As a strategy to alleviate pressures on existing facilities going forward, the Government of Indonesia's (GoI) is aiming to strengthen primary healthcare as part of its Long-Term National Development Plan (Rencana Pembangunan Jangka Panjang Nasional/RPJMN) 2020-2024. It aims to do so by improving promotive and preventive efforts, particularly in the areas of mother and child health, productive health, nutrition, disease control, community-level initiatives, health systems, drug and food control.[5]

Either way, further increases in private financing of both soft and hard infrastructure will be critical, particularly as the government faces greater fiscal pressures managing the stabilisation and recovery of the economy through the current COVID-19 pandemic. Indonesia has lifted its previous budget deficit-to-GDP ratio of 3% to around 5% to accommodate an US$ 47 billion stimulus program for 2020, with further increases expected in 2021.

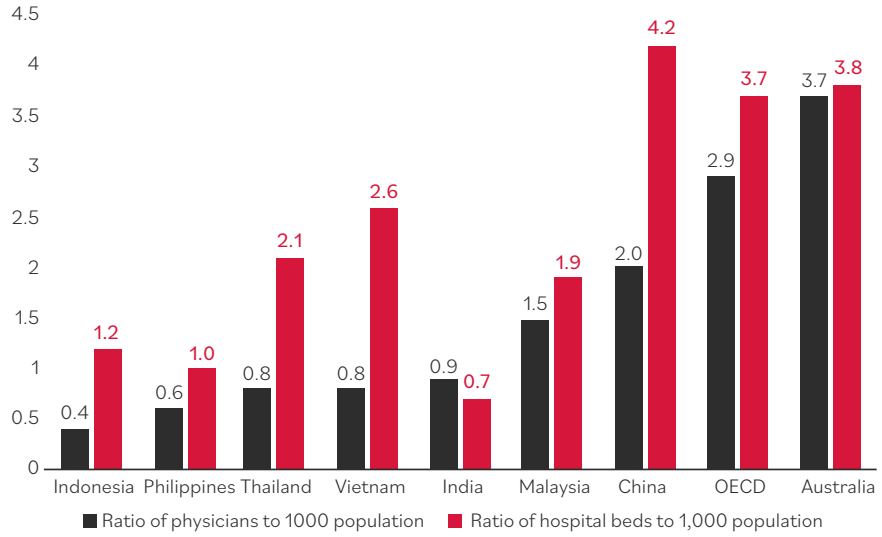
As we explore in this paper, the needs of Indonesia's general population and the increasing demand for quality care from its growing upper-middle class, combine to offer an attractive market for both domestic and foreign investors. This is the case now even more so for Australian firms who will enjoy greater access and investment conditions under the recently ratified economic agreement between Australia and Indonesia - the Indonesia-Australia Comprehensive Economic Partnership (IA-CEPA).

Figure 1 Healthcare spending per capita and healthcare spending to %GDP (2017)



Source: World Bank

Figure 2 Ratio of physicians and hospital beds to 1,000 population*



Source: World Health Organization (WHO).
*Latest year of data available in each country for physicians and hospital beds, respectively, are as follows: Indonesia (2018,2015), Philippines (2017,2011), Thailand (2018,2010), Vietnam (2016,2014), India (2018,2011), Malaysia (2018,2015), China (2017,2012), OECD (2017,2013), Australia (2017,2014).

Rising private healthcare

Private healthcare already accounts for roughly two-thirds of healthcare expenditure in Indonesia, and growth continues to outstrip that of public spending.[6] For example, between 2014 and 2018, the number of private hospitals in Indonesia increased from 1,476 to 1,830 (a 24% increase), with investments from a number of foreign firms including those from Singapore, the Netherlands, South Korea, and the US. For the same period, the number of public hospitals only increased by 13% from 930 to 1,047 hospitals.

Considering Indonesia's growing middle class, private healthcare providers in Indonesia (both domestic and foreign) are likely to continue to expand their presence in the market.

One indicator of the potential opportunity posed by the Indonesia healthcare market is the significant resources spent annually on outbound medical tourism. As noted in a 2018 report by Oliver Wyman, lack of trust in the local system and infrastructure results in more than 600,000 people a year traveling to neighbouring countries such as Singapore for medical treatment. The report authors estimate that the direct cost of such medical tourism has grown at an annual rate of over 10% since 2006 and is now nearly US$ 1.9 billion a year. This suggests a key opportunity for private investment to capture the higher end of the healthcare market locally, particularly in light of likely ongoing travel restrictions imposed in response to COVID-19.

Financing gap and the role of Public-Private Partnerships

The growing dominance of private healthcare is a trend seen across many emerging countries in South-East Asia. Although an increase in the availability of such services, in and of itself, is positive, the main beneficiaries are upper-middle class Indonesians. The majority of the population rely on access to basic services provided through public hospitals, and some private providers, via the universal health coverage scheme (known as the BJPS).

Although the BJPS will likely put private healthcare within the reach of greater numbers of people over time, Indonesia also needs to ensure that sufficient investment continues to go into public services given that it already faces large disparities in health outcomes between different income levels, as well as between urban and rural areas.[7]

Unequal geographic distribution of healthcare services puts East Indonesia at the greatest disadvantage. For example, only two-thirds of subdistricts in Papua have a health centre, as compared with all sub districts in regions such as Bali, DI Yogyakarta, and DKI Jakarta. Only 53% of puskesmas (public community health centres) in Papua meet 'basic amenities readiness', compared to 88% of health centres in DI Yogyakarta.[8] Such disparities are also found in health personnel resources. The WHO has found that only 12% of health centres in West Papua have sufficient numbers of midwives, compared with 93.9% in Banten.

As the GoI grapples with an increase in spending across many different priority areas, there is considerable scope for public-private partnerships (PPPs) to bridge the funding gap required to raise the level of public care through private sector involvement. PPPs can be used to upgrade facilities, adding much-needed capacity and raising quality. PPPs need not be restricted to infrastructure, which typically accounts for a minority share of all health spending. In the drive for efficiency, many other clinical services could be financed and managed privately, contributing to higher standards and the generation of savings over the long-term.[9]

The government highlighted PPPs in the most recent Medium-Term National Development Plan ("RPJMN 2020-24") as a key procurement modality to improve private participation in public social infrastructure provision, backed up with sector-level regulations and the funding of a number of hospital PPP feasibility studies. However, further effort will be required to realise a hospital PPP in Indonesia in the future, to overcome key uncertainties such as the affordability of availability payments (from government's perspective), project scope and risks with planning and market alignments.

"Indonesia already faces large disparities in health outcomes between different income levels, as well as between urban and rural areas."

Increasing market access to foreign investors

Given the issues outlined above, the GoI is acutely aware of the need to open up the sector to foreign private investment. A number of steps have already been pursued such as opening up the sector to foreign investors from ASEAN and more recently from Australia via the ASEAN Economic Community (AEC) and IA-CEPA agreements, respectively (discussed further below).

Foreign direct investment in the sector is growing quickly, and opportunities are increasingly being seized upon by players from Singapore, Australia and China (see Figures 3 and 4).

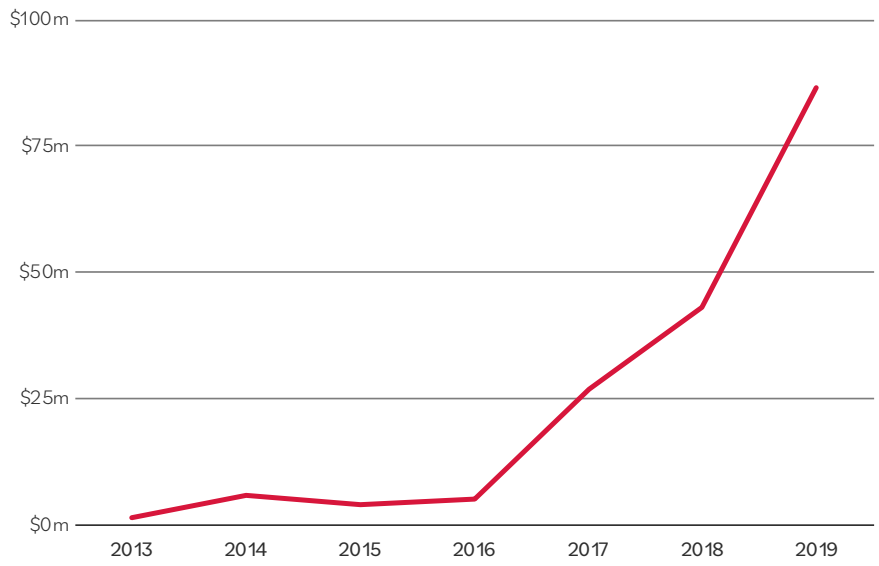
Foreign investment in greenfield development has been limited as it is perceived as higher risk, with new hospitals taking up to three years for initial planning, regulatory and licensing procedures prior to construction commencing.[10]

As such, a common entry strategy has been investments in maturing operating assets, to expand or enhance them.

For example, in 2018 Singapore-based private equity firm Kendall Court took a majority stake in the Indonesian company Mandaya Medical International, to enable the expansion of a large hospital in Jakarta.

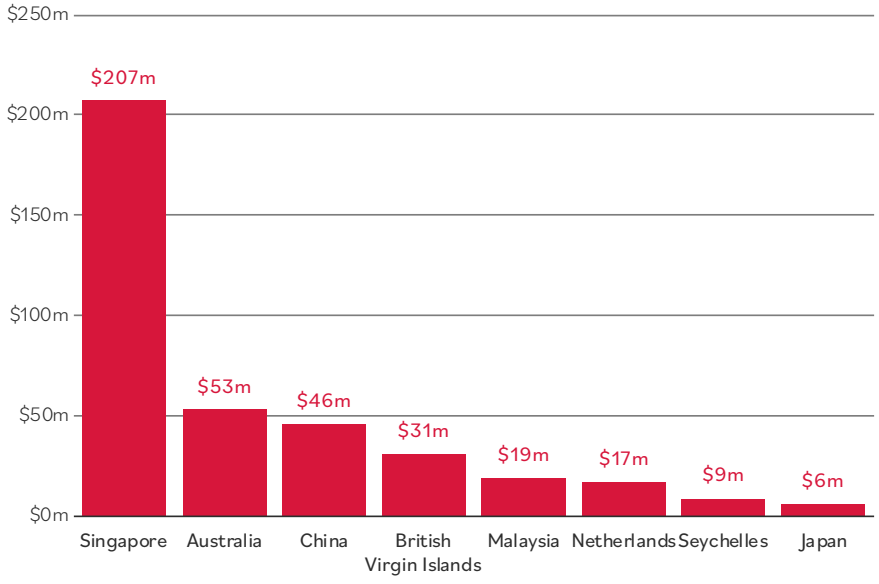
As noted above, PPPs have the potential to be another investment modality for foreign investors. It would presumably require participation in the BJPS (which is currently optional for private providers), thus requiring flexible and innovative approaches particularly with regards to cost management and market segmentation.[11]

Figure 3 Growth of FDI in Indonesian healthcare



Source: BKPM 2019, National Single Window for Investment

Figure 4 Sources of FDI into Indonesian healthcare, by country, as at 2019



Source: BKPM 2019, National Single Window for Investment

Challenges remain

There are a number of factors which cumulatively hinder foreign investment. One of the main ones is the availability of physicians to ensure standards can be met. This would be less of an issue if Indonesia were more open in allowing the practice of foreign medical professionals.

The GoI has so far taken some small steps to relax restrictions, with a certain number of foreign specialists now allowed to practice on limited two-year passes. However, the pool of incoming doctors is constrained by other barriers such as language tests. Either way, Indonesia will also need to address internal constraints to local capacity development, such as the adequacy of its own training facilities. As discussed later in this paper, the IA-CEPA provides a greater window for Australia's TVET sector to help fill this gap.

Opportunities for Australian firms

Australia has long been a leader in the global healthcare market, and is recognised for its world-class healthcare system, its high-quality healthcare education and training capabilities, and for its leading role in the research and development of medical devices and technology.

More Australian companies though should be well positioned to capitalise on the growing opportunities in the sector, while assisting Indonesia to develop its healthcare capacity. The following areas have been identified as areas where there is good alignment between Australia's comparative advantages and Indonesia's needs.

1. Development or expansion of hospitals and other healthcare facilities

While Indonesia is severely lacking in hospital capacity, Australia on the other hand has delivered world leading design, construction and operational management of healthcare facilities, including coordination of end-to-end solutions.

The IA-CEPA allows for up to 67% Australian ownership in hospitals, medical and dental clinics as well as residential and aged care with no geographic limitation. This provides a significant advantage over other foreign investors, who are currently limited to large hospitals in eastern Indonesia (excluding Makassar and Manado). Australian investors will be able to invest in any location, even the main cities of Jakarta and Surabaya, and importantly will be able to scale up their investment over time to meet scale requirements. Likewise, the 67% restriction should not be disadvantageous as there are considerable benefits and synergies from working with a competent local or regional healthcare provider, as has been the case for Ramsay and other foreign investors.

At present, Ramsay Health Care is the only Australian healthcare company operating hospitals in Indonesia, where it operates three hospitals through a joint venture arrangement with the Malaysian multinational conglomerate Sime Darby Berhad.

Ramsay will soon be joined by two other Australian companies, Docta and Aspen Medical, who have recently entered into a US$1 billion deal with state-owned enterprise PT Jasa Sanara to build and operate 650 healthcare clinics and 23 hospitals in West Java.[12]

2. Provision of specialized health services/facilities to treat non-communicable diseases (NCDs)

Through investment in hospitals, Australian providers will have the opportunity to improve disease prevention and control.

Due in large part to the negative impacts of urbanisation and lifestyle changes – and one of the highest smoking rates in the world – Indonesia faces a major challenge to address the rapid rise of NCDs such as cardiovascular, respiratory and digestive diseases as well diabetes and cancer. Australia is a world-leader in preventive and protective health policy and programs, with specific expertise in areas such as diabetes prevention, smoking-related illness, as well as addressing infectious disease threats.

3. Assistance with aged-care facilities and treatment

Indonesia has a young population relative to its more advanced neighbours, such as China, but it is entering the early stages of an aging population.[13] Disability rates for elderly people are relatively high, with an increased incidence of chronic diseases such as heart disease, strokes, hypertension and diabetes. There is limited availability of geriatric clinics and nursing homes in Indonesia, typically concentrated in larger urban areas, and their capability to provide comprehensive nursing and geriatric medical services is likewise limited.

There is a considerable opportunity to leverage Australian expertise in aged care and geriatric services and to provide training for nurses and caregivers, in order to improve the delivery of services across the archipelago.

Indonesia is also seeing the emergence of senior living homes, with high-quality facilities and management services, proving that there is a relatively untapped appetite for such services as pre-existing cultural norms with respect to aged care start to shift.

This presents opportunities for Australian companies with experience in aged care to partner with major developers in Indonesia who are better placed to handle the land and property aspects of such ventures. One Australian company which has stepped into this space is Living Well, which operates a number of premium 'club houses' for seniors, in partnership with the Indonesia conglomerate Ciputra Property.

4. Medical technology

Australia is also a world leader in the development of health technology and medical devices, but to date has little penetration into Indonesia's large and rapidly expanding market for medical devices and laboratory equipment, which is forecast to pass US$ 1.9 billion by 2024, despite 90% of devices being imported.[14] According to Austrade, business opportunities primarily exist in surgical equipment, high-intensity focused ultrasound, radio immunotherapy and clinical laboratory equipment used for diagnostic tests, particularly for molecular diagnostics, microbiology, and immunochemistry testing and genetics testing.[15]

In a separate Asia Taskforce Discussion Paper "Insights, Outreach and Brokering: Taking Australia's Healthcare Innovation Advantage to Indonesia", the Australia-Indonesia Centre uses the Monash Technology Precinct as a case study in how Australia's healthcare innovation precinct capabilities in healthcare technology, medical services, healthcare and pharmaceutical infrastructure can be leveraged to support Indonesia's health-related challenges.

5. Digital health

Indonesia is considered to have the largest digital economy in SouthEast Asia, built on its large and young population and high penetration of smartphones and the internet. Such a customer base has provided fertile ground for the growth of digital healthcare providers over the last 5 to 10 years, which are helping to overcome many of the issues in traditional healthcare models related to cost, efficiency and geographic inequalities.

There are opportunities for the export and delivery of Australian healthcare IT solutions where Australian experience aligns with Indonesia's needs. For example, the extent of Australia's own rural and remote communities has necessitated the development of solutions like telehealth and telemedicine. Australia has also been developing digital systems for broader applications, like medical databases.

6. Building Indonesia's healthcare workforce through training and exchange programs

As noted, Indonesia needs to train more doctors and nurses to improve ratios and quality of care.

Australia is home to many of the world's leading universities in health education. It also has leading vocational training programs to develop world-class multi-disciplinary teams. Through the IA-CEPA there is also scope to tap into the considerable training capacity of Australia's vocational education and training facilities ("TAFEs") and other registered training organisations ("RTOs") to deliver accredited training for nurses, administrators and other healthcare skilled and semi-skilled personnel such as orderlies and nursing assistants. Accreditation recognised across both countries opens up the opportunity for training and exchange programs in either country, and potentially for the supply of much needed aged-care and child-care workers in Australia.

Cooperation has already begun in this area. The University of Tasmania have partnered with the University Gadjah Mada to create an 18 month joint Masters of Nursing program. Eligible students are funded by the Indonesian government through the Indonesia Endowment for Education (*Lembaga Pengelola Dana Pendidikan*).

NOTES

1. PwC 2017, How will the global economic order change by 2050? Note that in PwC's analysis, Indonesia is projected to rank fourth place in 2050 when measured in either Purchasing Power Parity or Market Exchange Rate terms
2. World Bank 2018, Indonesia Database for Policy and Economic Research
3. WHO 2017, The State of Health Inequality in Indonesia
4. LPEM FEB UI & JICA 2020, Estimating Social Infrastructure Needs in Diverse and Dynamic Asia. The investment gap has been estimated based on the cost of Indonesia expanding its stock of hospital and medical facilities to achieve a ratio of 3.5 beds per 1,000 population, the minimum recommended by the WHO.
5. Ministry of Health Indonesia 2020, Rencana Strategis Kementerian Kesehatan Tahun 2020-2024
6. Ministry of Health Indonesia 2019, Indonesia Health Profile 2019
7. WHO 2017, *The State of Health Inequality in Indonesia*
8. Ibid. Basic amenities readiness is defined as having the basic services required to provide medical care, such as electricity, water and sanitation, private room, toilet, communication, computer with internet, and transportation.
9. PwC 2017, Build and Beyond: Bridging the Gap
10. PwC 2017, Build and Beyond: Bridging the Gap
11. Private hospitals may choose whether they want to cooperate with JKN operator (i.e. Badan Penyelenggara Jaminan Sosial Kesehatan, BPJS Kesehatan) to be able to serve JKN market. However, in the case of emergency, all private hospitals, regardless of the presence of such cooperation or not, must treat BPJS patients. Once the patients are in a stable condition, then the hospital should refer to other hospital that cooperate with BPJS Kesehatan.
12. Australian Financial Review 2020, Aspen Medical, Docta ink $1.3bn Indonesia healthcare deal.
13. UNFPA 2014, *Indonesia on the Threshold of Population Ageing*
14. Austrade 2019, Healthcare to Indonesia - Trends and Opportunities Data from the Indonesian Health Ministry
15. ibid.

About Asia Taskforce

In October 2019, the Business Council of Australia and Asia Society Australia together with Knowledge Partners PwC Australia and the University of Sydney Business School formed the Asia Taskforce of senior leaders from the business, education and government sectors to examine howAustralian companies and organisations can increase their presence and position in Asia to ensure our continued prosperity and deliver progress for future generations.

This paper refers to Asia as the countries of South-East Asia, South Asia and North East Asia.

This Discussion Paper and other publications by the Taskforce can be found at https://asiasociety.org/australia/asia-business-taskforce

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