

## **Innovative financing for health: What are the options for South Africa?**

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South Africa, like all countries, faces resource constraints but has been increasing domestic spending in both the public and private sectors in recent years, with funds for health having more than doubled since 1994. Financing universal coverage of a comprehensive package of services in South Africa could result in spending levels equivalent to 8.6% of the gross domestic product (GDP), comparable to current spending and less than projections of the status quo and of expanding private insurance (1). More resources for health can come from higher allocations, more efficient collection of taxes or insurance premiums, or by raising additional funds through various types of innovative financing (2). The need to explore other ‘innovative financing’ was made in the latest South African Strategic Plan for HIV, TB and STI 2012-2016. This paper aims to explain these ‘innovative financing’ options and considers possible options for South Africa.

*What is ‘innovative financing’?*

The World Bank distinguishes between innovative finance mechanisms that generate additional funds, make funds more efficient, and link funds to results (3). For this paper, the different mechanisms are grouped into two areas: raising new funds for health and new ways of linking funds to results (4). On raising new funds, international examples include ‘solidarity’ taxes on airline tickets to improve access to essential drugs and commodities for HIV, TB and Malaria; product (‘Red’) franchising where a portion of the price of a branded product will go to the Global Fund; and converting national debt to Global Fund grants for health. Many national examples also exist, and some countries ‘ earmark’ these additional funds for specific health goals. Australia and Thailand, for example, use funds raised from tobacco and alcohol taxes to fund discrete interventions aimed at promoting healthier life-styles and reducing unhealthy behaviours (5). International examples of linking funds to results include: frontloading donor investment through the Global Alliance for Vaccines and Immunisation (GAVI) to expand new and existing vaccines; various forms of results- (or performance-) based financing (6); and different types of incentives to stimulate private sector engagement, develop markets for new products, and provide subsidies to increase access to new, expensive drugs (4). Some of the approaches which may be of interest to South Africa are presented and assessed in this article using the innovative financing criteria defined by the World Bank. A summary of the assessment is presented in Table 1.

*Raising funds for health*

Expanding contributions from large profitable companies

**Mining:** The larger parts of the corporate mining sector have pioneered high quality health services for its workers, although they have a mixed reputation with regards to services for the families of workers and the local community. Many mining companies have large corporate

social responsibility (CSR) initiatives, and cover health projects. However, these initiatives have been criticised for being too small and not responding to those most in need (7), suggesting the need for larger, pooled approaches to improve impact.

**Mobile phone operators:** The high and growing penetration of mobile phones in South Africa is being used to directly improve patient care and act as a tool for community based workers. Mobile phones are becoming a core tool for improving services in many parts of South Africa. Companies should consider expanding their investments in hardware and software on a sustained basis, whilst agreeing on common standards, special rates for the health sector, and building on growing experience.

**Financial services:** The recent global financial crisis has increased calls for a mandatory tax on financial services or currency transactions. However, despite high profile campaigning, there is still little sign that such taxes, even where they are introduced, would be earmarked for human or social development.

### Health ('sin') taxes

Some taxes aimed at reducing unhealthy consumption have shown to be very effective, such as with tobacco and alcohol (8,9). Taxes on high fat foods have been introduced in Europe, but there are concerns about the effect this may have on the poor when healthier foods are not available. Most importantly, in some countries the taxes have restricted uptake of unhealthy food. Taxes on unhealthy food obviously require more evaluation (10), alongside other interventions to improve consumption of healthier foods and targeting certain groups such as school children. In instances where taxes are shown to have a positive impact their reach can be enhanced by making the policies part of a comprehensive set of evidence based interventions, as has happened in the Framework Convention to Control Tobacco, and in preventing risk behaviours in adolescence (11). Some particular issues for South Africa in this regard are as follows:

**Tobacco:** South Africa taxes more than other African countries, but this are still much less than in other parts in the world, and far below WHO recommendations, suggesting room for further tax increases. This has however proved to be difficult in South Africa given the open borders with low income, tobacco producing countries and the growing black market that accompanies higher cigarette prices (12).

**Alcohol:** In South Africa, alcohol caused 7.1% of all deaths in 2000 and there is a higher number of problems related to alcohol compared to most other countries. Increasing prices should be part of a wider set of policies aimed at reducing the harmful effects of alcohol (13).

**High fat and 'energy dense' foods:** The high burden of non-communicable diseases in South Africa suggests that levies could be considered. In some European countries taxes have been introduced on foods with a saturated fat content of over 2.3% and drinks that are high in sugar. However, as noted before, such taxes would need careful evaluation and perhaps be combined with interventions to improve access to healthier alternatives.

**Carbon:** There is growing evidence that a low carbon economy can also be a healthy one (14). Proposed taxes to reduce carbon emissions should have health benefits of their own. Proposed sources of climate change financing could arguably be put to good use, for example by investing in a low energy ‘greener’ health sector.

### Voluntary sources

Raising voluntary funds on a sustained, reliable basis is difficult and often volatile. Existing and future foundations and charities in South Africa may be able to provide additional resources for service delivery and strengthening the health system, which if well-coordinated, has been shown to be an important resource for some developing countries (15).

### *Possible application in South Africa: Linking funds to results*

**Private Public Partnerships (PPPs):** There is a large body of evidence around what can work through joint public and private investment in health, including in South Africa (16) and now numerous PPPs exist focusing on infrastructure renewal. South Africa may also want to explore innovative PPPs schemes with private providers of care as has happened successfully in parts of India where private obstetricians are engaged to provide services in poor, rural areas (17).

**Social impact funds:** These attract private sources of funds to make consolidated investments that help to reach government objectives, such as improved use of education, health and social services. The government rewards investors if specified objectives are reached. However, these are at an early stage of development internationally.

**Provider and patient incentives:** South Africa has some experience of performance based financing in the public sector through National Conditional Grants. However, in the South African context broader changes to the provider payment mechanisms need to be also considered, such as capitation (18). This applies to both the public sector, moving away from historically based line-item budgets, and the private sector, where there is an almost total reliance on fee-for-service payments. The use of rewards and incentives could be further explored in South Africa as part of the various reforms already underway under the National Health Insurance (NHI) and re-engineering of Primary Health Care. This could take into consideration the growing global evidence base and would require careful planning and evaluation.

In conclusion, South Africa is in a good position to learn from the numerous global efforts on ‘innovative finance’ globally. Criteria to assess options could build on existing frameworks as used in previous WHO Taskforces (4). Additional mandatory taxes will be unpopular, but private sector companies may see good business sense in providing a voluntary levy, or a more systematic scale up of CSR activities if it were for areas of direct relevance to them and their communities. There may well be scope for raising funds from special health (‘sin’) taxes and, as in other countries, this could to some extent be part of mechanisms to ring fence funds to promote healthier lifestyles and reduce unhealthy behaviours. This would need rigorous research and evaluation, but could have benefits that add to current health service investments.

However, there are risks. Any new levy on goods has to be assessed to consider whether it unfairly affects the poor (i.e. is regressive); a proposed tax on unhealthy foods in Romania was cancelled because healthy, affordable, accessible alternative foods were not sufficiently available. A second risk is the high level of administration that can arise from multiple 'new' initiatives; a major new, and very promising, international initiative aimed at raising funds through a voluntary levy on airplane tickets had to be closed largely because of management problems (19). Thirdly, there is a risk of unrealistic objectives - health financing and universal coverage involves general forms of insurance and taxation; 'innovative financing' can only bring changes in the margins, or over long periods of time. Finally, any new initiative will have unintended consequences and requires close evaluation and regular review to allow good ideas to adapt and grow.

Given the major health reforms underway in South Africa, the high burden of disease, and the relative wealth of the country, there may be room for considering new forms of innovative financing to help improve health in the country. No doubt South Africa will develop its own form of innovative financing for others to learn from. Each would require more work on the costs and potential benefits, but these could be important additions to the national, long term effort to health in South Africa.

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