RISKS AND OPPORTUNITIES IN NEW HIV/AIDS FUNDING APPROACH

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The most significant development in Budget 2002 is that national government is increasing its reliance on provinces to direct and implement programmes and allocate funds for HIV/AIDS as they choose. National government is banking on the idea that provincial underspending – plaguing HIV/AIDS conditional grants up to now – will decrease if provinces are given more room and discretion with funds provided by national government. This is a gamble worth taking. To reduce the risk, Budget 2002 simultaneously addresses the problem of lack of provincial capacity by earmarking funds to strengthen provincial management.

Conditional transfers to provinces do not have a good track record in South Africa. The danger here is that provinces will not spend the money as intended by national government unless it is earmarked. Budget 2002 introduces a new funding mechanism that transfers HIV/AIDS money to the provinces with fewer limitations and close oversight on how they spend it. Government's strategy with HIV/AIDS will be to send more funds directly to the provinces (via conditional grants and the equitable share) and to allocate less and less to national departments (primarily Health) to implement and direct HIV/AIDS programmes themselves. Of the total dedicated funds going to HIV/AIDS in 2002/03, nearly 75% will be passed to the provinces (approximately half those funds are ring-fenced).

Most of the remaining funds are on the budget of the national Department of Health, and go towards SA National AIDS Council (SANAC), AIDS Vaccine Initiative, loveLife Programme, condoms, media and public awareness programmes, and grants to non-governmental organizations (NGOs).

From an advocacy perspective, the heavy use of this new funding mechanism is very important, because it means that provinces will have room to decide themselves how this significant pot of money is spent. It will now be up to NGOs to continue to put pressure on provincial governments to ensure that those funds go to meaningful HIV/AIDS programmes.

The second key point is that care overtakes prevention as a priority in the HIV/AIDS budget this year. With a total HIV/AIDS budget expanded to over R1 billion this year, all interventions are receiving absolute increases. However, the share of HIV/AIDS funds going to care jumps from 7% last year to over 50% of the HIV/AIDS budget this year, while preventions share drops sharply.

Substantial increases

In terms of the big picture, government is dedicating more money to HIV/AIDS in absolute and real terms, nearly tripling the amount compared to last year. Generally we see a weighty increase in dedicated funding streams to HIV/AIDS, on top of the increases already planned an included in last October's Medium Term Budget Policy Statement (MTBPS). In 2002, this amounts to over R1 billion.

Even taking inflation into account, the total amount dedicated to HIV/AIDS in the national budget increases by a huge 170% in 2002/2003 and continues to grow over 25% annually in real terms thereafter. Over the next three years, the annual amount designated for HIV/AIDS will increase by an average of 75% in real terms each year, reaching R1.79 billion in 2004/05.

The conditional grant going to provincial Health Departments for HIV/AIDS has been expanded to fund three new items: dedicated allocations for mother-to-child transmission prevention programmes, stepdown care and strengthening of provincial management.

How funds are delivered to provinces

There are two emerging trends in how government is channeling HIV/AIDS funds:

- Government is giving a larger portion of the total HIV/AIDS budget directly to provinces (74% in Budget 2002, increasing to 82% by 2004/5).

- In terms of the Medium Term Expenditure Framework (MTEF), government is increasingly using the targeted increase to the equitable share to deliver funds to provinces for HIV/AIDS, i.e. via unconditional transfers. This year, 54% of the HIV/AIDS funds for provinces will be unconditional transfers, increasing to 61% by 2004/5. This year, 46% of the transfers to provinces intended for HIV/AIDS will be earmarked. By 2004/05, 39% of provincial transfers will be earmarked.

In addition to the HIV/AIDS conditional grants going to provinces and funds for HIV/AIDS for the national Departments of Education, Social Development and Health, that national government is essentially creating a new type of funding stream. It is adding funds to the equitable share and *requesting* provinces to spend them on AIDS treatment and care. This "targeted increase in provincial equitable share" totals R400 million in Budget 2002 and increases to a sizeable R900 million in 2004/05. This innovative arrangement resulted from an agreement in the Technical Committee on Finance that the funds will go to a range of AIDS treatment interventions.

Apart from HIV/AIDS targeted programmes, the great impact of HIV/AIDS in the health sector is to increase the amount of work and the demands on routine care services. However, these effects of HIV/AIDS are too intertwined in regular health service delivery to use conditional funding to finance them. Therefore, the Technical Committee decided to use the equitable share formula to allocate additional funds to the provinces for this purpose. According to the Budget Review, these funds are intended to cover "a range of interventions including improved care of sexually transmitted infections and TB, medication for prevention of TB and pneumonia in infected persons, and costs arising from hospitalisation and treatment of opportunistic infections".

Risks associated with equitable share increase

There are two prime risks associated with using the regular equitable share formula to split the R400 million "targeted increase" between provinces:

- National government has no legal means of making sure that provinces do spend the funds for these purposes. As with other equitable share money, provinces allocate the funds at their discretion. Subsequently, provinces may decide not to pass the targeted increase to the provincial Health Department to strengthen routine care services or specific HIV/AIDS programmes. It is most likely that provinces will direct those resources to health care, but there remains a risk that 40% of the total dedicated to HIV/AIDS in the national budget could be diverted by provinces to purposes other than AIDS treatment or other than health care entirely. Therefore, the success of this new funding scheme will be determined by whether the 2002 provincial health budgets (and HIV/AIDS unit budgets specifically) increase by the amount of their targeted increase for HIV/AIDS.

- Due to the allocation criteria used, provinces with the highest prevalence rates and/or demonstrated readiness to spend may not be favoured in the targeting process. The size of the regular equitable share transfer for each province is determined by a formula on the basis of relative need and the different demographic and economic influences of each province.

Alternative options

Instead, Treasury should take prevalence rates into account in targeting the extra unconditional grant funds for HIV/AIDS treatment and care so that provinces with the most severe crisis will be favoured. This can be done by dividing the funds based on the province's weighted share of the country's HIV-positive population (as indicated by the 2000 Ante-natal Clinic Survey provincial prevalence rates). The Departments of Health and Social Development already improved their Community and Home-based Care and

Support (CHBC) conditional grant in 2001 by adopting this method for determining the provincial split.

Such an unconditional grant for HIV/AIDS treatment (based on prevalence rates) could happen in one of two ways. Either an HIV/AIDS component could be added to the current provincial equitable share formula, or this R400 million could be taken out of the equitable share entirely and designated as a new type of grant (which is unconditional and based upon provincial prevalence rates).

The introduction of the sizeable targeted increase for care interventions also has the important effect of substantially boosting the share of the overall HIV/AIDS budget going to care *versus* prevention. By 2004/05, prevention will be 35% of the HIV/AIDS budget, while AIDS care and treatment will take 63%. (These percentages are based on the assumption that provinces will allocate their entire targeted increase to treatment and care, as intended by national government.)

Budget 2002 is the crossover point at which the portion of dedicated HIV/AIDS funds going to care overtakes prevention. Although allocations for research, management, prevention and care all increase in real absolute terms over the MTEF period, care increases faster and becomes over 52% of the HIV/AIDS budget in 2002.

This budget is bold, and expresses National Treasury's hope that the re-direction and changes to funding mechanisms might improve actual spending and hence service delivery on HIV/AIDS. Basically, government is acting on the premise that provinces have been underspending largely because of complications and processes attached to conditional grants.

Therefore, government is continuing with planned conditional grants laid out in the National Integrated Plan, but is sending most of the new allocations for HIV/AIDS to the provinces by a different route, with the hope that provinces will have better luck spending funds over which they have more control.