

Public expenditure on HIV/AIDS in South Africa:

Analysis of allocations and funding mechanisms in national and provincial budgets

Alison Hickey
Research Unit on AIDS and Public Finance
IDASA ~ Cape Town, South Africa

International AIDS Economics Network Meeting
25 April 2003, Washington DC

OBJECTIVES of Research Unit on AIDS and Public Finance

1. Analyse government budget from an HIV/AIDS perspective

- Monitor targeted allocations for HIV/AIDS interventions in national and provincial budgets
- Analyse indirect impact of epidemic on public sector budget

2. Produce recommendations for policy-makers on allocations and effective funding mechanisms for transferring money for HIV/AIDS interventions

3. Build capacity in Parliament and civil society to participate in the budget process on HIV/AIDS issues

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

PRESENTATION

I. Background and framework for analysis of South African budget

II. Budget analysis from HIV/AIDS perspective

- Allocations
- Funding mechanisms
- Spending record

III. What we've learned

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

Context for financing national HIV/AIDS responses

- Share of national health bill covered by public vs. private sources (out of pocket spending)
- Percent of HIV/AIDS budget sourced from intl donors

Intl donors account for majority of budgeted HIV/AIDS spending in low & middle income countries (via ODA).

Proportion of total funds contributed by natl govt much less in some regions.

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

What determines the budget? (national resource allocation)

- Previous budget
- Policy priorities (political)
- Constitutional obligations/legal framework
- Rights/moral choices
- Need (e.g. prevalence rates)
- Cost of programmes
- Cost effectiveness research
- Equity
- Capacity to spend

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

South African story thus far:

- 2 primary vehicles to transfer funds to provinces from national: conditional grants & equitable share
 - 98% of provincial budgets come from national
 - Approximately 85% from ES; rest from condtl grants
- National Integrated Plan for HIV/AIDS
 - Multi sectoral plan implemented by departments of health, education and social development
 - Utilises conditional grants to fund 3 primary programmes
- New funding approach gives provinces more freedom to allocate resources and implement programmes as determined by provinces

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

PRESENTATION

I. Background and framework for analysis of South African budget

II. Budget analysis from HIV/AIDS perspective

- Allocations
- Funding mechanisms
- Spending record

III. What we've learned

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

National government expenditure:

1. What are we spending on health generally?
2. What are spending on HIV/AIDS interventions specifically?
3. What are we already spending *indirectly* as a result of the impact of the HIV/AIDS epidemic on the public health system?

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

What is government spending on HIV/AIDS?

Special designated funds for HIV/AIDS interventions spent by national

Ring-fenced funds to provinces or local government for HIV/AIDS

} HIV/AIDS-specific allocations

Funds for general strengthening of health sector
(non-specific HIV spending)

+ Other programmes: nutrition, poverty alleviation, social security, food relief etc.

Total government is spending on HIV/AIDS

Research Unit on AIDS and Public Finance – Idasa
~ 25 April 2003

1. What share of the national budget is allocated for health?

➤ Abuja Declaration 2001 — 15% target

South Africa public health expenditure						
R billion	2000/1	2001/2	2002/3	2003/4	2004/5	2005/6
Consolidated expenditure	245.6	270.4	310.2	351.3	380.8	415.0
Consolidated provincial and national health expenditure	27.2	29.6	34.9	39.1	42.5	45.7
As percent	11.1%	11.0%	11.3%	11.1%	11.2%	11.0%

Source: National Treasury, 2003 and 2002 Budget Review.

Research Unit on AIDS and Public Finance – Idasa
~ 25 April 2003

2. How much is specifically targeted for HIV/AIDS interventions?

Funds set aside for HIV/AIDS interventions in national budget:

R million	2003/4	2004/5	2005/6
National HIV/AIDS Directorate	666	851	903
Ring fenced funds for home-based care and life skills education	186	199	211
Block grant funds to provinces for HIV/AIDS	1,100	1,900	2,454
Total	1,952	2,950	3,568
Total over 3 year period			8,470

Research Unit on AIDS and Public Finance - Idasa
~ 25 April 2003

How much is specifically targeted for HIV/AIDS interventions?

Funds set aside for HIV/AIDS interventions in national budget:

R billion	2000/1	2001/2	2002/3	2003/4	2004/5	2005/6
Idasa estimate: HIV/AIDS targeted allocations (excluding indirect)	0.214	0.349	1.004	1.952	2.950	3.568
As percent of total health expenditure	0.8%	1.2%	2.9%	5.0%	6.9%	7.8%

Research Unit on AIDS and Public Finance - Idasa
~ 25 April 2003

3. How do we measure impact of HIV/AIDS on public health expenditure?

- Direct and indirect expenditure
- Serious problem assessing indirect impact of HIV/AIDS on health expenditure
 - Methods attempted are estimates or projections (2)
 - Assumes full delivery of services (100% take-up rate)
 - Assumes 'crowding out' and rationing do not occur
 - Actual fieldwork research encounters confidentiality & stigma issues

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

South Africa: Estimates of public health expenditure on HIV/AIDS (indirect)

- DOH estimates very significant expenditure already incurred by public health system
 - Combined national and provincial expenditure on HIV/AIDS = R4.4448 bn or 15.0% of 2001/2 consolidated public health expenditure
- In 2000, estimated 628 000 admission to public hospitals for AIDS-related illnesses, or 24% of all public hospital admissions (DoH, Abt)
- Cost of hospitalising AIDS patients in public facilities at least R3.6 billion in 2001/2, or 12.5% of total public health budget (DoH)

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

PRESENTATION

I. Background and framework for analysis of South Africa's budget

II. Budget analysis from HIV/AIDS perspective

- Allocations
- **Funding mechanisms**
- Spending record

III. What we've learned

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

What are the appropriate funding mechanisms for HIV/AIDS interventions?

National govt relying heavily on block grants:
R1.1 billion of R1.952 billion set aside for HIV in this budget is sent to provinces via equitable share.

Two main purposes of ES funds:

1. To ensure health services strengthened generally
2. To allow provinces to fund care and treatment including ARVS, 'as policy develops'

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

Funding mechanisms, cont.

1. Some indications ES funds successfully trickling down, as demonstrated by increased provincial health budgets

R billion	2002/3	2003/4	2004/5	2005/6
Total provincial expenditure	136.919	158.995	175.468	191.590
Real growth rate		8.93%	5.21%	4.09%
Consolidated provincial health expenditure	33.159	36.569	39.881	42.946
Real growth rate		3.46%	3.96%	2.66%

Source: Budget Review 2003/4. Based on preliminary provincial budgets and will differ slightly from final budgets tabled over next two weeks.

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

Funding mechanisms, cont.

2. Use of ES funding channel allows resources for anti-retroviral programme.

- Addtl future funding options: contingency reserve, cgs to be announced in Oct.
- Compares reasonably to UCT/TAC cost estimates of national prevention & treatment plan (R1.6bn for 2003; R5.6bn in 2005)

Block grants allow provinces discretion:

- to make different political choices (outside natl policy)
- to allocate funds to most cost-effective programmes

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

PRESENTATION

I. Background and framework for analysis of South Africa's budget

II. Budget analysis from HIV/AIDS perspective

- Allocations
- Funding mechanisms
- **Spending record**

III. What we've learned

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

Our analysis of conditional grant spending shows:

1. Low spending on HIV/AIDS conditional grants is because spending on cgs generally is low.

- Average spending for HIV/AIDS cgs for 2001/2 (77%) was higher than spending on cgs generally (70%).

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

2. Good evidence that spending on HIV/AIDS conditional grants is markedly improving in the last two years.

2000/1 compared to 2001/2:		
	Expenditure as percent of total available 2000/01	Expenditure as percent of total available 2001/02
Health sector	59%	69%
Education sector	22%	76%
Social Development sector	36%	115%
Total HIV/AIDS conditional grants	36%	77%

Source: National Treasury.

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

3. Provincial health depts more easily spend funds from their regular provincial budget

- compared to ring-fenced funds transferred from national govt as conditional grants

2001/2:

Average spending on regular provincial health dept budgets = 99.3%

HIV/AIDS conditional grant spending generally = 77%

HIV/AIDS health cg specifically = 69.3%

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

PRESENTATION

I. Background and framework for analysis of South Africa's budget

II. Budget analysis from HIV/AIDS perspective

- Allocations
- Funding mechanisms
- Spending record

III. What we've learned

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

1. Budgeting for multi-sectoral response is complex.

- ✓ Multi-sectoral plan.
Driven by health or located outside Dept of Health?
- ✓ Mainstreaming in non-health departments
HIV as core business (beyond condom distribution)
- ✓ Intergovernmental
Involves national, sub-national and local governments

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

2. Earmarked or ring-fenced funds vs. block grants

- ✓ need to protect AIDS as national priority
- ✓ advantages of decentralisation (efficiency, effectiveness)

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

3. Basic trade-off between accountability & bureaucracy

- ✓ strict restrictions/procedures for public spending can contribute to underspending
- ✓ alternative to underspending is irresponsible spending/corruption

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

4. Capacity and underspending

- ✓ what line departments see as rigidity, treasury sees as a capacity problem
- ✓ 'underspending is a management problem'
- ✓ capacity/staffing constraints

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

5. Targeting funds

- ✓ need vs. ability to spend
- ✓ target resources based on prevalence rates?
- ✓ equity

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

EMERGING ISSUES AND THEMES

1. Are provinces allocating funds for HIV/AIDS from their own budgets (drivers)?
 - Mainstreaming
 - Provincial budgets as moment of truth
2. Massive resource boost needed to strengthen health sector generally. Are provincial health departments benefiting or is money diverted to other departments and priorities?
3. Absorption capacity becomes critical question, given direction of Budget 2003/4
 - provincial programme management skills
 - financial management skills

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

FINAL COMMENT

Apart from the impact on public sector expenditure....

- Impact of HIV/AIDS on revenue (macro economic growth)
- Link between revenue and expenditure sides of the budget (tax expenditure)
 - Example of personal income tax cuts in South Africa
- Need for tax analysis from HIV/AIDS, pro-poor perspective

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

**Public expenditure on HIV/AIDS
in South Africa:
Analysis of allocations and funding mechanisms
in national and provincial budgets**

Alison Hickey
Research Unit on AIDS and Public Finance
IDASA ~ Cape Town, South Africa

International AIDS Economics Network Meeting
25 April 2003, Washington DC

Thank you

NEW BUDGET 2003/4

1. Smart budget with large increases in resources for HIV/AIDS.

Context of poverty alleviation, social security, nutrition, support to hospitals etc.

R million	2003/4	2004/5	2005/6
DoH HIV/AIDS (including condtl grant)	666	851	903
DSD conditional grant for CHBCS	66	70	74
DoE conditional grant (Life skills)	120	129	136
To provinces via equitable share	1,100	1,900	2,454
Total	1,952	2,950	3,568
Total over 3 year period (MTEF)			8,470

Research Unit on AIDS and Public Finance ~ Idasa
~ 25 April 2003

Source of funds (national vs. donor) has critical implications for:

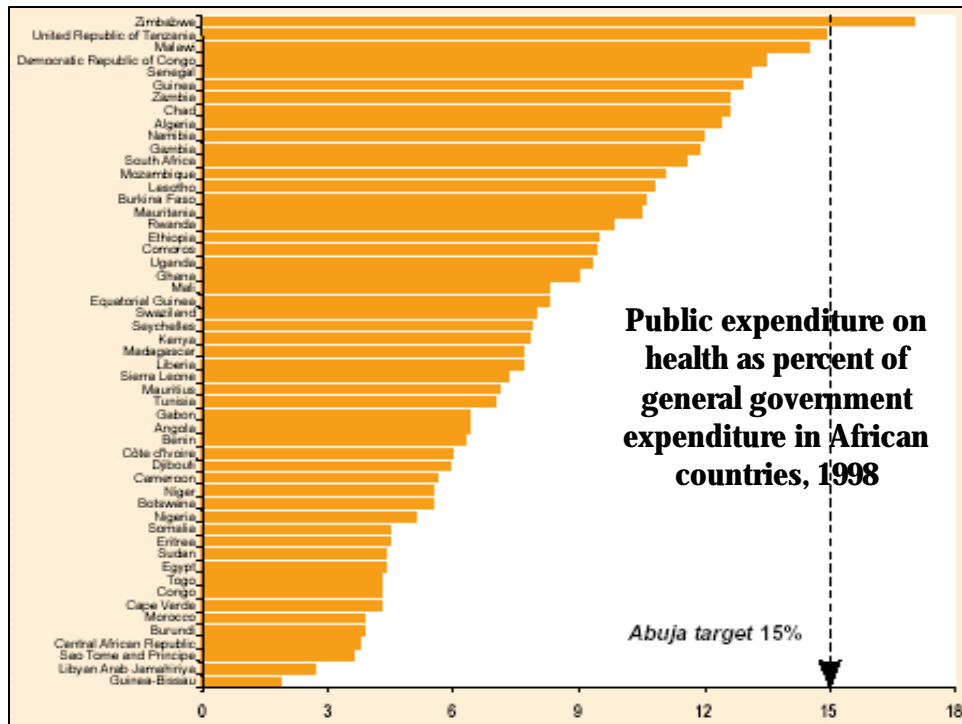
- o Budget processes and structures (recurrent vs. development; on or off budget)
- o Degree of national control over resource allocation (policy priorities; prevention vs. treatment; cost effectiveness of interventions)
- o Integrated programme planning (alignment with PRSPs)
- o Flow of funds and efficiency of spending
- o Transparency and monitoring (on or off budget)
- o Intergovernmental fiscal relations (national and sub-national)

Research Unit on AIDS and Public Finance – Idasa
~ 25 April 2003

South African Budget 2003/4, cont.

R billion	2002/3	2003/4	2004/5	2005/6
Consolidated provincial health expenditure	33.159	36.569	39.881	42.946
Real growth rate		3.46%	3.96%	2.66%

Research Unit on AIDS and Public Finance – Idasa
~ 25 April 2003



Improvement on conditional grant spending continues.

Spending at mid-year 2001/2 and 2002/3:

	Spending as percent of total available as of 30 Sept 2001	Spending as percent of total available as of 30 Sept 2002
Health sector	28%	47%
Education sector	11%	31%
Social Development sector	10%	15%
Total HIV/AIDS conditional grants	16%	36%

Source: National Treasury.