AfriBusiness
Invest in the future

31 May 2016

TO: **DEPARTMENT OF HEALTH**

ATTENTION: **DIRECTOR GENERAL OF HEALTH**

DELIVERED: **VIA EMAIL**
nhi@health.gov.za

COMMENT ON THE NHI WHITE PAPER AS PUBLISHED IN THE GOVERNMENT GAZETTE 39506, NOTICE NO. 1230 ON 11 DECEMBER 2015

Dear Sir/Madam,

This document contains the response from AfriBusiness on a call by the Department of Health for comment on the proposed NHI White Paper. Please be advised that we have read through the NHI White Paper and therefore wish to bring the following matters of concern under your attention for further investigation and proposed amendment or revision of same:

PREAMBLE: WHO IS AFRIBUSINESS?

AfriBusiness is a non-profit business rights watchdog that was established in 2011 by senior business individuals. This organisation was established to appeal to the Afrikaans community in the business world to take part in the public debate and to act as spokesperson for the Afrikaans business community.

It is an affiliate of the Solidarity Movement. Our members are business individuals, including medical practitioners, who increasingly play a role as entrepreneurs, financiers and job creators. Business conditions detrimental to our members therefore do not only affect them, but manifest itself in job losses and economic hardship for a much wider community.

To be successful, our members need a steady, fair and predictable environment for business to flourish. They have to be able to price their products and services fairly and make a reasonable return. We

make this submission on behalf of our members who are in their professional capacity subject to various forms of legislation, regulations and codes of conduct within South Africa.

It is our belief that there is a direct link between the economic success of the Afrikaans business community and the economic prosperity of South Africa. AfriBusiness aims to mobilise business individuals in a positive manner to ensure a healthy business environment.

AfriBusiness has identified the NHI as one of the fundamental factors influencing business success in the field of medicine and healthcare in South Africa. It is against this background that AfriBusiness submits this document and by making these submissions we aim to contribute to the establishment and maintenance of a favourable environment for business.

INDEX OF COMMENT:

1. VITAL MEDICAL STATISTICS:

Before continuing to discuss and deliver comments on the NHI White Paper, we wish to summarise some statistics which will be vital to keep in mind as the NHI is discussed in order to place certain aspects in perspective:

1.	Total health expenditure as a proportion of GDP (2013)	9%

2.	Public health expenditure as a proportion of total government expenditure (2013)	14%
3.	Public health expenditure as a proportion of total health expenditure (2013)	48.4%
4.	Private health expenditure as a proportion of total health expenditure (2013)	51.6%
5.	Consolidated national and provincial health expenditure (2015/2016)	R158.7 billion
6.	Medical aid beneficiaries as a proportion of total population (2014) *	16%
7.	Public sector general practitioners & specialists as portion of all (2014)	47%
8.	Public sector professional nurses as proportion of all registered (2014)	51%
9.	Public sector pharmacists as a proportion of all registered (2014)	37%
10.	National life expectancy (2014)	57.2 years
11.	Public health expenditure as a proportion of total government expenditure and of GDP (2013)	14% TGE 4.3% PGDP
12.	Out of Pocket (OOP) health expenditure as a proportion of private and total health expenditure (2013)	13.8% Pvt. 7.1% POTHE
13.	Selected public sector health professionals in relation to all registered health professionals (2014)	47.4% Pub. 52.6% Pvt.
14.	Proportion of General Practitioners and Specialists in the public sector of all registered (2014) – (Total of 41 132)	45.3%

Source: South Africa Survey 2016 [South African Institute of Race Relation] p.559 – 573.

* Unverified sources indicate the current figure to be on or above 17% in 2016.

The discussion to follow shall be based on the figures as provided above the reason being that the White Paper in its current form seems to be based on outdated statistics, and it is vital that statistical trends need to be taken into account as much has changed over the last 5 years in South Africa since the Green Paper on NHI was introduced.

2. THE NHI RATIONALE AND INCORRECT ASSUMPTIONS:

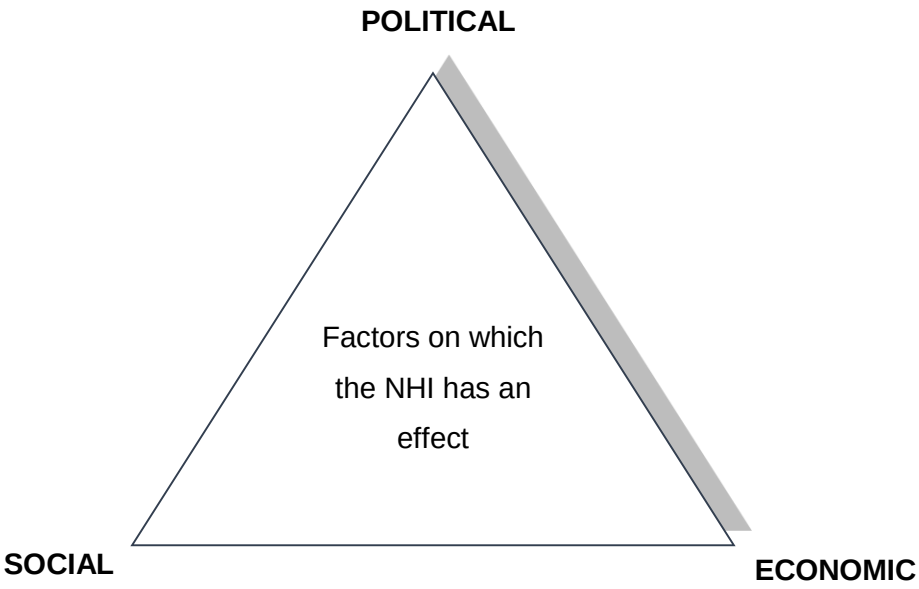
It is no secret that the NHI makes it clear that there is dissatisfaction regarding the suggested inequity of the two-tier-system currently in place. The NHI sees the private healthcare industry as being unaffordable and also sees the need to improve service delivery in the public service. It covers a whole list of ideals it wishes to reach which include but are not limited to: universal healthcare, quality care, equity and social solidarity, creation of a single fund and a single purchaser, healthcare as a public

good, promoting efficient and effective service delivery, strengthening the public service, adopting and promoting innovative health service delivery models.

At a glance the NHI seems like a wonderful initiative by saying all the "right" things, but the problem lies in what is not being said within the NHI. In its current form the White Paper is long on rhetoric and very short on specifics, in short is says a lot about what its wants to achieve but not a lot about how its physically going to achieve it. There seems to be a lack of overall research into what could/should be the best version of universal healthcare for South Africa, in other words, is this tax-based-model simply a copy and paste exercise from other countries who have universal healthcare, or was there extensive research done to suggest that this is in fact the best and most viable option for a country as unique as South Africa?

The short answer is no. The primary reason for following the current version of NHI is purely a political decision that was taken at Polokwane in 2007, and is not based on any exhaustive analysis of the best option available to the country.

Figure 1:



In the figure above it is illustrated that the NHI will at least have an impact on the following factors of economic, political and social areas. The Department of Health at the very least should've taken all these factors into account but when the White Paper is read, it becomes clear that this is a political decision which has been made, justified by social need. The current Minister of Health, Dr. Aaron

Motsoaledi has made no secret of the fact that he does not believe in the argument that the economy should be used as an excuse not to implement NHI, however it is paramount to include the economy in discussions because it is the primary area which will ultimately finance the NHI.

2.1 Economic Growth Issue:

The fatal flaw in his argument and that on which the NHI is based, is that the economy cannot be ignored as a contributing factor. It is an integral part of the NHI's ability to be able to function as the funding thereof is directly derived from the economy. If there is no economic growth and funds flowing from contributors in the economy, then there can be no NHI.

The most basic argument that will halt the NHI is purely based on economic growth. In paragraph 253 of the White Paper the following statement is made:

> "In this projection, NHI expenditure increases by 6.7 per cent a year in real terms after 2015/2016, resulting in a cost projection in 2025/26 of R256 billion in 2010 prices. These projections would take the level of public health spending from around 4 per cent of GDP currently to 6.2 per cent of GDP by 2025/26, **assuming the economy grows at an annual rate of 3.5 per cent**. This increase would be below the level of public spending (as a percentage of GDP) of many developed countries".

On this basis alone the NHI will fail to be implemented as the envisioned financial requirements to fund the NHI is directly linked to the economy growing at a rate of 3.5% per annum. This year the International Monetary Fund placed South Africa's economic growth at a rate of 0.7% whilst our own Minister of Finance, Mr. Pravin Gordhan, has acknowledged poor economic growth and placed our growth at a rate of 0.9% for the year 2016. Without viable economic growth, as is the case, the NHI will not succeed or be implemented as envisioned by the Department of Health. Priority must be given to first address the economic growth issues as no country can implement a universal healthcare system without the financial means at its disposal, it is impossible. At the current rate the NHI will not be fully implemented by 2025. It is recommended that the Department of Health revise its financial figures pertaining to the NHI.

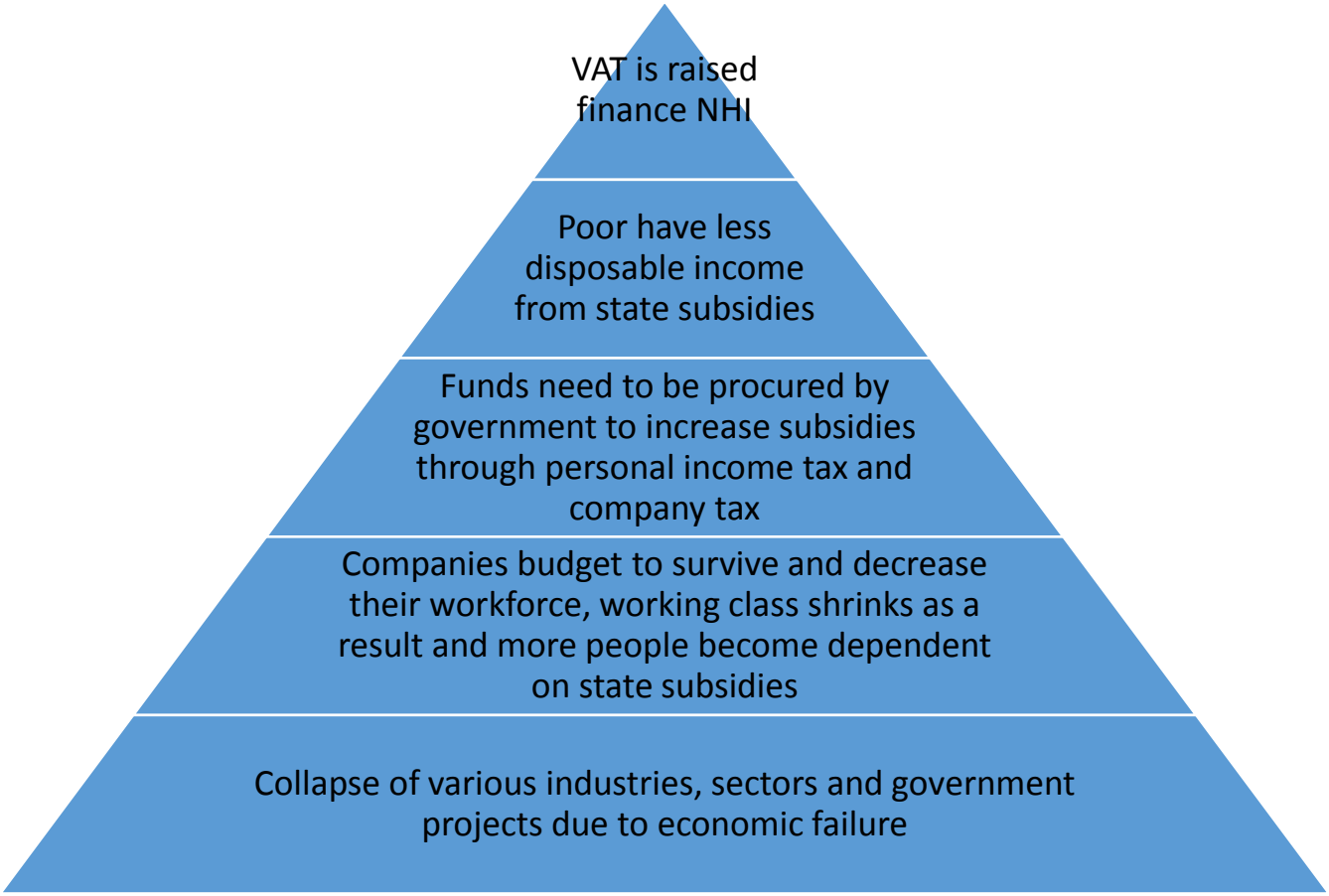
2.2 How does unemployment fit into the equation:

Unemployment within the economy will also be an issue, as the finance model is based on taxes at various levels being paid, the majority of funding primarily coming from personal income tax. The equation should be simple, if the formal workforce is shrinking then there are will be less and less

individuals contributing to the financing of NHI. Even if VAT on its own is raised to 17% for example, it will have a ripple effect on society within South Africa as a whole.

The reason therefor will be that everyone will then be contributing to NHI, which might seem to promote the idea of equality, however it will once again be the poor who will bare the brunt. The poor who are dependent on state subsidies will have less disposable income to spend on necessities which might cause government to raise state subsidies. Raising subsidies will require more funds, which will most likely be procured from the formal working class in the form of further taxes on individuals and companies. This will make the cost of living even more expensive which could lead to companies having to budget even more of how many employees they can afford and lessening their workforce, resulting in further unemployment which could make these individuals also reliant on the state. It is a vicious ripple effect with disastrous consequences which will ultimately lead to many industries, sectors and governmental projects collapsing completely.

Figure 2:



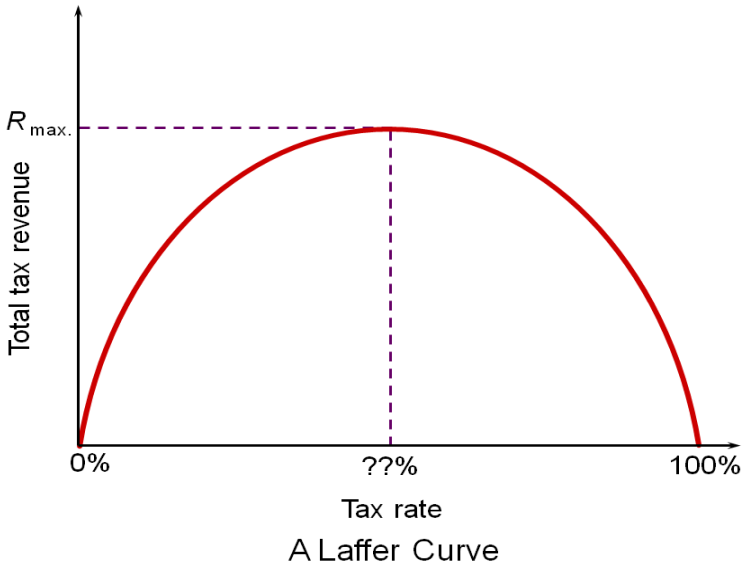
2.3 Why further tax-burdens will have negative effect:

It is of some concern that the National Treasury has not also added supporting documents as to the financing of the NHI. In the White Paper there is talk of finding the "correct tax mix" and areas where taxes will eventually play a cardinal role in the financing of the NHI. The Minister of Finance in the budget speech of 24 February 2016 said he shall convene with the Minister of Health regarding the NHI and its financing. It was reported that R4.5 billion has been allocated for NHI over the next three years, but what impact will further taxing have on the public as a whole?

If we discuss the economic concept of the Laffer Curve which illustrates the 2 most important things we need to know about taxes, things start to become clear when talking about financing NHI. The 2 important things the Laffer Curve illustrate are:

1) How much money the government can raise from taxes; and
2) At what level of taxation the government might start getting less, and not more revenue.

Figure 3:



A Laffer Curve

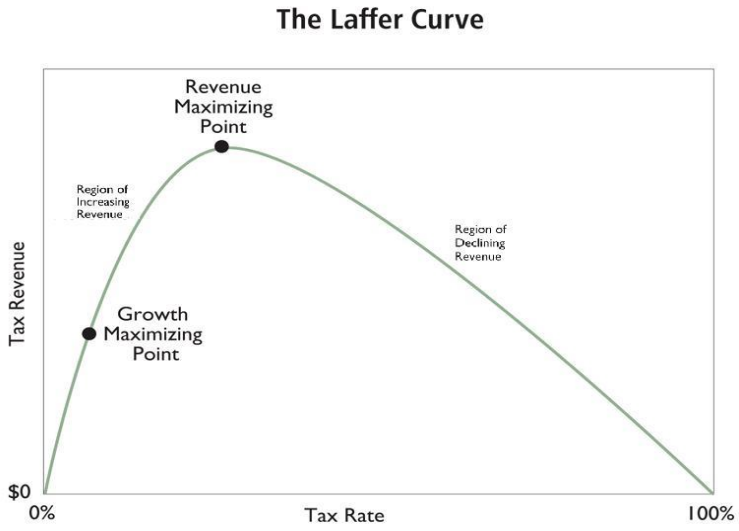
As can clearly been seen on the figure above, when one starts on the lower end of asking for taxes and gradually move to asking for more tax revenue, the graph starts to move upwards but at some point it starts to curve sharply as taxes are increased. It then has a point where it reaches a hump, the hump

indicates the point where government can ask the most amount of taxes for the most possible revenue. After that point, as taxes are increased, the government will in fact start receiving less revenue from tax collection.

In essence what is being reflected is when tax rates are high, and are pushed even higher, the government will start receiving less revenue. The question economists face is: exactly at what point does the tax rate equal less revenue for the government? In earlier years it was thought that the tax rate at which less revenue is made is around 70%, however recent evidence in a study (by Romer & Romer) has shown that in fact the rate is far lower at 33%.

The study examined how national income responds to tax rates and found at a key point that if the mathematical principles are applied correctly that, the hump on the Laffer Curve will indicate the most profitable tax figure for revenue at 33% which is much lower than economists previously thought. In other words, the actual Laffer Curve would look as follows:

Figure 4:



The implication therefore is that we all know that South Africans overall pay more than 33% of their income in some shape or form to the government via taxes, and that the effect thereof is that the government is actually making less revenue to fund its various social obligations than what it would be able to if taxes were lowered. Why this is important for the NHI, is that if the study by Romer & Romer is applied, then government will see even less revenue flow into the treasury to fund its various social obligations and projects thereby strengthening the argument that the NHI will fail due to a lack of revenue being able to be procured by government to fund it. In any event it has been reported on

Business Day (11 April 2016) that South Africa as a whole is approximately 4 million taxpayers short to support even today's public services. The consequences of raising taxes to fund NHI is clear in that the burden will be too much to bare, which will cause the entire public service to collapse. The primary focus of the government should be on economic growth, job creation and providing and maintaining good viable infrastructure with the emphasis on medical infrastructure in the public sector.

Source: The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks [The American Economic Review] June 2010 (Vol. 100, No.3) by Christina Romer & David Romer.

2.4 Fundamental difference between public and private expenditure:

Contrary to what is reflected in the White Paper, it seems that healthcare finance is extremely progressive. The incorrect approach to determine progressiveness in this area is to conflate private expenditure on personal health with public financing of public healthcare. It would serve a better real idea by comparing the financial cost to government of public and private healthcare. If one works on 2009 statistics then the cost to government per person in the public sector would amount to a total care cost per person per annum of R1900.00, and in the private sector of R1730.00 (this is the cost of tax credit in respect of medical scheme contributions). If all this is taken into account, then the conclusion is that healthcare financing is in fact extremely progressive in that the richest quintile contribute 82.3% of total healthcare financing, whilst only receiving 36% of the benefits.

Source: Theron, van Eden and Childs "Financing and benefit incidents analysis in the South African Health System: An alternative view finding significant cross subsidization in the health system from rich to poor" Hospital Association of SA Private Hospital Review (2009).

3. FATE OF THE PRIVATE SECTOR:

The proposal of a single purchaser model will create a massive imbalance in bargaining power, leading to a potentially ruinous lowering of prices. The lack of a "cost plus" tariff will bankrupt many practices forcing them to vacate the market. The private sector will further be negatively impacted if medical schemes are reduced to only provide so called "top-up" cover, as well as by the surcharge on personal income tax. The bulk of medical schemes will not survive as suppliers of "top-up" services only, which will lead to thousands of job losses, pooling these individuals into the unemployment figure and putting even more strain on government's ability to fund its social services.

4. THE CERTIFICATE OF NEED:

The problem facing health practitioners regarding the certificate of need is that it prohibits practitioners from competing with one another in a free market environment. In private practice doctors are situated there where medical aid beneficiaries are located due to the natural economic phenomenon of supply and demand.

In the public sector the reason for the lack of doctors where the largest need for health treatment is located, can be attributed to the fact that doctors do not want to work under poor conditions and for lesser compensation. The current proposal will have the effect of basically forcing scarce medical practitioners to relocate where the greatest need for health treatment is located without addressing the issue of poor working conditions and decent compensation for work done. This will infringe on their freedom of trade and is seen as a simple way for the state to force medical practitioners to fulfil political goals and ideology.

The problem facing health practitioners regarding the licensing, accreditation and contracting requirements is that medical practitioners will in effect be told how to practice, where to practice, in which way to practice or be refused to be accredited in order to practice if they do not conform to the proposed model. This cannot be a viable method of redistributing medical care over the country, as it will simply make medical practitioners leave the country where less stringent policies are in place and the limits of bureaucracy are either less or non-existent. We are already faced with a system where a lot of practitioners already leave the country because of better opportunities abroad, if government wishes to have medical practitioners stay within the country then it should be made appealing for them to stay in the country and move to locations where the need for health treatment is greater.

5. WHAT IS IN THE BASKET OF SERVICES:

The White Paper refers to a comprehensive package of care with its main focus set on primary care which includes preventative, curative, rehabilitative and palliative care. The important thing to note however, is that this model is not based on prescribed minimum benefits (PMB's) as is the case with our current model of healthcare. This is of some concern because the new prescribed model seems to be less beneficial towards patients than the current model under PMB? Why not include PMB's within the comprehensive package? Clarity is needed in this regard as to exactly what will be included and what will be excluded.

6. IS THERE AN ALTERNATIVE AVAILABLE TO NHI:

The World Health Orgainisation (WHO) provides the view that each country must adapt **its own Universal Healthcare solution, based on its unique circumstances.** This should've been the Department of Health's starting point to evaluate South Africa's own unique circumstances and develop a new system around those set of circumstances.

6.1 Using coupons to gain access to healthcare:

It is our submission and proposal that the Department of Health look into the possibility of providing coupons to especially poor South Africans in order for them to gain access to healthcare. This will obviously still require the department to raise the standard and quality of care in the public sector, but importantly this could provide an incentive for healthcare professionals to consider the public sector a viable place to establish a career.

The coupons will not be currency-based, but service-based by for instance allowing a family of 4 each 1 doctor visit per month which can fall within the idea of the comprehensive care the department is envisaging. The private sector can also use this model to form part of the healthcare service of the state. In this way doctors can see patients from any walk of life, public or private, and be rest assured that when represented with a coupon they can institute a claim against a finance model connected to the coupon system. In this way we can ensure that no bias is placed between public or private patients, as medical practitioners are assured that his account will be paid in whichever regard. The individual who previously could not access private healthcare is then also left satisfied, because he/she has a choice as to where he/she can acquire healthcare services.

This model is explained in very basic terms, but the fact of the matter is that it could be a much more effective and viable model of allowing access to healthcare for all. Instead of integrating the public sector with the private sector, it works with the current model we have by allowing both sides of the coin to coincide with one another, and providing for an incentive to work together to provide the best access to healthcare for all possible. At the very least a model such as this should be considered and explored before NHI is pursued, as there are more uncertainties towards healthcare access within NHI than there are answers to those uncertainties.

7. WHAT CAN WE ALL AGREE ON:

Universal Healthcare is not the issue of concern; the issue of concern is the current form proposed which is the NHI. It can't be denied that there is a definite need for an improved healthcare system which is appropriate, efficient, of good quality and affordable. Public healthcare services need to be improved. There are innovate solutions required to make private healthcare services more accessible to the majority of the public, as it is out of reach to most due to the cost associated therewith. There is no disagreement that Out-of-Pocket (OOP) expenses need to be reduced.

8. STATE DOES NOT NEED TO PROVIDE FREE HEALTHCARE TO ALL:

There seems to be the unfounded belief that the state needs to provide free healthcare to all citizens when in fact that is not the case. Section 27 of the Constitution of the Republic of South Africa, 1996 states as follows:

"27. (1) Everyone has the right to have access to –
(a) health care services; including reproductive health care;
(b) sufficient food and water; and
(c) social security, including, if they are unable to support themselves and their dependents, appropriate social assistance.

(2) The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realization of each of these rights.

(3) No one may be refused emergency medical treatment."

As can clearly be seen by the quoted text above there is no mention of anything about free healthcare to all. This idea of free healthcare pertains mainly to political and social objectives by the ruling party, and does not from part of any obligation placed on the state by the Constitution. The only obligation placed on the state is to provide a way to have access to healthcare services, not to provide free healthcare for all.

"Access" does not insinuate free healthcare, instead it places the obligation to ensure that everyone has the ability to go to a healthcare facility and be provided with medical care. "Access" means that the necessary infrastructure in the form of clinics and hospitals should be provided by the state to the public in order to realise this right. Furthermore, it is stated that this right must be realised via legislation and other measures within the states available resources.

As stated previously the economy is growing at a very slow pace and available revenue from the treasury is very scarce. On this basis alone the department must realise that the resources that is available to it is limited, so limited in fact that NHI cannot be realised. Medical practitioners are also a scarce resource, in both the public and private sector, and the department should rather focus on improving the current public sector facilities it has with the resources available to it, and also endeavour to make the public sector a more appealing sector to work in for new graduates in the medical profession.

There is also no need to hastily implement the NHI as section 27 makes it clear that this fundamental right, as any other, is to be progressively realised. If that were not the case, then a form of free universal healthcare for all should've been implemented as soon as the final Constitution had been adopted. Progressively realising this right of access to healthcare services will not be easy, and up until now it has not been easy, but the NHI in its current form will not give effect to the obligation as set out in section 27. It is once again emphasised that clear distinctive research needs to be done to find the best viable option for a universal healthcare system which does not envisage doing away with the private sector, or merging the private sector with the public sector.

9. CONCLUSION

If the NHI is implemented as it stands we face a reduction in the quality of healthcare provision in South Africa and risk driving more healthcare professionals out of the country. The current model of NHI makes room for an inefficient system run by bureaucracy which will be incapable of handling the large amount of claims that will be submitted to it daily. This model will not only have the effect of placing an unnecessary and intolerable burden on the taxpayer, but on the state as well.

In short the Department of Health needs to base its findings on the latest statistics on healthcare and the economy when deciding on whether or not to go forward with NHI. It needs to consider the issues pertaining to economic growth, unemployment and the burden of tax when determining the finance model of the NHI. Critically there needs to be consideration of the fate of the private sector if NHI is implemented in its current form, as well as the issue pertaining to the certificate of need with regards to the licensing, accreditation and contracting requirements of medical practitioners.

There needs to be a clear indication of what the "basket of services" will specifically include and exclude as to provide a much clearer picture of what patients can expect. Perhaps the most important thing to consider is the possibility of an alternative to the current NHI model. The department will be well advised

to explore alternatives and do extensive research to that effect before even attempting to argue that NHI is the way forward for South Africa. A unique country will need a unique solution and simply copying what the rest of the world is currently doing, is not *per se* the ideal solution for South Africa. The idea of utilising a system based on coupons will surely be one of a bunch of proposals by other organisations towards which the department can issue its focus on determining a better model than that of the NHI.

We trust that you will consider the abovementioned carefully and will provide our office with your decision and reasons for such within a reasonable time.

Yours truly,

Armand Greyling
Law and Policy Analyst: AfriBusiness