POLICY BRIEF
2025

FINANCIAL AND FISCAL COMMISSION
For an Equitable Sharing of National Revenue

Analysis of the funding performance of the National Health Insurance

Executive Summary

South Africa has a long history of inequality concerning the provision of services, including healthcare services and access to healthcare. To address these challenges, improve access to quality healthcare, and achieve universal health coverage (UHC), the South African government is implementing the National Health Insurance (NHI). It is essential to fund the NHI correctly for the successful implementation of the programme. This research evaluates and analyses the funding performance of the NHI's direct and indirect conditional grants.

As for other constraints in implementing the NHI, the study interviewed relevant officials from National Treasury, the national Department of Health, and the Office of Health Standards and Compliance to achieve its aim. Concerning funding performance, the research reveals that the performance of the direct NHI conditional grants is better than that of the indirect components of the NHI, which aligns with the findings of the Financial and Fiscal Commission on the performance of direct and indirect conditional grants in 2015.

Interviews reveal a number of challenges with the implementation of the NHI, which includes the capacity of critical institutions to contract private sector service providers, which is limited to doctors in the main, and slow progress concerning digital health integration or technology as systems are not linked.

The study also revealed a lack of detailed and in-depth reporting and impact assessment for contracted service providers through interviews. Based on these key findings, it is recommended that the Department of Health uses indirect conditional grants as a last resort, and address challenges resulting in delays in improving digital health integration.

THE FINANCIAL AND FISCAL COMMISSION

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The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between national, provincial and local spheres of government. This relates to the equitable division of government revenue among three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly to both Parliament and the provincial legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February each year.

The Commission consists of commissioners appointed by the President: the Chairperson and Deputy Chairperson, three representatives of provinces, two representatives of organised local government and two other persons. The Commission pledges its commitment to the betterment of South Africa and South Africans in the execution of its duties.

Background

The health system and provision of healthcare services are critical for all nations' economies to survive and for people's wellbeing and ability to prosper. South Africa has a long history of inequality in providing services, including healthcare services and access to healthcare. The South African government is implementing the NHI to address these challenges, improve access to quality healthcare and achieve UHC. It is, therefore, essential to fund NHI correctly for the successful implementation of the programme. Hence, this research evaluates and analyses the funding performance of NHI conditional grants and other constraints that affect the implementation of the NHI. The research utilised two approaches to achieve its aim. The first approach included a budget and expenditure analysis of direct and indirect NHI conditional grants. The second approach included engagements and interviews with National Treasury, the national Department of Health, and the Office of Health Standards and Compliance.

Research findings

South Africa is pursuing universal health coverage by implementing the the NHI to deliver UHC to all South Africans. The NHI has been implemented in three phases. Phase 1 (2012/13–2016/17) is funded through the NHI's direct and indirect conditional grants. This included piloting various interventions in preparation for the full implementation of the NHI. Phase 2 (2017/18–2021/22) focuses more on policy and the legislative aspects of the NHI. One of the key challenges for this phase is delays in signing into law the National Health Insurance Bill. Phase 3 (2022/23–2025/26) includes activities to strengthen health systems, as well as initiating the mobilisation of additional resources. These resources include funding (mandatory payment for the NHI) and selecting the contracting of healthcare services from private sector providers. The NHI's conditional grants have direct and indirect components with subcomponents. Figure 1 provides a snapshot of the NHI's conditional grants and its components.

Figure 1: National Health Insurance funding

The NHI direct grant seeks to expand the healthcare service benefits through the strategic purchasing of services from healthcare providers, while the NHI indirect grant consists of three components, as illustrated in Table 1.

Table 1: Components of the NHI indirect grant

Component	Purpose
Health facility revitalisation	To improve spending, performance, as well as monitoring and evaluation of infrastructure in preparation for the NHI, enhance the delivery of infrastructure for the NHI, and accelerate the fulfilment of occupational health and safety requirements. A funding window within the grant has provided for the Limpopo Academic Hospital since 2019.

Component	Purpose
Personal services	To expand access to healthcare service benefits through the strategic purchasing of primary healthcare services from healthcare providers. Priorities include oncology, mental health, contracting the services of a general practitioner (GP), human resources (HR) capacitation and health professionals contracting.
Non-personal services	To develop and roll out new health information systems, implement ideal clinic interventions and enable the health sector to systematically address the deficiencies in primary healthcare facilities. Priorities include medical stock, patients' information systems, the ideal clinic and centralised chronic medicine dispensing and distribution.

The indirect grant has three components. The first component, health facility revitalisation, seeks to expand healthcare service benefits through the strategic purchasing of services from healthcare providers. Within this grant, a window was created in 2019 to fund the planning and construction of the Limpopo Academic Hospital to strengthen tertiary healthcare services in the province and train new health professionals. It is key to note that the planning and construction of the Limpopo Academic Hospital are not directly related to the implementation of the NHI programme.

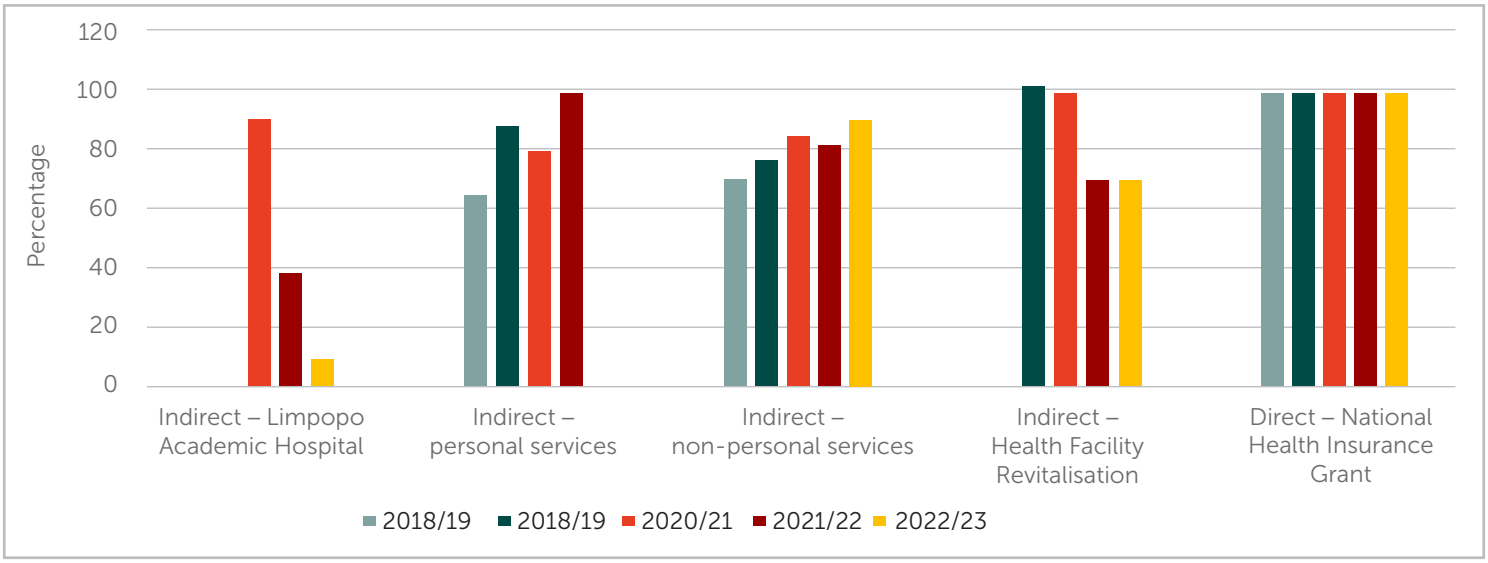
The second component, personal services, is aimed at piloting the establishment of contracting units for primary care, through which public and private healthcare providers will be contracted. Personal services consists of oncology, mental health, GP contracting, HR capitation and health professionals contracting. It is also key to note that the personal services component includes mental health, which is not directly related to the implementation of the NHI.

The third component, non-personal services, supports activities aimed at strengthening the health system, including information systems, quality improvement initiatives, and dispensing and distributing chronic medicines. It is responsible for medical stock, patients' information systems and the ideal clinic, among other things.

The personal and non-personal components were merged from 2024/25 and a new health system component was introduced. The new health system component is expected to strengthen health systems, particularly information systems, help address the findings of the Office of Health Standards and Compliance, improve the implementation of the ideal clinic initiative, improve the dispensing of medicines through the central chronic medication dispensing and distribution programme, and provide proof of concept, including the piloting of contracting units, for primary healthcare. It is important to note that the mental health services and oncology services components were shifted from the Communicable and Non-Communicable Diseases Programme to the NHI Grant in 2022. In 2024, funding for oncology was shifted from the NHI to the National Tertiary Services Grant. The changing and shifting of funding for programmes compromise performance, the tracking of performance and accountability.

Comparing the performance of the NHI's conditional grants, both direct and indirect, analysis shows that the direct NHI grants perform far better than the indirect conditional grants. Figure 2, for example, illustrates the poor performance of all the indirect components of the NHI's conditional grants except for personal services in 2021/22, and health facility revitalisation in 2019/20 and 2020/21. The NHI's direct grants, the Health Facility Revitalisation Grant and the NHI Grant, have shown a good performance of 100 per cent in all the financial years since 2018/19. This analysis indicates that indirect conditional grants performed poorly in expenditure compared to direct grants, which is in line with the FFC's finding in a study that reviewed the performance of the direct and indirect conditional grants in 2015 (FFC, 2015).

Figure 2: Comparison of NHI funding – direct and indirect conditional grants



Sources: Department of Health Annual Reports for 2018/19, 2019/20, 2020/21, 2021/22 and 2022/23

Interviews with relevant officials also revealed that current challenges exist for digital health integration and patient information that is not linked. This implies an absence of patient records that could be accessed by different healthcare service providers at different levels of healthcare, as well as health institutions. The study revealed that, while the national and provincial departments have contracted several private healthcare service providers, the main contracting is with respect to private GPs. Different provinces have contracted GPs in two ways: In some provinces, GPs are paid according to the number of hours or days they have worked, while in other provinces they are paid according to the number of patients they have attended to or treated. While these differences need to be reviewed to ensure uniformity and standardisation, the key challenge highlighted is monitoring and ensuring value for money. Data is currently provided by the service providers with respect to the number of patients treated and the number of days or hours spent by GPs in public establishments, but there is a lack of detailed and in-depth reporting and impact assessment. This was highlighted as a major concern, since high-level data reporting lacked details.

Conclusion

South Africa is implementing NHI to improve access to quality healthcare services and achieve universal health coverage. With respect to the financial performance of the NHI's conditional grants, the study reveals that direct grants perform better than indirect grants. This finding is in line with the Commission's research study conducted in 2015. The research also shows that there is currently a lack of digital health integration or patient information systems, which is likely to impact the implementation of the NHI. Digital integration should go beyond linking systems within the health sector, such as pharmaceutical and pathological services, and include some key institutions, such as the South African Revenue Service, the Department of Social Development and the Department of Home Affairs. Findings indicate capacity constraints with respect to key institutions to ensure the smooth implementation of the NHI, and these institutions are vital to ensure quality control, which includes the accreditation of service providers, compliance and conducting detailed impact assessments. Based on these key findings, it is recommended that the Department of Health uses indirect conditional grants as a last resort and addresses challenges that result in delays in improving digital health integration.

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