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OPINION

KENNETH JACOBS: NHI must face up to cold economic reality

Free comprehensive healthcare for an entire population is laudable but is it affordable?

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by KENNETH JACOBS

In practical terms, to finance NHI the government is likely to need to increase taxes significantly, says the writer. Picture: 123RF/YETIYEAW

Implementing universal health coverage via National Health Insurance (NHI) in SA faces significant economic challenges. Chief among them is the question of financial feasibility and fiscal space.

While NHI promises to extend comprehensive services to the entire population, the cost of doing so is substantial. Estimates of the price tag vary, but all suggest that a large increase in health spending will be required. For instance, an official policy document estimate projected the NHI could cost about R256bn (published in 2015 in 2010 prices) by 2025/26; equivalent to roughly R594bn in today's prices. This figure is more than double the current public health budget of R296bn for 2025/26. Private sector analyses are even more pessimistic, with figures of as much as R859bn a year being mentioned in certain publications.

Such an expansion of health financing poses a huge fiscal challenge, especially in a context of modest economic growth and heavy existing budget pressures. That has resulted in the unprecedented deadlock on the passing of the new budget for 2025/26 by political parties at a sitting of parliament.

A second and third national budget was developed, and the latter was presented to parliament. In the May budget the finance minister stated "the decision to do away with the VAT increase, without a viable alternative source of revenue, significantly reduced our ability to fund additional government programmes and projects to the extent we had deemed necessary".

That budget proposed an inflation-linked increase to the general fuel levy, which is the only new tax proposal announced for the 2025/26 fiscal year since the tax revenue projections had been revised down by R61.9bn over the three years to compensate for the reversal of the VAT increase and a far weaker economic outlook.

The health sector budget allocation is R845bn over the medium term. It is worth noting that the budget will be increased by R20.8bn over three years to employ 800 post-community service doctors, procure essential goods and services and reduce accruals. This is in contrast to the additional R28.9bn to the health budget, as proposed in the March 12 2025 budget allocations. The intention was to keep about 9,300 healthcare workers in hospitals and clinics and to employ additional 800 post-community service doctors, as well as to ensure that pharmacies do not run out of medicines. Essentially, it means the additional funding for healthcare workers and allied health professionals, and for medicines procurement had been removed from the earlier budget proposal.

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The proposed budget changes will have a direct impact on the service delivery as envisioned in the NHI Act. Much emphasis was made of additional funding for NHI programmes, with the allocations of R1.4bn for the NHI grant over the medium term expenditure framework during the finance minister's 2024 budget speech. This allocation for the NHI was made as a demonstration of the government's commitment to this policy. It was noted that there is a range of system-strengthening activities that are key enablers of an improved public healthcare system that must be undertaken.

Such activities mentioned included building a national health information system and digital patient records; upgrading health facilities and improving the quality of care to ensure that they meet the minimum criteria to be certified and accredited for contracting under NHI; strengthening facility and district management in preparation for contracting; granting semi-autonomous status for central (and potentially other) hospitals; and developing reference prices and provider payment methods for hospitals. Many of these activities were said to be already under way but require further development before the NHI can be rolled out at scale.

SA's debt-to-GDP is projected to stabilise at 76.2% of GDP in the 2025/26 fiscal year, and the government's ability to raise taxes is constrained by an already small tax base (only about 7.5-million individual taxpayers in a population of more than 60-million). The IMF has cautioned that any new large expenditure such as NHI must be matched by new revenue sources or spending cuts elsewhere to avoid unsustainable deficits. In practical terms, to finance NHI the government is likely to need to increase taxes significantly. The NHI Act anticipates new taxes (income tax surcharge and payroll tax); one projection by Discovery, as suggested in The Citizen in 2024, is that personal income taxes might have to rise by as much as 82% to generate the necessary funds. Such tax hikes would have macroeconomic implications, dampening growth or driving away skilled workers, and thus represent a political challenge as well.

Another economic constraint is the risk of cost overruns and inefficiency during implementation. If not tightly controlled the expanded demand for services under NHI could strain resources. For example, providing free healthcare might lead to over-utilisation or unnecessary care (a known risk called moral hazard), which needs to be managed through referral controls and clinical guidelines. In addition, the public health sector will need upgrades and investments (in infrastructure, staffing and equipment) to absorb the increased patient load, which requires upfront capital outlays.

There is concern that without dramatic improvements in efficiency, simply injecting money could be insufficient as funds might be absorbed by administrative costs or corrupt procurement if governance is weak. The government will need robust public financial management to ensure new funds translate to actual service delivery improvements.

Economic experts also point out the opportunity cost: committing a huge share of national resources to health means less fiscal room for other priorities (including education and housing), so NHI must demonstrate value for money.

In summary, the financing of NHI is a delicate balancing act that demands raising substantial new revenues in a sluggish economy and ensuring those funds are efficiently and transparently spent.

Careful phasing of benefits, cost containment strategies (such as price negotiations and gatekeeping referrals) and perhaps a realistic benefit package (starting with primary and essential services) will be necessary to align aspirations with economic reality.

• Dr Jacobs is MD of African Health Policy Alliance.

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