

FINANCING

District Health Systems

Before being taken over by the State in the late 1970s most rural hospitals were managed by various Mission Societies or Churches. Funds were always hard to come by and the meagre Government subsidies and grants certainly did not suffice to cover expenses. Managers of these health facilities became adept at raising money from a variety of sources as well as experts at containing expenses.

In the "New South Africa" funding for the provision of health is also likely to be restricted and all health facilities will have to once more examine closely, not only their expenditure, but rediscover alternate ways of raising funds. This is dependent on a sufficient degree of decentralisation to allow managers to use funds raised elsewhere than from government sources, at their discretion without having to allocate those funds to a "general revenue fund" controlled by a central authority. Inevitably, money controlled by a central administration is used for other purposes and is lost to the organisation which raised it.

1. Subsidies or Grants from the State or a Region.

It is evident that by far the greatest portion of the budgets of all districts health systems will have to be provided by public funding from state or regions. However, with proper decentralisation of authority and accountability the total grant or subsidy should be put under the control of the administration of the health district. This implies that decisions can be made locally as to the manner in which the money is allocated or reallocated (within certain parameters), and most

importantly that any surplusses can be used at the discretion of local management or carried over to the next financial period.

An essential component of the concept of decentralised accountability is the absolute necessity of strict independent auditing by professional auditors from the private sector who can be replaced if their work is not done satisfactorily or in time. In the past, state auditors have been up to three years late with their reports which makes it impossible to correct any shortcomings. The money saved by eliminating the unwieldy over-bureaucratized central administrations would more than suffice to pay efficient auditors.

2. Insurances, eg Medical Aid Funds, Workmen's Compensation

More and more people are now covered by some form of prepaid health insurance, either through their employment or voluntarily. However, because in rural areas there is a larger proportion of poorer people and because of the current problems many forms of prepaid insurances are experiencing, it is to be expected that this type of funding can only account for a relatively small proportion of the total budget.

Furthermore, the amount of administration required to recover costs incurred by patients increases expenditure considerably and some thought should be given to negotiating payment on a patient day basis with the insurers based on the actual costs of the particular facility.

3. Patient Fees

Hospitals in the private sector charge such exorbitant fees that they have virtually priced themselves out of the market or will have done when medical aid schemes can no longer afford them. What they have most certainly done is to make health care unaffordable for much of the population as the patterns set by the affluent sections of the population tend to influence the provision of health care across the whole spectrum of society.

On the other hand a completely free health service is open to abuse. Achieving a happy medium between what the patient can afford and fees that will make a significant contribution to the total budget is not easy. It has even been asserted that the costs incurred in administering the collection of patient fees, particularly outstanding fees, outweigh any possible benefits.

In rural hospitals the revenue from patient fees accounts for less than 2% of the total budget. A token fee is therefore probably the eventual solution.

4. Suppliers

As soon as an Institution is perceived as being "Government", suppliers of goods and services see this as a goose that lays golden eggs. Prices are boosted, there is collusion amongst

contractors and nepotism allows contracts to be awarded unfairly. When health facilities are perceived as being "poor" these institutions can often benefit considerably from suppliers either in cash or in kind.

- Most suppliers will give discounts for prompt payment of their accounts, sometimes up to 10%. Prompt payment is certainly possible in a decentralised administration where accounts can be processed immediately, but is not possible in a centralised context as the process of payment is so complex that it usually takes months for suppliers to receive their money when they are fully justified in adding interest.
- Many suppliers will give special prices for goods, in particular drugs that are nearing their expiry dates, but which can still be used in places with a rapid turnover; or for lines whose packing has been changed and are therefore no longer marketable; or for "last year's model" of a piece of equipment.
- Suppliers will more readily make donations of goods and materials to institutions perceived as being poor.
- Many services such as catering, transport, railage, laundry and maintenance of vehicles and equipment can be given out to the private

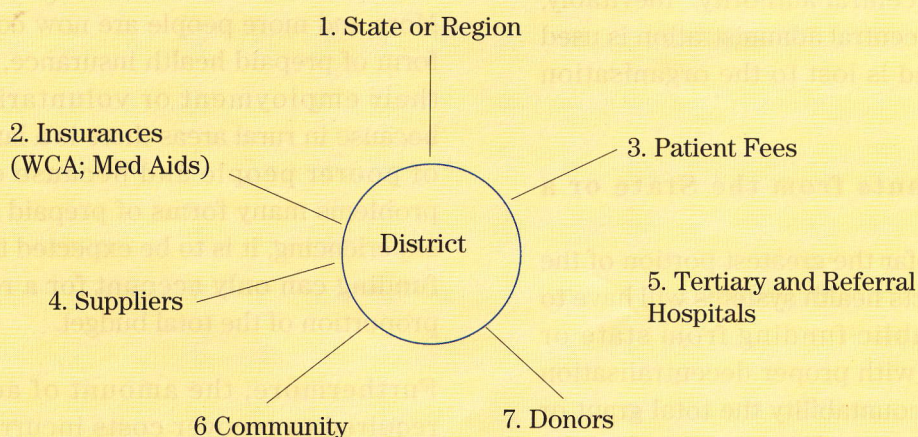


Figure 1 depicts the possible sources of funds for a District Health System

sector as contracts on a competitive basis. It is a fallacy to believe that government departments can provide any of these services more cheaply as the inefficiency and delays eventually cost a great deal more.

5. Tertiary and Referral Hospitals

Tertiary and referral hospitals can contribute in two ways to the financing of rural health districts. Firstly by transferring replaced but still useable equipment to their poor cousins. At present this is not allowed because of a multitude of regulations and perfectly good equipment lies rotting in various stores. Secondly by making available to decentralised facilities expertise in the form of visiting consultants, administrators and teachers and trainers; expertise for which they would otherwise have to pay.

6. The Community

If communities can acquire a sense of ownership of "their" hospital or health service they can provide a great deal of financial help either in kind or in cash. Organisations such as "The Friends of the Hospital" have been very successful in raising funds by means of functions and in increasing public awareness and understanding of the work of a health service. However for this to happen complete administrative decentralisation must occur otherwise any community effort is frustrated by regulations, rules and decisions from people not involved in the local problems.

7. Donations

From time immemorial providers of health care have depended on donations. When a government takes full financial responsibility for a service potential donors lose interest and no

longer see the need to part with their money. The same happens with large charitable organisations such as the International Committee of the Red Cross whose donors start questioning the high administrative costs they have. However small organisations, particularly in the health and education sectors, can more easily attract donors specially for specific projects.

There are two types of donations. Larger amounts usually come from trusts and large corporations and are for specific projects. Accountability is directly to the donor and not to any central government committee as international donors have become wary of government controls and restrictions.

Secondly, there are smaller gifts and donations which come from relatives of patients, visitors to the hospital, legacies and casual donors. This money should be treated differently from other income and may be earmarked for specific purposes but should under no circumstances be lost in general revenue as is the case at present.

Funding for the provision of health is also likely to be restricted and all health facilities will have to once more examine closely not only their expenditure but rediscover alternate ways of raising funds

Properly utilised and controlled these sources of revenue can greatly relieve the burden on the national budget. There will always, however, be a need for the taxpayer to carry the largest portion of health expenditure.