Innovative financing for health: what are the options for South Africa?

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Abstract

The paper assesses the options for additional *innovative financing* that could be considered in South Africa, covering both raising new funds and linking funds to results. New funds could come from: i) the private sector, including the mining and mobile phone industry; ii) from voluntary sources, through charities and foundations; iii) and through further expanding health (*sin*) levies on products such as tobacco, alcohol and unhealthy food and drinks. As in other countries, South Africa could earmark some of these additional sources for investment in interventions and research to reduce unhealthy behaviors and influence the determinants of health. South Africa could also expand innovative linking of funds to improve overall performance of the health sector, including mitigating the risks for non-state investment and exploring different forms of financial incentives for providers and patients. All such innovations would require rigorous monitoring and evaluation to assess whether intended benefits are achieved and to look for unintended consequences.

Introduction

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 more than doubling since 1994.[1] Financing universal coverage of a comprehensive package of services in South Africa could result in spending levels equivalent to 8.6% of gross domestic products, comparable to current spending and less than projections of the status quo and of expanding private insurance.[2] 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.[3] The need to explore other *innovative financing* was made in the latest Strategic Plan for HIV, tuberculosis (TB) and sexually transmitted infections 2012-2116.[4] 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 (http://siteresources.worldbank.org/CFPEXT/Resources/IF-for-Development-Solutions.pdf). For this paper, the different mechanisms are grouped into two areas: raising new funds for health and new ways of linking funds to result.[5] 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 exist also, and some countries hypothecate, or *earmark* these additional funds for specific health goals. Australia and Thailand, for example, use funds raised from tobacco and alcohol to fund discreet interventions aimed at promoting healthier life-styles and reducing unhealthy behaviors (http://www.viche alth.vic.gov.au/en/About-VicHealth/Who-We-Are.aspx).[6] International examples of linking funds to results include: frontloading donor investment through GAVI Alliance to expand new and existing vaccines; various forms of results (or performance) base-financing (http://www.rbfhealth.org/rbfhealth/; http://www.theglobalfund.org/en/performancebasedfunding/; http://www.who.int/immunization_financing/tools/Brief_19_Results_Based_Financing.pdf);[7] and different types of incentives to stimulate private sector engagement (http://www.hanshep.org/HANSHEP.pdf; http://www.gavialliance.org/funding/give-to-gavi/gavi-matching-fund/), develop markets for new products (http://www.gatesfoundation. org/ vaccines/ Pages/advanced-market-commitments-vaccines.aspx), and provide subsidies to increase access of new, expensive drugs (http://www.theglobalfund.org/en/amfm/). Some of these approaches may be of interest to South Africa; some options are presented here and assessed using criteria defined by the World Bank, summarized 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 have a mixed reputation with regards to the families of workers and the local community. Many mining companies have large corporate social responsibility (CSR) initiatives, and cover health projects although these have been criticized for being too small and not responding to those most in need[8] 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.[9] 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 and building on growing experience (http://www.mobilehealthsummit.com/).

Financial services

The recent global financial crisis has increased calls for a mandatory tax on financial services or currency transactions (http://robinhoodtax.org/whos-behind-it). 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

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Table 1. Assessing innovative financing options in the South Africa context.*

Criteria/Innovative financing Feasibility	Revenue generation Large profitable companies	Health (sin) taxes	Voluntary sources	Financing solutions Private investment	Provider/patient incentives
Value added: *Does it bring additional funds or results?*	Yes, new funds	Yes, if existing taxes increased or if new taxes	Yes, new funds	Yes, potentially new funds	Yes, additional benefits and efficiency possible
Experience: *Is there documented evidence of effect?*	Limited experience	Yes for tobacco/alcohol, limited for unhealthy foods	Yes	Limited experience	Evidence growing with mixed results
Technical feasibility: *What are the known obstacles?*	Problems of coordination and predictability	Encourages illicit trade	No major obstacles	Requires regulation and oversight	Needs very close monitoring and evaluation
Political support: *Does it have powerful sponsors?*	Limited	Yes, but powerful industry opposes	Some strong national sponsors	Yes, in public and private sector	Yes, in government
Timeframe: *How long to implement and have impact?*	Considerable time to implement	Immediate impact	Considerable time to implement	Considerable time to implement	Considerable time to implement
Financial					
Potential flows: *What is the estimate yield?*	Potentially high	High if increased or new taxes earmarked for health	Limited yield	Potentially high	Potential to leverage major efficiency gains
Costs: *What is the cost of setting up and running?*	Small	Small costs, but higher if earmarked	Considerable effort required	Considerable effort required	Considerable effort required
Additional: *Will it crowd out existing sources?*	Unlikely	Unlikely if increased or new taxes earmarked	No	No	No
Sustainability: *Can it be maintained in the long run?*	Linked to financial climate	Yes	Considerable effort required	Dependant on long term profitability	Yes but requires regular monitoring and evaluation
Governance					
Ownership and alignment: *Does the initiative support national priorities?*	Yes for health, but may conflict with trade and industry	Yes	Possibly: more funds if for specified service or community	Yes	Yes
Predictable: *Will the funding be stable or volatile?*	Stable if asset stable (*e.g.* perhaps not coal in long term)	Stable, but less so long term if consumption drops	Likely to be unstable stable	Investments once made are	Stable once systems in place
Externalities: *Are there potential good or bad side effects?*	Improved image of sector contributing to public good	Potential positive impact on health	Raises awareness of problems	Utilizes private sector capacities	Potential gaming and unintended consequences
Results: *Will it yield results that can be monitored?*	Potentially if linked to evaluation	Yes, yes through public sector	Potentially if linked to evaluation	Yes, through public sector	Yes
Accountability: *Does it foster transparency?*	Not necessarily	Yes	Not necessarily	Yes, if good oversight	Yes
Pro-poor: *Target the poor or is it progressive (i.e. wealthy pay more)?*	Possible, if benefits focused on poor	Requires analysis of cost and effect on poor	Likely to be focused on poorest	Uncertain	If linked to results in poorest groups

*Reviewed and agreed with assistance of Professor Di McIntyre, Health Economist, University of Cape Town.

as with tobacco and alcohol.[10,11] Taxes on high fat foods have been introduced in Europe (http://www.bbc.co.uk/news/world-europe-15137948) although a concern about the effect this may have on the poor when healthier foods are not available, has restricted uptake in some countries (http://www.globalissues. org/news/2011/08/08/10767). Taxes on unhealthy food obviously requires more evaluation,[12,13] alongside other interventions to improve consumption of healthier foods[14-16] and targeting certain groups such as school children.[17] Where taxes have shown to have a positive impact, this can be enhanced by making this part of a comprehensive set of evidence based interventions, as has happened in the Framework Convention to Control Tobacco, and in preventing risk behaviors in adolescence.[18] Some particular issues for South Africa are as follows.

Tobacco

South Africa taxes more than other African countries, but this is much less than in other parts in the world, and far below World Health Organization (WHO) recommendations, suggesting room for further tax increases.[19] 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.[20]

Alcohol

In South Africa, alcohol caused 7.1% of all deaths in 2000 and it is ahead of most other countries in problems related to alcohol.[21] Increasing prices should be part of a wider set of policies aimed at reducing the harmful effects of alcohol.[22]

High fat and energy dense foods

The high burden of non-communicable disease 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 with high sugar content. 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.[23] 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, that if well coordinated, has been shown to be an important resource for some developing countries.[24]

Possible application in South Africa: linking funds to results

Private-public partnerships

There is a large body of evidence around what can work through joint public and private investment in health, including in South Africa[25,26] and now numerous Private-public partnerships (PPPs) exist focusing on infrastructure renewal. South Africa may also want to explore innovative PPP 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.[27]

Social impact funds

These attract private sources of funds to make consolidated investments that help reach government objectives, such as improved use of education, health and social services. The government rewards investors if specified objectives are reached. They are at an early stage of development internationally (http://www.saiin.co.za/sample-page/).

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 Africa context broader changes to the provider payment mechanisms need to be also considered, such as capitation.[28] This applies for 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 and re-engineering of Primary Health Care. This could take into consideration the growing global evidence base and would require careful planning and evaluation.

Discussion

South Africa is in a good position to learn from the numerous global efforts on *innovative financing*, building on its own considerable experience. Criteria to assess options could build on existing frameworks as used in the previous WHO Taskforce, citied previously. 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 in part be part of mechanism to ring fence funds to promote healthier lifestyles and reduce unhealthy behaviors. 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 (http://www.tnooz.com/2011/11/25/news/massivegood-charity-project-axed-travel-technology-worked-but-brand-failed/). 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[29] 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 finance 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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