Community Working Group on Health (CWGH)

Analysis of the 2018 National Budget – Health Implications

Key Sector Priorities

- **Allocate at least 15% of the National Budget to health care in line with the Abuja Declaration target.** Empirical evidence has shown that a 1% increase in public spending on health care reduces child and maternal mortality rates while improving life expectancy.
- **Boost public spending on health without undermining fiscal sustainability through harnessing a number of options for innovative domestic and sustainable financing.** These options include: broadening the tax/revenue base through introducing incentives to mainstream the informal sector into the formal economy. Other options include corrective and wealth taxes. Enhancing tax administration and efficiency is also vital.
- **Strengthen the public health system by improving institutions (governance), enhancing human resource capacity (especially community based health workers) and addressing infrastructure deficits.**

Introduction

The country needs to migrate to a pro-poor, inclusive and sustainable development framework. A pro-poor, inclusive and sustainable national budget framework is one that puts people at the centre and prioritises their basic rights such as health, education, water and sanitation. It prioritises and ring fences social and capital/development expenditures in order to boost the productive and human capacities of the country. This is very important if the country is to reap a demographic dividend from its largely youthful population. A pro-poor, inclusive and sustainable national budget therefore consciously integrates economic, social and environmental objectives upfront and ensures that social and environmental objectives are not subordinated to narrow economic imperatives. It must contain explicit social development goals such as unemployment and poverty. Past macroeconomic policies including the National Budget have lacked a consistent pro-poor, inclusive and sustainable development orientation.

The 2018 National Budget comes at a time the country has just experienced some political leadership changes which have brought confidence and hope of an economic turnaround to many people. On the economic front the country continues to experience a binding liquidity crisis which has particularly social services including health care provision. The liquidity crisis is a manifestation of structural deficiencies and distortions in the economy typified deindustrialisation, rising informality, high public debt, lacklustre export performance, dwindling capital inflows, capital leakages, poor infrastructure, institutional weaknesses, weak confidence, a volatile political environment among others. In particular, the high levels of informality presents challenges for domestic resources mobilisation within the context of national budget financing.

Macroeconomic Framework

The macroeconomic framework underpinning the National Budget remains highly consumption oriented with the bulk of fiscal revenues going towards funding employment related costs (see Table 1). Consequently, employment costs have therefore crowded out critical infrastructure and social services expenditures. Furthermore, the financing of the widening fiscal deficit through domestic borrowing has resulted in an increase in the public debt and an unsustainable macroeconomic situation. Table 1 shows the key fiscal indicators for the fiscal years 2017 and 2018.

Table 1: Key Fiscal Indicators

	2017	2018	% Change
Revenues and Grants (US$ m)	3,700	4,338.50	17.3
% of GDP	25.5	23.9	-1.6
Total Expenditure (US$ m)	4,100	6,045	47.4
% of GDP	27.6	33.3	5.7
Recurrent Expenditure (US$ m)	3,630	4,515	24.4
% of GDP	25	24.9	-0.1
% of Total Expenditure	89	75	-14
Employment Costs (US$ m)	3,000	3,394.80	13.2
% of GDP	20	18.7	-1.3
% of Total Expenditure	73	56.2	-16.8
Capital and Net Lending (US$ m)	520	1,530	194.2
% of GDP	4	8.4	4.4
% of Total Expenditure	13	25.3	12.3
Budget Deficit (US$ m)	1,042	1,706.50	63.8
% of GDP	7	8.4	1.4

Source: Derived from the 2017 and 2018 National Budget Statements.

The fiscal deficit was estimated at US$1,042 billion (7.3% of GDP) in 2016. The fiscal deficit is expected to widen further in 2017 to US$1,707 representing a 64% increase owing to a lacklustre performance of revenues and pressures on the expenditure side.Funding for the upcoming elections in 2018 will put serious on expenditures. As a result the fiscal deficit is expected to remain high in 2018. Official statistics are however projecting a fiscal deficit of US$672 million in 2018.Government has resorted to domestic borrowing to finance the widening fiscal deficit. This is however unsustainable and is generating inflationary pressures. The total debt stock is estimated at US$13.6 billion in 2017 with US$6 billion being domestic while US$7.5 billion is foreign. The country has experienced a steep increase in money supply. According to the 2017 mid-term monetary policy broad money supply rose by about 24 per cent from US$5.0 billion as at May 2016 to 6.2 billion as at May 2017. Domestic credit increased by 21 per cent from US$7.0 billion in May 2016 to US$8.5 billion in May 2017.

Table 2: Total Debt Stock

	2016	2017	% Change
Total Debt Stock (US$ m)	11,300	13,579	20.2
% of GDP	79.8	74.9	-4.9

Domestic (US$ m)	4,000	6,031.40	50.8
% of GDP	28.2	33.3	5.1
% of Total Debt	35	44.4	9.4
Foreign (US$ m)	7,300	7,547.60	3.4
% of GDP	51.5	41.6	-9.9
% of Total Debt	65	55.6	-9.4

Source: 2018 National Budget Statement.

The cost of servicing the debt continues to crowd out fiscal resources that could have been invested in critical social services such as health care and education. As a result, Government spending on critical sectors such as health remains relatively low.Government subsidies to loss making parastatals amounting to US$224.5 million in 2017 have also had a strong crowding out effect on critical social and capital expenditures. The reform of Parastatals therefore needs to be urgently expedited in the 2018 Fiscal Year so as to stop the further haemorrhaging of the economy.

Key National Budget Highlights

Economic growth is expected to improve to an estimated 3.7 per cent in 2017 up from 0.7 per cent in 2016. This improvement will be underpinned by significant performance in agriculture, mining and electricity and water. Economic performance in 2018 is projected at 4.5%. However, this performance may be weighed down by the elections which are already generating a lot of uncertainties and are expected to put pressure on expenditures. There is need to ensure the economic growth employment-rich and poverty-reducing. In the short to medium term the economy will continue to face structural challenges arising from high levels of informality, weak domestic demand, high public debt, lack of confidence, a fluid political environment and institutional weaknesses.Uncertainties associated with the 2018 elections may dampen investment further affecting growth (wait and see attitude). The investment environment remains problematic. According to the 2017-2018 Global Competitiveness Report by the World Economic Forum (WEF), the most problematic factors for doing business in Zimbabwe include (in order of their importance): policy instability (19.3%); foreign currency regulations (15.9%); inefficient government bureaucracy (13.6%); access to finance (10.5%); corruption (9.2%); government instability (8.8%); inadequate supply of infrastructure (8.3%); tax rates (4.6%); restrictive labour regulations (4.4%) and tax regulations (4.1%) among others.

Implications on Health

Government allocation on health care continues to account for a relatively small share of total government spending with health sector allocation standing at 6.9% in 2017. Employment costs however constitute 79% of the total health budget. The Abuja target remains an elusive target for the country. Total government expenditure on health as a percentage of total government expenditure was less than 15% (Abuja target) over the period 2010-2018 as shown in Table 3. The Sub Saharan African average is 11.3%.According to the World Health Organisation (WHO) countries such as Malawi, Rwanda, Madagascar, Togo and Zambia have managed to reach the Abuja target. As of 2015, Rwanda was spending at least 23% of its budget on health care. The Government also spends a relatively small share of its gross domestic product (GDP) on health care. Lower levels of per capita health expenditure indicate that health expenditure in the country is insufficient to guarantee adequate access and quality of healthcare. Per capita health allocation stands at about US$25 in 2018 up from US$22 in 2017 and about US$24 in 2016. Per capita health spending is US$650 in South Africa, US$90 in Zambia and US$200 in Angola. The inadequate public financing of health has resulted in an overreliance on out-of-pocket and external financing which is highly unsustainable.

Worryingly, defence and home affairs spending continue to take a lion's share of the budget to the detriment of health and other social services sectors. In the 2018 National Budget the Ministry of Defence US$420.4 million (constituting 7.9% of the total vote) while the Ministry of Home Affairs received US$435.5 million (representing 8.2% of the total vote). In Rwanda and Uganda they drastically reduced defence and security in recent years to allow for scaling up of pro-poor expenditure on human and infrastructure development. Military and security spending have been shown to retard development by diverting government resources that could be put to better use. In fact development, not military deterrence, is the best strategy for a safer society. Developed countries spend relatively more on health than they spend on defence while developing countries spend relatively more on defence than they spend on health. The USA spends 6.6 of its GDP on health care and only 3.8% of its GDP on defence. Japan spends 1% of its GDP on defence and 6.5% of its GDP on health care. Germany spends 1.4% of its GDP on defence and 8.6% of its GDP on health. Eritrea on the other hand spends 19.4% of its GDP on defence and only 3.2% of its GDP on health. Burundi spends 5.9% of its GDP on defence and only 0.6% of its GDP on health. Zimbabwe spends about 6% of GDP on defence and security and only 2% on health. There is therefore a clear direct and positive relationship between health spending and development.

Table 3: Trends in Public Health Expenditure, 2010-2017

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Public Health Expenditure (% of Total Government Expenditure)	7.5	7.6	9.7	9.6	8.5	6.6	7.5	5.6	7.7
Public Health Expenditure (% of GDP)	1.7	2.1	2.8	2.8	2.5	2.1	2.3	1.9	2.1

Source: Calculations based on Ministry of Finance figures. The figures for 2016, 2017 and 2018 are planned not actual.

Table 4: Disaggregation of Health Budget Allocation

	2017 (US$ million)	**% of Total Health Vote**	**2018 (US$ million)**	**% of Total Health Vote**	**% Change**
Employment Costs	223	79.1	297.4	72.7	33.4
Operations and Maintenance	29.6	10.5	75.8	18.5	303.4
Capital Expenditure	29.5	10.4	35.7	8.7	25.4
Total	281.9	100	408.9	100	61.1

The capital expenditure provision will focus on rehabilitating central, provincial and district hospitals as well as the construction of six rural health centres, namely: MbuyaMaswa and Chiromo in Zaka, Chibila in Binga, Siyabuwa in Gokwe, Dongamuzi in Lupane and Munemo in Nyanga. A provision of US$8.2 million is being appropriated for the procurement of medical equipment at district hospitals. NATPHARM will be allocated US$1 million for the construction of medicine warehouses in Bulawayo, Masvingo and Mutare to increase its capacity for cost effective bulk procurement, storage and distribution.This may not be the most pressing priority considering the critical shortage of drugs. The AIDS levy is expected to mobilise US$35.8 million with the Health Fund levy mobilising an additional US$30 million for the purchase of medicines and medical equipment at all levels of care. There are still outstanding issues with respect to transparency and inclusivity with respect to the governance and oversight of the Health Fund levy.

Development partners are expected to complement 2018 Budget appropriations by providing a US$239.6 million (slightly more than half of the health budget) resource envelope as follows:

- Global Fund, US$173.8 million;
- Health Development Fund, US$58.1 million; and
- Global Alliance for Vaccines and Immunisation, US$7.7 million.

The high dependency on external financing is unreliable, unpredictable, unsustainable and highly dependent on the political environment, raising concerns on the sustainability of health financing and the vulnerability of government's budget should external funding be withdrawn.

The 2018 Budget proposes to extend the rebate of duty facility on capital equipment imported by approved medical institutions and practitioners, with effect from 1 January 2018. Capital equipment imported under the facility will not be liable to Customs Duty and VAT. This is expected to improve citizens' access to quality health facilities.

Actual disbursement to public health care amounted to US$248.6 million over the period January to September 2017, inclusive of US$215.1 million for employment costs for health care personnel (86.5% of total actual disbursement).Government had budgeted to spend 79% of the health budget on employment costs. The Health Fund receipted revenue amounting to US$21.9 million during the ten months to October 2017. Development partners have so far disbursed US$279 million on health more than what central government has spent.

Conclusion

While there has been a slight improvement in the health budget in 2018 it however still remains inadequate to fund the critical needs in the health sector. Moreover, the bulk of the resources will be channelled towards financing employment costs leaving very little for capital expenditures. The performance of the National Budget is likely to be affected by elections both in terms of funding requirements and in terms of increasing uncertainties. The National Budget may therefore fail to meet some of its targets. The financial condition of state-owned companies and public entities represents another significant risk over the medium term.

Future budgets must contain a matrix articulating key initiatives in the preceding budget, progress made in this context and a plan and timeline for key milestones to be achieved during the budget period.

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