

Chapter 8

Health



8.1 Introduction

Transformation of the health system in South Africa has been and remains an urgent priority for the democratic Government since 1994. South Africa has introduced significant policy shifts and institutional changes to deal with the underlying problems of an inequitable race based system. Through its primary healthcare approach, the Government prioritised the needs of women and children by extending free healthcare for children under the age of six and pregnant women. The free healthcare programme was thereafter extended to all South Africans using public primary healthcare facilities. At hospital level, payment for services is means tested, and indigent citizens are entitled to receive free services.

Health interventions are critical in determining how Governments address issues of capability poverty. In the design of social security reform, health indicators are used to identify the extent to which deprivation and exclusion from essential health services affect the life chances of people. This section of the report addresses the key problem areas in the current policy context, and sets out a long-term strategy to address the underlying challenges with particular emphasis on those aspects related to social protection.

Healthcare provision constitutes an essential component of a minimum package of goods and services for the development and advancement of people. Moreover, given the history of unequal allocation of resources, levels of poverty and unemployment, a central policy objective is to achieve equity in and access to the allocation of

state resources to address health needs. The relationship between public and private health provision and the roles and responsibilities that are located in these environments are examined by the Committee to ensure the sustainable, equitable use of resources in the interests of all.

An overview of developments in South Africa's health system indicates that the reform direction and approach developed and proposed in the 1995 National Health Insurance (NHI) Paper remains a valid point of departure for ongoing reform. This requires that South Africa move ultimately toward a NHI system over time that integrates the public sector and private medical schemes within the context of a universal contributory system.

8.2 Findings

8.2.1 Problems identified with the existing strategic framework

The existing structure of the health system has certain endemic perverse cycles that need to be reversed through interventions at an institutional level. The central contributors to this negative cycle are identifiable in four areas:

- **Cover:** The public sector is faced with an increasing population, both low-income and indigent, while the private sector population is not increasing. The public sector also has to provide cover for sicker and less healthy groups traditionally covered by the private sector. This latter shift is induced through risk-selection

within and uncontrolled cost increases.

- **Burden of disease:** The public sector is facing a worsening burden of disease as a result of HIV/AIDS as well as increasing levels of diseases of poverty. The private sector is attempting to shift HIV/AIDS patients and chronic patients onto the state system, as part of the risk selection process.
- **Finance:** Despite an increasing population and disease burden, the public sector health system faces a constant or declining real budget allocation. The private sector, by contrast, increases its expenditure at roughly double the annual inflation rate on a per capita basis. As costs increase in the private sector, so does the effective tax subsidy.
- **Providers:** In the face of an increased population to cover, an increased disease burden, and a declining budget, the public sector is losing clinical personnel to the private sector. As such, the private sector effectively drains resources from the state to provide cover to a relatively healthy and younger population. The private sector effectively receives a tax subsidy of approximately R7,8 billion to reinforce this trend.

Taking account of the above, Government needs to adopt a strategic approach to reforming the health system that engages fully with both the public and private sectors. The objective would be to achieve jointly what each cannot realise alone.

8.2.2 Role and scope of Government involvement

The ultimate responsibility for the overall performance of a country's health system lies with Government, which in turn should involve all sectors of society. Government has the responsibility for establishing the best and most equitable health system possible with available resources. The oversight and effective regulation of the private sector has to form part of the overall Government response and must be high on the policy agenda.

Central objectives

- **Increased risk pooling:** Risk pooling needs to be encouraged through the use of a combination of instruments. These would

include the tax system, the creation of risk equalisation mechanisms within both public and private sectors, Government mandates, and the reinforcement of community rating.

- **Benefits:** Government policy needs to provide a framework that results in cover for a minimum level of essential benefits irrespective of whether it is provided in the public or the private sectors.
- **Efficiency:** Given the existence of perverse incentives in unregulated markets for healthcare, any regulation must pay careful attention to the incentives generated. The use of mixed systems for covering and providing healthcare combined with the correct elements of choice is the best approach to balancing healthcare objectives with the need for operational efficiency.

Role of the public sector

The public sector system must remain the backbone of the overall health system and should be protected from chronic underfunding.

Role of the private sector

The private sector can provide an effective environment for achieving increased levels of funding over and above tax-based allocations. However, as the private market for healthcare suffers from chronic market imperfections, public sector involvement is required to ensure that funding levels are socially optimal and not merely what the market will bear.

8.3 Recommendations

8.3.1 Reform strategy

The Committee recommends that South Africa move toward a NHI system based on multiple funds and a public sector contributory environment as defined in the 1995 NHI Committee Paper. Initially the environment would remain differentiated between a private contributory environment and a general tax funded public sector environment. Over time this strict differentiation should diminish with a broader contributory environment emerging, replacing general taxes as a revenue source. The ultimate elimination of general taxes as a key revenue source is unlikely for a fairly long time (figure 13).

Figure 13
Reform strategy and approximate timeline.



The reform process has to take into account the need to develop a phased approach whereby key enabling measures are implemented and the base established for the longer-term reforms.

Four phases are envisaged defining important linked reform measures. The phases guide the evolution of health system toward the achievement of a universal contributory system (figure 13).

8.3.1.1 Phase 1: Development of the enabling environment

The current health system is incompatible with the introduction of, or integration with, contributory environments. The overall system of cross-subsidies is fragmented and not structured in accordance with strategic policy goals. Furthermore, the strict partitioning between the public and private sector spheres is resulting in substantial and unsustainable private sector cost escalations. This occurs because private medical schemes are technically barred from officially contracting for and using public sector services.

The priorities within phase 1 therefore focus on an enabling environment for more substantive future policy reforms. Central to

this process is a focused improvement of public health facilities and their management.

- (a) Preparation of the public hospital system:
 - i. Decentralise public hospital management
 - ii. Implement a coherent uniform policy with respect to enhanced amenities
 - iii. Investigate financial injection options to enhance public sector amenities
 - iv. Establish a process to develop and implement minimum service requirements for the public system
 - v. Revise the human resource environment as it relates to health personnel to improve management and incentives to perform.
- (b) Consolidation of medical scheme reforms to remove any residual risk-selection and to increase coverage:
 - i. Expand prescribed minimum benefits to include chronic