Financing Health Services

Critical Health

There has been a lot of debate within the progressive health sector over the best options for financing the health service. The details of the debate are well outlined in previous editions of *Critical Health* (see 31/32 pp26-32, 35 pp34-49 and 36/37 pp57-64). The extent of the debate is summarised by the Centre for Health Policy (*Critical Health* 35 pp45-47). Essentially, three possible options have been debated.

Nationalise the Private Sector

This implies that all private doctors would become state employees and private hospitals would have to be state administered. A criticism is that half of all money spent on private health care currently comes out of private pockets, and would disappear. The state would also face pressure from both private providers and consumers of health care if it made such a move. Mass emigration of private professionals is also a possibility.

Keep Public and Private Sectors Separate

This option is clearly outlined by Zwarenstein (*Critical Health* 31/32 pp30-32). It essentially involves building up the public sector for the provision of accessible primary health care (PHC) and leaving the private sector to provide luxury services to those who desire it. The private sector should, however, be providing care in relation to its true cost. Tax rebates for employers contributing to medical aid should be stopped. The money freed from this should be channelled into the public sector to finance PHC. Also, the private sector should pay the cost of training of public personnel who choose to work in the private sector. Revenue from this could also be channelled into the public sector.

This option may not adequately address the wastage of scarce resources presently occurring in the private sector, for example, inappropriately expensive technology and overservicing. However, some intervention such as audit and quality control, licensing capital investment and moving public sector employees off medical aid (*Critical Health* 30, p32) may go some way toward limiting wastage.

Centralise Financing for Public and Private Sectors

This involves the introduction of a compulsory national health insurance scheme (NHI) to which all employed people would contribute. The contribution of the unemployed, ill, aged and disabled would be paid out of state taxes *(Critical Health 36/37* p60). The scheme would provide a package of essential services to all, provided either by the public or private sector. Such a scheme would, in itself, not equalise access to health care, but could be the first step on the path to health care for all. *(Centre for Health Policy, Monograph 21, 1990).*

However, a "package of essential services" has not been clearly defined and, even if it is, may not be universally accepted. Furthermore, this option could lead to an expansion of the current private sector. It would not necessarily prevent overservicing by private providers, but could, ironically, lead to underservicing in the long run. The details of administering a large state run insurance bureaucracy also needs to be researched.

NHI Not Appropriate Now

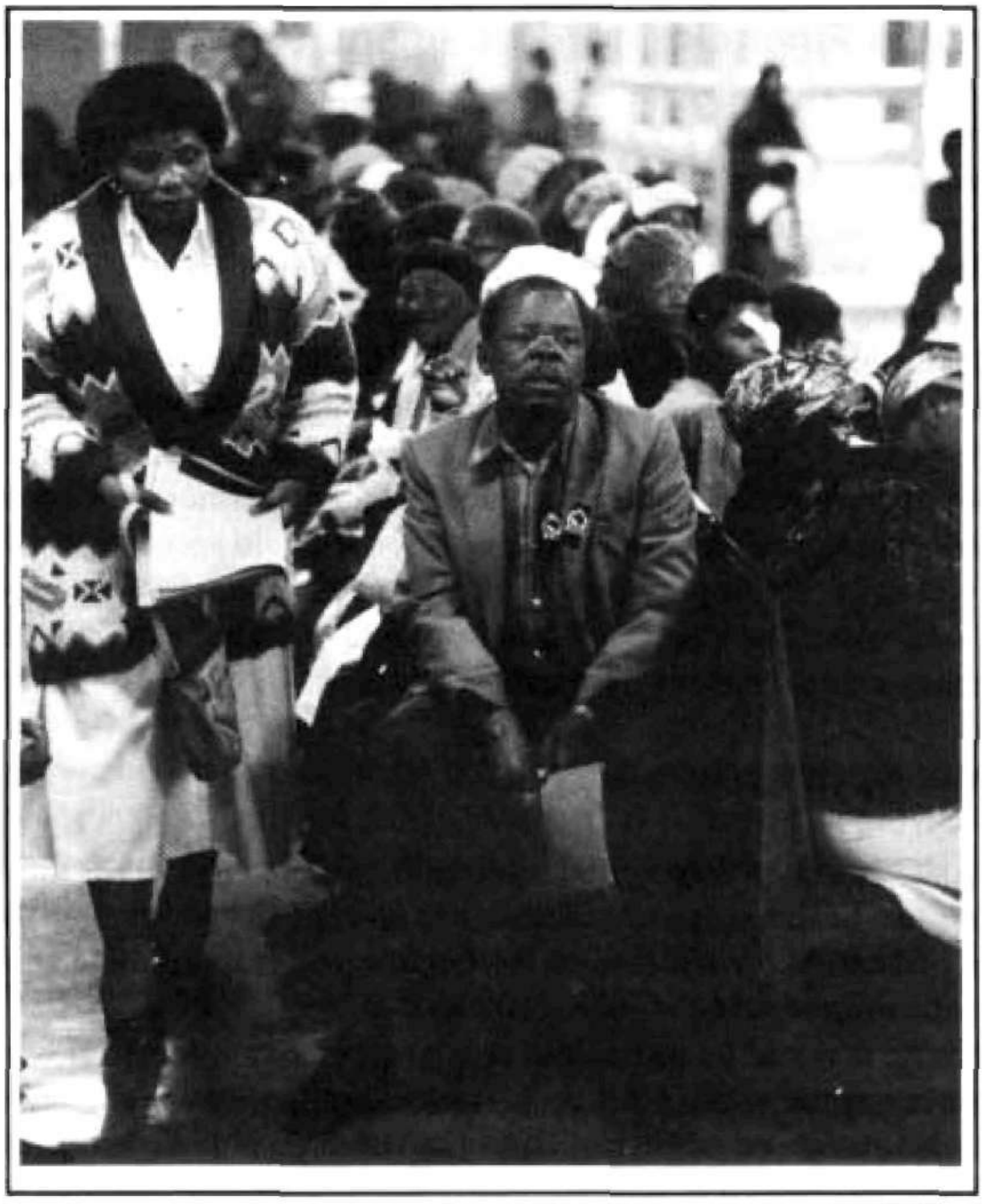
At an ANC health policy conference, held in February 1992, the issue of financing the health services resulted in vigorous debate among the health activists present. Many felt that the NHI option was inappropriate at this stage for the following reasons.

Firstly, it would be difficult to regulate the private sector. It was argued that, even in countries with fairly sophisticated health insurance systems such as Canada, this remains a problem. Hence, the introduction of a health insurance system in South Africa would be unlikely to achieve one of its main aims, namely a decrease in overservicing within the private sector. This sector is, furthermore, currently facing a major financial crisis. Attempts to regulate this sector now would be strategically inappropriate, as blame for its seemingly inevitable collapse would be directed at the public sector.

Second, a large bureaucracy would be needed to administer such an insurance system. It was felt that, given the lack of management skills in the country at present, it was unlikely that sufficient expertise could be mobilised in a fairly short space of time to administer such an enterprise effectively.

Third, neither the details of what would be included in nor the costs of a package of essential services that would be covered by an NHI have been defined.

Many health activists, it seems, entered the SAHSSO/NPPHCN conference with support particularly for the second option outlined above, which



Paying for services and waiting. Always waiting. *Photo: Ismail Vawda*

suggests leaving the private sector to continue as it presently exists, on condition that subsidies (tax rebates and training costs of personnel) are removed.

First Decide What You Want

Gerald Bloom, from the Institute for Development Studies at Sussex University, gave an input to the conference on options for financing the health service. He suggested a useful approach that we could follow in order to make appropriate decisions on financing.

Bloom argued that the first thing we have to do is to clarify what we want to achieve in the next few years. We need to define what we mean by 'essential

services' and we need to state plans and objectives clearly. The next step is to calculate what it would cost to meet these objectives.

He said that, since there are many different health care providers, we need to understand the system - understand the sources of finance and the administration structures governing these resources, for example, the Ministry of Finance. We also need an understanding of the major interest groups and their demands, so as to be able to deal with them.

According to Bloom, it is only after we have defined our objectives and gained an adequate understanding of how the system works that we can deal adequately with the issue of financing.

Sources of Finance

He outlined a number of potential sources of finance. Central government has large resources collected from taxes, but, in practice, it does not make enough money available for health care. Money can be raised for primary health care from a number of other sources, including local government. However, some local government structures are rich and others poor. The latter will need some form of subsidy.

Patients can be charged for the services they receive, but there is a major problem in that the poor cannot afford to pay. Even the World Bank has come to realise that it is difficult to raise money from the poor and it is now advocating tax revenue as an important source of finance.

Money can be raised through a variety of pre-payment schemes, which entail that people put aside a little money when they are well, to be used when ill. These schemes include employer provision for formal sector employees and voluntary or compulsory insurance. Pre-payment schemes provide the opportunity to take from those who can afford, to subsidise those who cannot.

In some countries, foreign funding has become an increasingly important source.

An Appropriate Combination of Finance Options

Bloom suggested that we need to look at each option for finance and at how that option is going to contribute to meeting our key objectives. We then have to select a combination of finance options to generate the necessary revenue.

He pointed to the political nature of health finance. The health sector is structured in terms of the existing balance of political forces. In South Africa, we have a segmented health sector which is, furthermore, dominated by sophisti-

cated hospitals and specialists. This structure needs to be transformed, but this will entail a struggle over resources between competing interest groups. Moreover, it takes time to establish new institutions. In the short term, we have to think through our priorities in terms of changing the health sector and also continue allocating some resources to existing institutions.

In summary, Bloom said that he did not have a simple solution for financing health services. We need to look for the most appropriate solution for our situation.

In the commission on financing, there was very little debate on whether to opt for nationalisation, separate public and private sectors or an NHI. As outlined earlier in this article, debate on these national financing mechanisms

characterised many previous health policy seminars. This change in the focus of debate was partly because the commission took Bloom's suggestion to clarify long term as well as immediate objectives for the health sector before attempting to define the best mechanisms of financing.

The Priority - PHC For All

It was agreed that the most important priority is the provision of affordable comprehensive primary health care for all. Given the exclusively curative focus of the private sector (which is not expected to change in the near future), it was felt that the public sector should be primarily responsible for ensuring that this priority is addressed. This sector should provide an efficient, people oriented service of high quality and there should be local autonomy and community control. Finances will be needed to build and run community health centres and to establish appropriate training institutions and programmes.

There was debate on whether services should be free for everybody or whether there needs to be a graded fee structure. However, there was agreement that no one should be denied access to essential services because of an inability to pay. Family planning, maternity services, health care for children of 5 years and under, immunisation and treatment of communicable diseases such as TB and AIDS should be free.

Some resources will be freed by getting rid of the duplication and fragmentation characteristic of the current health sector. A number of other possible sources of finance were raised. Some of the proposals made were that alcohol and tobacco sales should be more heavily taxed and that the advertisement of these products should also be taxed until such advertisements are banned. A state lottery and revenue from gambling were also suggested.

The Private Sector, Regulation and Research

It was agreed that the private sector should be made to bear the full cost of its services and that tax rebates for employers contributing to medical aid should be stopped. Also, the private sector, particularly the medical aids, should be subject to monitoring, auditing and public exposure to prevent maladministration. A phased amalgamation of medical aid societies should be introduced with the view to establishing a single body.

It was, however, accepted that large scale regulation of the private sector is difficult and, moreover, not a health priority. Such regulation was considered strategically inappropriate at present, in that the private sector would attempt to blame the government and regulation for the escalating cost crisis of this sector.

Research into the cost of comprehensive PHC service provision and other areas of financing (for example, details of a possible NHI scheme) was urgently called for. It was recognised that the NHI option may well be one that could extend affordable, essential health services to all and also address overservicing and other causes of wastage of scarce resources, but more research into the details of such an option still has to take place.

The commission reported back at a plenary and this formed the basis for the policy proposals on financing.

This article was written by Ahmed Valli, who participated in the commission on financing, and George Dor.