CABRI Report on Public Health Budget Practices and Procedures in Africa

How African countries budget for health

CASE STUDY

Executing the health budget: The Case of South Africa

CABRI

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1 Introduction

One of the key questions in this survey is how countries can best utilise the funding that they have for healthcare. This is a question of budget execution: can funding be mobilised in a manner that is efficient and effective but also sustainable? Budget execution is promoted by strong planning upfront, and rigorous monitoring of expenditure and performance over time. This requires a strong institutional structure with well-defined roles for each organisation. From the viewpoint of the Ministry of Health, budget execution is about useful spending of the funding that is available and remaining within budget allocations. From the perspective of the Ministry of Finance, budget execution relates to monitoring whether funds that are allocated are used for their intended purpose.

Addison (2013) argues that budget execution is extremely difficult because there are numerous failure points. If revenue forecasts are too optimistic, then governments are not incentivised to maintain expenditure controls because they expect that excess revenue will offset any expenditure overruns. If political support for programmes is weak, then activities will be obstructed. Implementation of projects requires both technical skills in the implementing ministry and public financial management skills. This case study examines how South Africa has managed to avoid some of these obstacles.

2 Planning in South Africa's budget process

The budget process for health – indeed, for all spending – brings proposals into one process, so that bids can be compared against each other, within the discipline of a spending limit. Government then has to apply economic, political and social judgements to determine which spending proposals reflect its priorities best. Good budget execution in the health sector needs to take into account specific characteristics of the health sector, as well as aspects of the main budget process.

Forecasting

The preparation for the budget begins with the economic forecast, which projects economic growth for the next three years, the period of the medium-term expenditure framework (MTEF). The forecast is produced using a macroeconometric model with assumptions on the course of global growth and commodity prices in the next three years.

The economic forecast includes projections of tax bases, such as corporate profits (the base for corporate income tax). The projections for the tax bases are used to provide a forecast of tax revenue. In general, there is a bias against an optimistic revenue forecast because that could result in a larger budget deficit if economic growth is slower than expected. The Budget Office in the Treasury uses the revenue forecast to produce the fiscal framework that contains projections of expenditure and the budget balance, and ultimately the level of debt to GDP. This reflects decisions on fiscal policy, such as how much support government spending should provide to the economy. The fiscal framework determines the overall envelope of expenditure. The fiscal framework is approved by Cabinet. The Medium-Term Budget Policy Statement (MTBPS) provides some information to Parliament and the public about the revised fiscal framework.

Box 1: Use of economic models in budget planning

South Africa's National Treasury uses a number of economic models to prepare the national budget. The short term macroeconometric model contains 15 behavioural equations and more than 200 identities to produce a forecast of GDP growth and tax bases. The National Treasury also runs a long-term fiscal model. This model uses variables such as population growth and the potential growth rate of the economy to forecast fiscal conditions for the next 25 years. This model has implications for health spending because it is used to model the impact of significant changes in policy, especially the discussion around National Health Insurance. Another model is run over a period of 10 years to forecast South Africa's bond portfolio and plan for reissuance and rollover of bonds.

Implementation of projects requires technical skills and public financial management skills

Box 2: Accuracy of forecasting in the budget process

The Public Expenditure and Financial Accountability (PEFA) frameworks contain assessments (from A to D) of the accuracy of forecasts and the efficacy of the forecasting process. In order to obtain an A for the revenue outturn element, actual revenue collected needs to be within 97% and 106% of the revenue forecast in two of the last three fiscal years. An assessment of B indicates that revenue collected was within 94% and 112% of the forecast, and a C means that revenue collected was within 92% and 116% of the forecast in two of the last three fiscal years. Performance on this measure is strong across all the respondent countries, with only Chad and Cameroon failing to achieve at least a B.

The 2016 Framework added further elements regarding forecasting accuracy and the process to arrive at a forecast. The revenue composition element examines the accuracy of the revenue forecast in terms of performance by individual tax types. For example, was the projection of corporate income tax accurate? In some cases, forecasts for individual taxes may be inaccurate, but errors may cancel out at the aggregate level so that it appears that the forecasting process was successful when there might have been some luck involved. To achieve an A assessment score, revenue composition should be within 5% of the forecast in two of the last three fiscal years; a B score indicates a forecast within 10%; and a C, within 15%. Scores on revenue composition were slightly lower than for the revenue outturn, indicating that errors on individual tax projections are cancelling out to an extent.

Table 1: PEFA assessments of budget forecasts

	Year of PEFA assessment	PEFA Framework	Revenue outturn assessment	Revenue composition assessment	Macroeconomic forecast process	Fiscal forecast process	Macrofiscal sensitivity
Benin	2014	2016	B				
Cameroon	2017	2016	D	C	D	B	D
Chad	2018	2016	C	NR	C	C	D
Congo, Dem. Rep.	2008	2011	A				
Côte d'Ivoire	2019	2016	A	B	B	B	C
Gambia, The	2015	2011	B				
Guinea-Bissau	2014	2011	A				
Lesotho	2017	2016	B	C	C	C	D
Liberia	2016	2011	B				
Mauritius	2015	2011	B				
Nigeria	Not publicly released						
Seychelles	2017	2016	B	D	A	B	C
Sierra Leone	2018	2016	A	NR	C	C	C
South Africa	2014	2011	A				
Uganda	2017	2016	B	A	B	B	C

Source: PEFA. Elements assessed are PI-03 in the 2011 Framework and PI-03.1, PI-03.2, PI 14.01, PI 14.02 and PI 14.03 in the 2016 Framework.

Elements PI-14.1 to PI_14.3 of the 2016 PEFA framework assess the robustness of the forecasting process for the macroeconomic forecast and the fiscal forecast. In order to obtain an A rating, the macroeconomic forecast needs to cover the MTEF, it needs to be updated once a year, and it should be reviewed by an entity that did not prepare the forecast. The forecasts and the underlying assumptions need to be published in the documentation submitted to the legislature.

Levels B and C contain lower levels of transparency. Pillar 14-02 of the 2016 PEFA Framework contains similar scoring for forecasts of government expenditure, revenue and the budget balance. Macrofiscal sensitivity examines the extent to which scenarios are used in the forecasting process and whether these scenarios are quantified and disclosed to Parliament.

Scores on these elements are slightly lower than the revenue outturn assessment. South Africa's most recent PEFA assessment was concluded in 2014 so there are no recent scores available for these elements, but South Africa would likely have scored an A on each element. This points to a forecast process that is accurate and robust. The other respondent countries can improve forecast accuracy through running a more transparent and robust forecasting process.

Consultative processes

Since 2016, the South African Presidency, through the Department of Planning, Monitoring and Evaluation (DPME), has laid the groundwork for the budget by preparing a mandate paper. It provides guidance to all government departments in preparing their budget submissions and seeks to align the annual budget with the long-term goals contained in the National Development Plan. The National Development Plan established goals for government for 2030. The mandate paper identifies government's priorities in the forthcoming budget cycle.

According to South Africa's response to the survey, budget planning for health is complicated by the fact that not all expenditure is on the central health budget:

> *In South Africa, the sub-national sphere has been mandated to provide health services (as per Chapter 4 of the National Health Act). These services are predominately funded through provincial equitable share (which is each province's constitutionally entitled share of national revenue). However, the National Department of Health (i.e. national sphere) may augment funding for key provincial services (e.g. HIV/Aids grants) where needed. Since the national sphere cannot realise provincial spending on its own budget as it would when purchasing goods and services for its own use, a conditional grant (see the Division of Revenue Bill/Act schedules 1 to 7 regarding allocations for detail on these) is transferred to provinces or spent on their behalf.*

Consultations between line departments and the National Treasury are held in budget bilaterals in June and July every year. Thereafter meetings are held between similar functions of government, such as health and education. According to South Africa's response to the survey, health has a number of bodies for budget coordination:

> *1. Budget Bilateral: This is organised by National Treasury annually as part of initial budget discussions. It is co-chaired by the function group[1] leader for Health or the Head of Public Finance in the National Treasury and the Director-General of the Ministry of Health. All Health program managers would typically attend.*
>
> *2. 10 x 10 meeting: The National Treasury and the nine Provincial Treasuries meet together with the National Department of Health and the nine provincial health departments to discuss MTEF budget issues. It is attended by the heads of all the departments.*
>
> *Note: The agendas of both meetings 1 and 2 (above) are jointly decided on by the Health Function group leader and the Head of the Ministry of Health.*
>
> *3. There is also a Budget Council (BC) and a Technical Committee for Finance (TCF). The TCF meets in anticipation of the BC, and officials from all relevant ministries are called to discuss given budgets or finance issues if there is a need.*

The National Treasury issues technical guidelines for the budget process in June. The guidelines lay out the format for departmental submissions for the budget process. They contain information on the parameters that departments need to use, such as the inflation rate, exchange rate and the rate of increase in government wages. The National Treasury also issues an Excel template, which provides the format for all the financial information that needs to be submitted.

Departments submit the Excel template, as well as a document explaining the information contained in the Excel template, to the Medium-Term Expenditure Committee (MTEC). The MTEC is comprised of officials from the National Treasury, the Presidency (the DPME) and the Department of Public Service and Administration. The MTEC will weigh recommendations against the government's priorities, the economic implications of the proposals, and the track records of the implementing institutions. For example, requests for new funding will not be granted if a department underspends or provides poor quality service. In general, underspending departments will have their funding reduced, though this is not always applied to important functions such as health or education.

Political processes

The MTEC reviews the recommendations tabled by National Treasury officials and either rejects or approves these recommendations for tabling at the Ministers' Committee on the Budget (MinComBud), a sub-committee of Cabinet. The purpose of MinComBud is to provide the Minister of Finance with support when its recommendations are tabled at Cabinet, especially if the recommendations include cuts to baselines.

If Cabinet approves the recommendations of the MinComBud, the Minister of Finance will table the recommendations in Parliament as the Appropriation Bill and the Division of Revenue Bill in the Budget Speech. In addition, the Minister of Finance tables the Estimates of National Expenditure (ENE), which contains detailed information about the expenditure contained in the Appropriation Bill as an explanatory memorandum to enable Parliament to fully undertake their oversight role. The ENE is usually more than 1 000 pages long, even in the abbreviated form that is published. The full document is available online.

1 Function groups are a meeting of departments of government that perform similar functions. For example, there are function groups for health, education, economic affairs and infrastructure. The chair of the function group is usually a senior official from the National Treasury.

Budget execution as an outcome of the budget process

The key question is: what aspects of South Africa's budget process enable high levels of budget execution? It is difficult to be certain, but some aspects of the process seem to lend themselves to effective budget control:

- The South African budget process is formalised and transparent. This assists budget execution because it allows effective oversight by Parliament and civil society.
- The forecasting process is transparent and accurate. This reduces uncertainty in budget planning and reduces the amount of revisions that have to be made to outer year allocations in the MTEF.
- The consultative nature of the process allows all of government to have input into budget decisions. This may increase the perception of legitimacy of the budget, inducing line departments and ministries to stay within budgeted limits.
- The competitive nature of the process certainly plays a role; departments understand that performance in terms of service delivery and budget execution influence future budget decisions, incentivising officials to meet performance targets, stay within allocations and to aim for clean audits.
- Effective long-term planning allows for budgeting over the medium term, which in turn allows implementing agencies longer time horizons and makes service delivery more effective. As seen in the main report, most respondent countries are implementing MTEFs but have not been able to use their full capabilities yet. This is clearly an avenue for improved budget execution.
- The legal framework provides for criminal sanctions for financial mismanagement. So far, only one accounting officer has been charged with financial mismanagement, but the threat of imprisonment and fines may prevent officials from exceeding budgets and incurring irregular expenditure.

3 Use of allocated funding

Table 2 reports on South Africa's use of government funds for health, providing slightly more detail than in the main report. The most important part of the table is the far right column, which reports the ratio of actual expenditure to the original budget allocation. This ratio should be close to 1.

Table 2: Health budget allocations, adjusted allocations and actual expenditure (US$)

	Fiscal Year	Budget allocation	Adjusted allocation	Actual expenditure	Actual/budget ratio
South Africa	2016	2 860 079 682	2 843 288 996	2 822 187 096	0.99
	2017	2 621 785 394	2 624 103 666	2 617 221 391	1.00
	2018	3 201 836 039	3 203 325 872	3 186 735 497	1.00
	2019	3 562 280 658	3 589 899 727	3 552 117 970	1.00

Source: Budgeting for Health in Africa Survey 2019 data

The consultative nature of the budget process allows all of government to have input into budget decisions

South Africa has performed consistently across all four fiscal years in the table. Execution rates are very close to 1 in all four years. It is also noticeable that there is little change to the allocated baseline in the adjustment budget, with the adjusted amounts being less than 1% different from budget allocations in all four fiscal years reported in the table.

Performance at provincial level is not as good. In 2018/19, the Eastern Cape, the North West and the Northern Cape spent more than 2% above their allocation. The Free State province and Limpopo spent at least 1% more than their budgeted allocation. There are substantial problems beyond budget execution, including quality of care, limited provision and delayed payments to suppliers.

One reason South Africa is able to achieve good outcomes is because the country raises most of its own revenue. As Table 3 shows, South Africa receives a negligible proportion of its budget from donors. This means that South Africa is not dependent on donors to determine resource levels. Countries such as Liberia and the Gambia are much more aid dependent, which means that there is uncertainty as to the quantity and timing of aid flows. This makes budget planning more difficult and reduces quality of budget execution. Oversight of projects funded by aid are more difficult as government may be constrained in their ability to make changes to donor-funded projects. If government-funded projects are not delivering, their funding can easily be reduced, but that may not be the case with donor-funded projects. These concerns would also be relevant in the health budget. The data in the far right column of Table 3 shows the share of health expenditure financed through donors. Countries such as Benin, The Gambia, and the Democratic Republic of the Congo could struggle to achieve high levels of budget execution because of the impact of donor funding and the reduced oversight this can entail.

Table 3: Aid flows to respondent countries, 2018 (US$ m)

	2018 Aid Flows (US$ m)	2018 GDP (US$ m)	Aid/GDP (%)	External health expenditure (% of current health expenditure)
Benin	570	10 359	5.5	30.5
Cameroon	1 164	38 502	3.0	9.3
Chad	875	11 303	7.7	14.6
Congo, Dem. Rep.	954	47 228	2.0	43.4
Côte d'Ivoire	2 510	43 007	5.8	15.0
Gambia, The	233	1 624	14.3	43.8
Guinea-Bissau	152	1 458	10.4	20.3
Lesotho	152	2 792	5.4	17.3
Liberia	571	3 249	17.6	30.1
Mauritius	67	14 220	0.5	0.2
Nigeria	3 302	397 270	0.8	9.8
Seychelles	16	1 590	1.0	1.9
Sierra Leone	506	4 000	12.6	41.0
South Africa	915	368 288	0.2	1.9
Uganda	1 941	27 477	7.1	40.4

OECD, QWIDS, World Bank World Development Indicators

4 Monitoring of spending

A key component of budget planning and execution is ensuring that the funding was spent in the manner that Parliament intended. According to South Africa's response to the survey, there are various accountability measures that facilitate this:

> *Allocation letters contain National Treasury earmarked amounts, which can only be reduced with National Treasury approval. Some allocations are earmarked by Parliament and can only be reduced with Parliament's approval of a revised Appropriation Bill.*

Earmarking of certain expenditures was mentioned by nine of 14 respondent countries, so it is quite common.

Departments are constrained in their ability to shift funds between the major divisions of their budget. Movements of more than 8% of funding can only be approved by Parliament at the MTBPS, but smaller movements can be approved by the Director-General of the National Treasury. All spending by government departments needs to be aligned to the provisions of the PFMA and the National Treasury Regulations.

The South African National Treasury monitors spending on a monthly basis, with a one-month lag on expenditure data. Six other respondent countries also have a one-month-or-less lag in reporting expenditure data. The shorter the lag in reporting, the more effective National Treasury monitoring can be. The survey showed that some respondent countries have longer lags in their expenditure reporting to the Ministry of Finance, which can impact on the oversight function of the CBA.

All South African departments have to report their spending to the National Treasury and explain any variances from budget. These could be variances in terms of spending on certain items as well as variances in terms of pace of expenditure. The National Treasury reports on spending to Parliament on a quarterly basis. Provincial Treasuries perform a similar role for spending by provincial departments of health.

After the fiscal year is complete, all financial statements are audited by the Auditor-General of South Africa. Departments need to provide their Annual Report, including the signed-off audited financial statements, to the National Treasury by 30 September, i.e. six months after the fiscal year ends. The Auditor-General will report on any spending above allocations (i.e. unauthorised expenditure) or any spending which breaches the PFMA or the Treasury Regulations (i.e. irregular expenditure). Irregular expenditure can be condoned by the Minister of Finance, while unauthorised expenditure must be resolved in Parliament. The unauthorised or irregular expenditure will be reported in Annual Reports until it is resolved.

The response to overspending within the same year is also key. Out of the 14 respondent countries, 13 said that if health budgets were overspent, supplemental budgets were added. South Africa has also indicated that funds may be added by way of a supplemental budget, but not in every case. In some cases, provincial government deficits were allowed to increase, meaning that no new funds were added and that provincial governments would have to reprioritise within existing baselines. Benin and Chad also used budget cuts in other areas in addition to a supplemental allocation. If health officials were not certain that any overruns will be offset by further allocations, then the incentive to overspend would be reduced. This is especially so if other parts of provincial government were forced to cut their own spending to cover any above-budget spending.

5 The role of budget transparency

Sarr (2015) examines the budget through the principle agent theory. In this case the principal (the legislature) passes a budget but does not have complete information about how the budget is being implemented by the agent (the government). This is similar to the problem that most consumers face: they are unable to evaluate how effective their doctor is because they lack specialist medical knowledge, so doctors are often rated by second-order criteria, such as bedside manner. Increased budget transparency attempts to alleviate the information constraints by making as much budget information public as possible. This leaves little room for government to divert spending in ways that Parliament did not intend, which would reduce effective budget execution. This is the concept behind the International Budget Partnership and the Open Budget Index. Using data from 73 countries, Sarr (2015) finds that increased budget transparency results in improved budget execution in education and health budgets, and in more accurate forecasts of economic growth and inflation. Given that South Africa is ranked as the most transparent budget in the world (International Budget Partnership, 2020), this could explain why South Africa has been able to execute budgets well.

6 Conclusions

South Africa has a strong formalised budget process. This is reflected in the high levels of budget execution. Planning is also a key part of the budget process, through the use of the long-term fiscal model and the mandate paper process, which enables alignment between the budget process and the long-term planning in the National Development Plan. This is something that many budget processes struggle with, including those in Africa. The use of a MTEF allows for greater certainty by spending departments. Avoiding over-optimistic revenue forecasting and having lower reliance on donor funding contributes to higher levels of effective budget execution, as per Addison (2013).

Effective budget execution is also enabled by the monitoring of expenditure over the fiscal year and the understanding that if allocated funding is not spent, it is likely to be reallocated to other functions with a better track record of spending. These consequences apply less to health because of the importance of the health function. Additionally, South Africa does not always provide additional supplemental allocations in the event that overspending occurs.

Given the strong adherence to expenditure targets, it appears that accounting officers believe they must meet budget forecasts. This could be because they fear losing funding in the next budget cycle, or it could be because of other sanctions such as poor-quality audits, or a public hearing by Parliament. Sarr (2015) provides another potential explanation in that South Africa's budget process is very transparent, which enables Parliament to carry out rigorous monitoring, so that budgets are executed well.

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