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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Private Bag X 115, Pretoria, 0001 • Tel: (+27 12) 315 5111 • Fax: (+27 12) 325 1620 • PO Box 29, Cape Town, 8000 • Tel: (+27 21) 464 6100 • Fax: (+27 21) 461 2934

Enquiries: Mark Blecher
Tel: 021 – 464 6119
Fax: 012 – 325 1620
E-mail: mark.blecher@treasury.gov.za

Mark Eldon-Edington
Division Head
Grant Management
The Global Fund to Fight AIDS, Tuberculosis and Malaria
Chemin de Blandonnet 8
1214 Vernier-Geneva
Switzerland

Dear Sir

South African Government Contributions to Health, HIV and TB programmes

The South African Government (SAG) is committed to meeting its co-financing commitments in order to access its full Global Fund allocation and ensure the sustainable financing of the national response under the National Strategic Plan for HIV, TB and STIs 2017 – 2022.

The letter serves to confirm the following information as requested in the Global Fund Allocation Letter to South Africa, dated 15 December 2017:

1. Realisation of past co-financing commitments to the Global Fund for the 2014-2016 funding cycle
2. Future projections and co-financing commitments for the 2017-2019 funding cycle
3. Future projections and co-financing commitments specifically for key and vulnerable populations

1. Realisation of past co-financing commitments to the Global Fund for the 2014-2016 funding cycle

The following table demonstrates the South African government's annual expenditure on health and the sector's proportional share of total government expenditure.

Table 1: Expenditure in the health sector

	2015	2016	2017	2018
Historical average annual exchange rate	14.0	14.0	12.9	12.5
Health sector - USD	\$11 296 703 429	\$12 194 505 337	\$14 876 463 652	\$16 074 523 258
Total GSA annual budget - USD	\$97 585 714 286	\$103 074 063 483	\$120 756 471 865	\$133 888 799 872
Ratio (Health of Total GSA budget)	11.6%	11.8%	12.3%	12.0%

Sources: National Treasury Estimates of National Expenditure 2018, Provincial Estimates of Revenue and Expenditure 2018. Historical exchange rates from oanda.com. 2018 rate is annual average from 1 January to 30 June 2018.

As part of the overall domestic contributions to health, the Government has invested significantly in its HIV and TB programmes. Commitments made to HIV programmes by South Africa under the previous Global Fund *Willingness to Pay* policy are shown in the first row in the table below.

Table 2: Reconciliation of HIV Co-Financing Commitments with Actual Expenditure (US\$)

	2015	2016	2017	2018
HIV co-financing commitment	\$1,358,800,000	\$1,512,820,000	\$1,685,630,000	\$1,879,820,000
HIV expenditure (2015-2017) and budget (2018)	\$1,116,157,143	\$1,243,739,634	\$1,502,460,471	\$1,731,928,377
Difference	-\$242,642,857	-\$269,080,366	-\$183,169,529	-\$147,891,623
Exchange rate difference	-\$237,835,932	-\$271,608,363	\$190,905,819	-\$153,702,650
Difference after accounting for exchange rate movements	-\$4,806,925	\$2,527,997	\$7,736,290	\$5,811,027

Sources: National Treasury Estimates of National Expenditure 2018, NDOH comprehensive conditional grant for HIV/ AIDS and TB Final report 2017/18 (internal).

The table shows that the South African government's commitments for the 2014-2016 HIV allocation have been realized if considered in ZAR, but show an under-recovery if viewed in US\$. The commitments were calculated at 11.5 ZAR to the Dollar, while the actual average exchange rate for this period was R13.43 (annual average, oanda.com), thereby lowering reported expenditure in USD terms by approximately 15%.

The prior TB co-financing commitments have been exceeded, even with the exchange rate fluctuations (table 3, below). The calculation of domestic expenditure was derived from a detailed analysis of the public basic accounting system (BAS) reports for 2015, 2016 and 2017, and the budgeted amounts for the conditional grant and estimated voted spending in 2018.

Table 3: Reconciliation of TB Co-Financing Commitments with Actual Expenditure (US\$)

	2015	2016	2017	2018
Exchange rate	14.0	14.0	12.9	12.5
TB co-financing commitment	\$152,802,052	\$160,442,155	\$168,464,262	\$176,887,475
TB expenditure (2015-2017) and budget (2018)	\$207,149,282	\$200,606,488	\$224,330,344	\$250,414,093
Difference	\$54,347,230	\$40,164,333	\$55,866,082	\$63,548,579

Sources: 2015, 2016, 2017: BAS expenditure records for conditional grant and voted funds. 2018: DOH business plans for conditional grant allocations, plus estimated voted based on 2017 BAS records and inflation-related increase (5%).

2. Future projections and co-financing commitments for the 2017-2019 funding cycle

Looking forward, the South African government commits to continue to increase its investments in HIV and TB programs according to its broader health sector financing strategy and budgeting framework.

According to the Global Fund Allocation Letter, the government should commit at least 20% of the total allocation (US\$ 70 664 224) in co-financing to access the co-financing incentive as set forth in the Sustainability, Transition and Co-financing Policy. The table below shows that the government's commitments as per its 2018 Medium Term Expenditure Framework far exceed this requirement.

Table 4: Co-financing commitments for the 2017 - 2019 funding cycle (US\$)

	2018	2019	2020	2021	Total 19-21
Exchange rate	12.5	13.0	13.5	13.5	
HIV	\$1 797 388 146	\$1 897 302 462	\$2 015 357 778	\$2 187 701 975	\$6 100 362 215
TB	\$250 053 497	\$252 457 860	\$255 262 947	\$258 453 734	\$766 174 540
Total	\$2 047 441 643	\$2 149 760 321	\$2 270 620 725	\$2 446 155 709	\$6 866 536 755

Sources: National Treasury Estimates of National Expenditure 2018, Provincial Estimates of Revenue and Expenditure 2018. HIV and TB related sub-programme budgets included from Department of Health, Department of Basic Education and Department of Social Development. Assume 5% increase for 2021.

3. Future projections and co-financing commitments for key populations

The Global Fund Allocation Letter states that the 50% of the minimum co-financing commitments should be targeted at key and vulnerable populations (US\$ 35 332 112). The table below shows South African government's commitments:

Table 5: Co-financing commitments for key & vulnerable populations the 2017 - 2019 funding cycle (US\$)

	2018	2019	2020	2021	Total 19-21
Exchange rate	12.5	13.0	13.5	13.5	
HIV	\$11 027 551	\$11 102 973	\$11 288 928	\$11 892 949	\$34 284 850
TB	\$2 000 000	\$2 000 000	\$2 000 000	\$3 000 000	\$7 000 000
Total	\$13 027 551	\$13 102 973	\$13 288 928	\$14 892 949	\$41 284 850

Financial expenditure on key and vulnerable populations is not yet routinely tracked by SAG. For HIV, it was assumed that a share of DOH, DSD and DBE interventions targeting KVPs will contribute at least the amount estimated in the table. For TB, it is also expected that current TB programmes will exceed the minimum commitments set out in the Sustainability, Transition and Co-financing Policy.

All figures in the tables above have been verified by the National Department of Health. HIV spending is easier to determine because it is generally allocated using specific budget line items as opposed to TB budget. The numbers in these tables may vary slightly depending on exchange rate used, and are broadly in keeping with the approximate R1 billion annual addition to the HIV and TB budget.

We thank the Global Fund for its continued partnership with South Africa in its endeavours to end the HIV and TB epidemics.

Yours faithfully



Dr Mark Blecher
Chief Director: Health and Social Development
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