

## CHAPTER 2

# DONOR FUNDING IN THE HEALTH SECTOR

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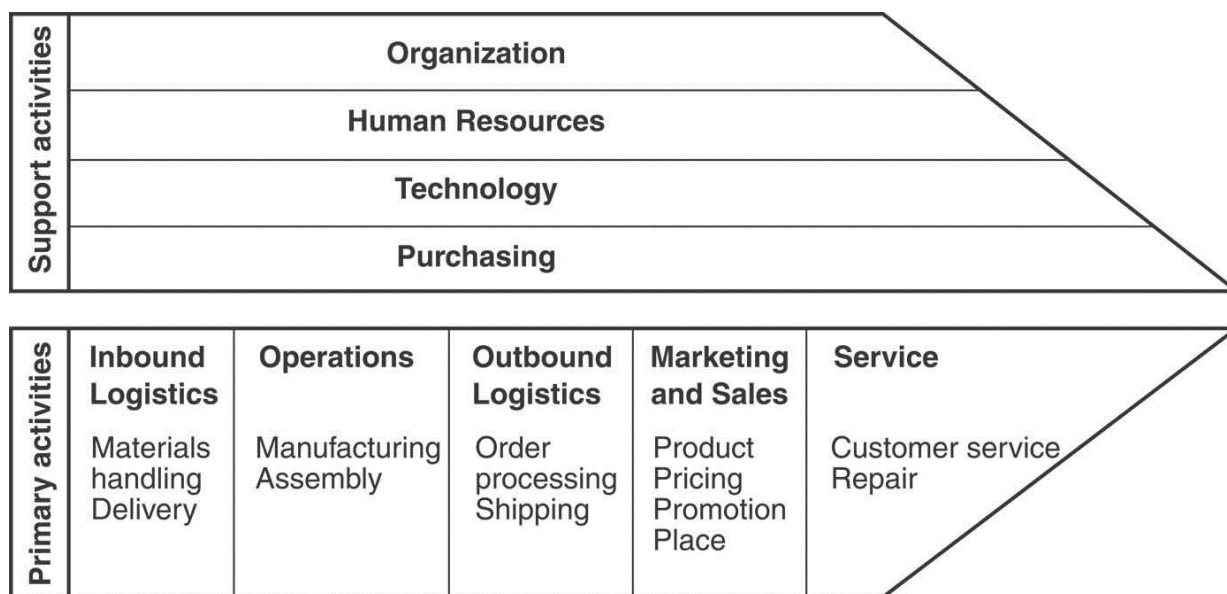
## 2.1 Introduction

This chapter served as a foundation for the ensuing chapters. Without proper background about the health sector and donor funding towards it, the analysis and conclusions would not be seen in perspective. This chapter also demonstrates how different sectors are interwoven and therefore need to co-operate to ensure the most effective outcome.

The Value Chain of Michael Porter and MDG's were also taken into account. Some background on the health sector around the world, Africa and lastly South Africa is introduced. Porter's Value Chain can also be applied to donor funding while the MDG's can be identified as the main reason why donors give funding and to what.

## 2.2 The Value Chain

The value chain, also known as value chain analysis, is a concept from business management that was first described and popularised by Michael Porter in his 1985 best-seller, 'Competitive Advantage: Creating and Sustaining Superior Performance' (Porter, 1996: 61-78). According to ISO9000, a value chain can be described as a chain of activities for a firm or organisation operating in a specific industry. The chain of activities gives the commodities more added value than the sum of added values of all activities. It is critical not to mix the concept of the value chain with the costs occurring throughout the activities. A diamond cutter can be used as an example of the difference. The cutting costs may be low, but the cutting adds more value to the end product, since a rough diamond is significantly less valuable than a cut diamond. The value chain is a powerful analysis tool for strategic planning.



**Figure 2.1: Value Chain Model of Michael Porter**

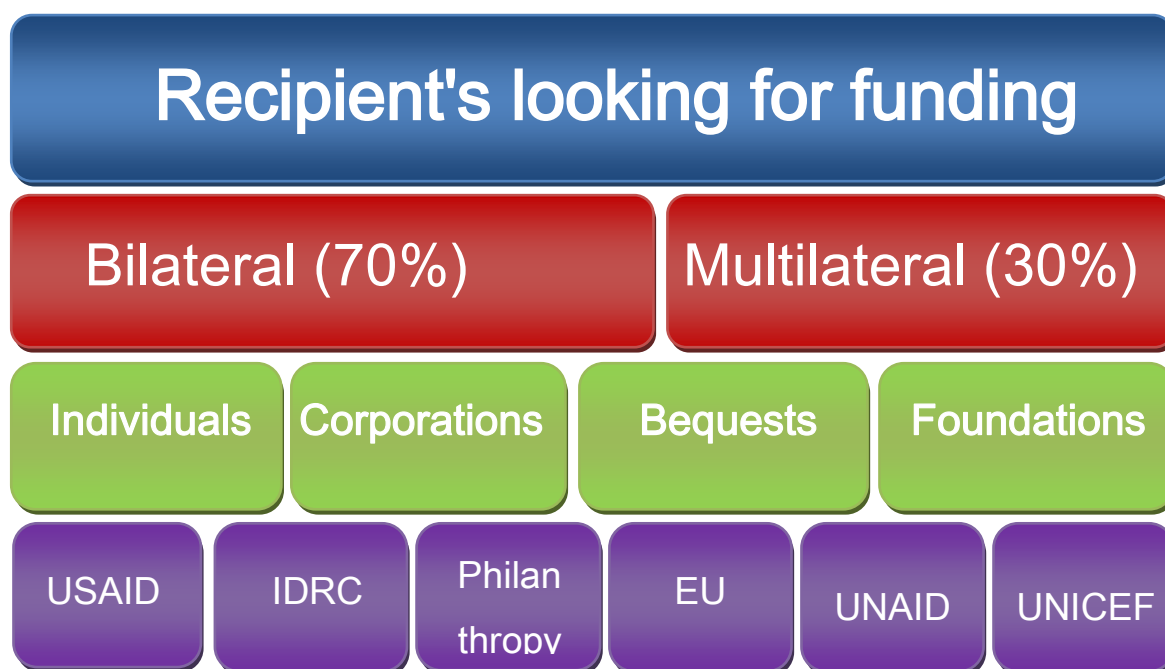
**Source:** Anon, 2009

A short description of each activity outlined as described by Pragmatic Innovations (Anon, 2009) follows:

- **Organisation/Firm Infrastructure:** includes general management, planning management, legal, finance, accounting, public affairs, quality management, and so on.
- **Human Resource Management:** activities associated with recruiting, development (education), retention and compensation of employees and managers.
- **Technology Development:** includes technology development to support the value chain activities, such as research and development, process automation, design and redesign.
- **Purchasing/Procurement:** procurement of raw materials, servicing, spare parts, buildings, machines, and such like
- **Inbound Logistics:** includes receiving, storing, inventory control, transportation scheduling.
- **Operations:** includes machining, packaging, assembly, equipment maintenance, testing and all other value-creating activities that transform the inputs into the final product.
- **Outbound Logistics:** activities required to get the finished product to the customers: warehousing, order-fulfilment, transportation and distribution management.

- **Marketing and Sales:** activities associated with getting buyers to purchase the product including channel selection, advertising, promotion, selling, pricing, retail management, and so on.
- **Services:** activities that maintain and enhance the products value, including customer support, repair services, installation, training, spare parts management, upgrading, and so on.

The knowledge obtained through the value chain of Michael Porter can also be applied to donor funding in the health sector. See Figure 2.2 below.



**Figure 2.2: Value Chain for the Health Sector**

**Source:** Own Research

The main objective here is the recipient looking for funding. The recipient has to choose between bilateral funding (given from one country directly to another country) and multilateral funding (from a donor country to an international organisation, who on their part distribute the funds further). These funds, bilateral or multilateral, are generated through four types of different donors: individuals, corporations, bequests and foundations.

## 2.3 The MDG'S

The MDG's were developed to identify critical areas in underdeveloped countries; they were also developed to encourage growth of a country in general.

When the G8 leaders gathered at the 2000 Summit in United States, they (189 world leaders) decided on the following eight Millennium Goals (Zidane, 2011):

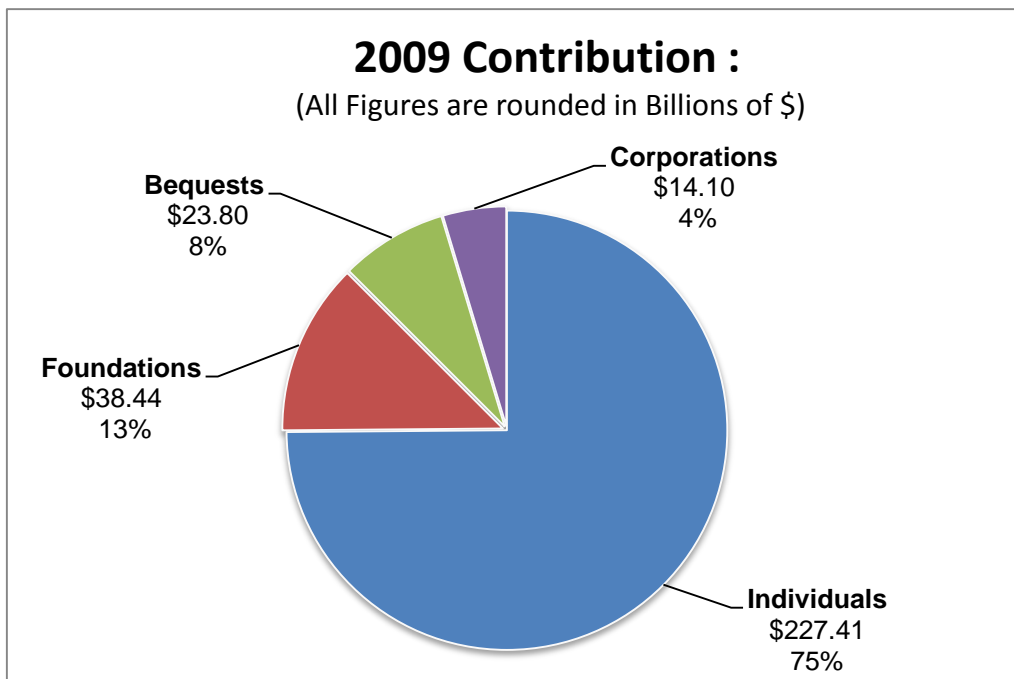


**Figure 2.3: The Millennium Development Goals**

Source: Zidane, 2011

A widely held perception is that corporations and foundations are the biggest sources to tap for grants and donations. The reality is that 83% of philanthropic dollars are contributed by individuals and bequests. The following two graphs will outline who contributed to Donor Funding and also give a breakdown of how these funds were divided into different categories (National Park Services, 2011).

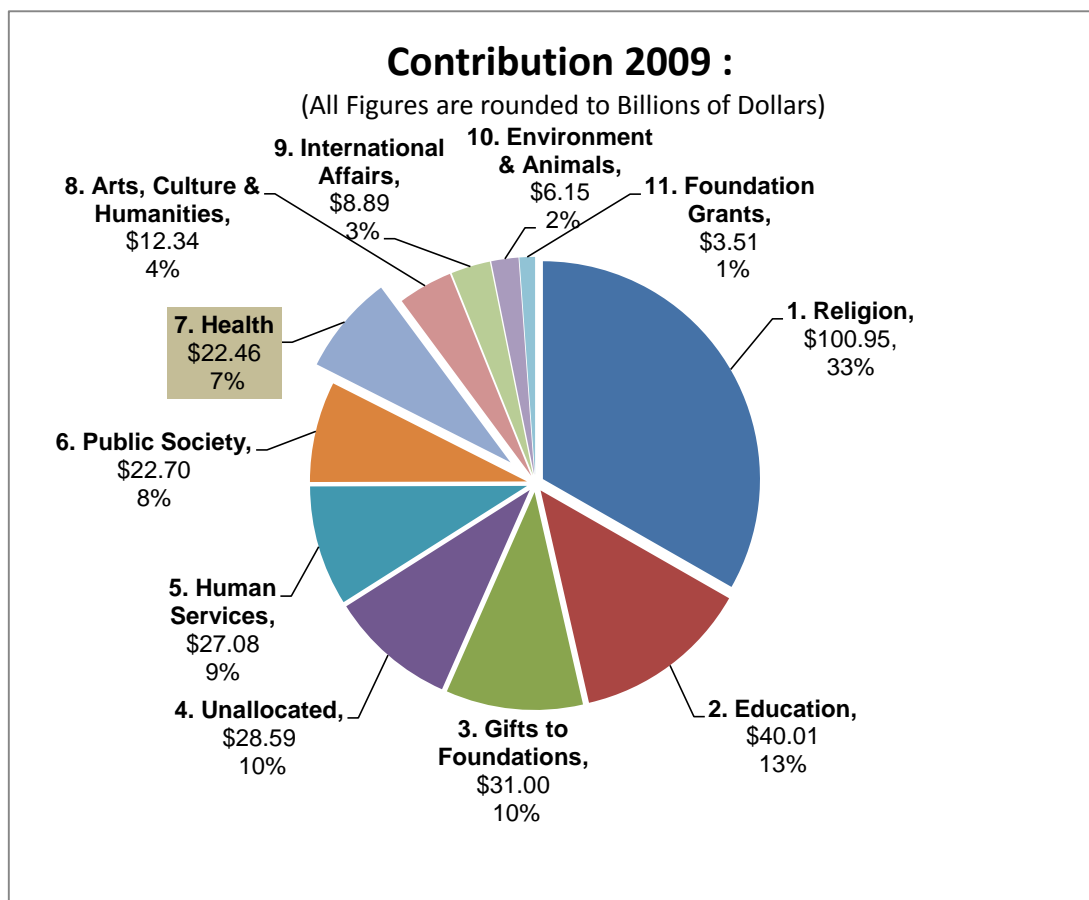
Graph 2.1 illustrates how the contributions to donor funding were generated. The data represents the year 2009 and was taken from Giving United States of America (USA) 2010.



**Graph 2.1: Contributions to Donor Funding in Billions of Dollars**

Source: Giving USA, 2010

Graph 2.2 illustrates how the above graph's funds were allocated to different categories.



**Graph 2.2: Contributions in Billions of Dollars to different categories**

Source: Giving USA, 2010

Unallocated contributions included deductions carried over multiple tax years, gifts to new organisations and government agencies, and foundation grants to international recipients.

National Park Services (2010) gives a brief description of each of the different categories:

- Faith-based charities:** including churches, received the most gifts of charitable nature in 2009, thus capturing \$100.95 billion – 33% of the total contribution– in 2009. Religious groups received more than a third of all contributions in the United States (US). Faith-based donations decreased 0.7% from the previous year.

- **Charitable giving to colleges:** universities and educational organisations: accounted for the second largest share of all charitable giving at 13%. Educational institutions and organisations received \$40.01 billion in gifts. Stalled capital campaigns and declining gifts to annual funds were key reasons why colleges and schools faced a 3.6% drop in 2009 following a 5.4% decrease in 2008.
- **Social or human service charities:** raised \$27.08 billion in 2009. In 2009, donations to social service charities increased by 2.3%, following a fall of 5.9% in 2008.
- **Environmental and animal-welfare issues:** increased concerns over global warming and the impact of the environment on health motivated donors to give \$6.15 billion to such issues. This is a 5.5% increase over 2008. People are beginning to connect environment with health issues. This has helped garner support and draw additional donors for environmental causes. Donations for these organisations were 2% of the total estimated giving for 2009.
- **Public society benefit organisations:** non-profit organisations, such as the United Way or Jewish Federation, who collect funds for distribution to a number of other agencies, received \$22.77 billion in donations. This reflects an increase of 4.6%, following a decrease in 2008 of 5.4%.
- **Health-related organisations:** hospitals and other health charities, that raise money for research, public awareness and fighting diseases increased to \$21.6 billion. There was an increase of 3.8% in 2009, compared with a decline of 6.5% in 2008.
- **Arts, culture and humanities:** donations have been hit hard by the recession following a 6.5% increase in 2008. More than \$12.34 billion was raised for arts, culture and the humanities in 2009. This is a drop of 2.4%. Gifts to arts, culture and humanities organisations were 4% of the total estimated giving in 2009.
- **International affairs organisations:** received \$8.89 billion in 2009, a decrease of 6.2% compared to 2008. International affairs donations were 3% of total estimated giving.
- **Gifts to foundations:** in 2009 dropped to \$31 billion, a decrease of 8 %. Gifts to foundations were 10% of the total estimated giving in 2009.

## 2.4 WORLD WIDE VIEW



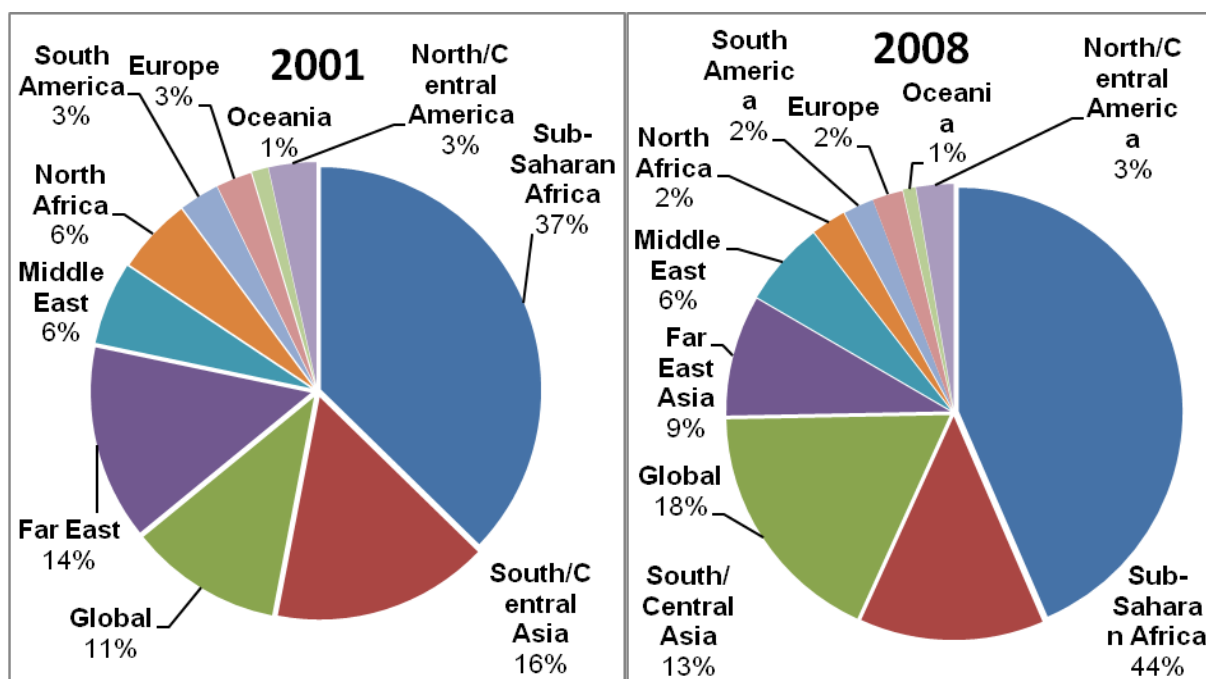
**Figure 2.4: World Map**

**Source:** Google Images, 2011

The above world map was included as a guide for examining different countries later on in this chapter. From the three continents evaluated (America, Europe and Australia), a country was chosen from each. From North America, Canada was chosen, as Canada was perceived as one of the largest funders from America, with a health sector classified as one of the world's leading health sectors. Secondly from Europe, Germany was selected, as Germany formed part of some of the largest wars in history (and made a great comeback and is now seen as one of the world's leading countries when it comes to reform) and is also seen as a rather large contributor to donor funding. Lastly Australia, being a country with its own continent, it would be interesting to see how they are doing comparing with the other countries.

Kates, Lief, Seegobin and Wexler (2010:1-17) found that:

- Funding for health more than tripled between 2001 and 2008, rising from \$7.6 billion to \$26.4 billion. This is an increase in real terms of 248.7% (even after adjusting for inflation and currency revaluation) between 2001 and 2008.
- Health grew as a share of overall Official Development Assistance (ODA) as well, rising from 13.8% to 16.7%. As the base of donor funding for health has grown, largely due to the start-up of big, new global health initiatives earlier in the decade (including the creation of the Global Fund to Fight AIDS, Tuberculosis and Malaria, and the United States President's Emergency Plan for AIDS Relief (PEPFAR)), the rate of increase has slowed, although the overall amount of funding has continued to rise.
- The United States was the single largest ODA donor to health, accounting for nearly a third (31.1%) of financing in 2008.
- European nations together amounted to more than a quarter (28.1%) of financing and the European Commission added another 3.1%, while multilateral institutions represented 24.2%.
- Most health funding was channeled to sub-Saharan Africa (43.5%), followed by South/Central Asia (13.3%). Within the health sector, which is comprised of the three broad areas of population/reproductive health (which includes HIV/AIDS & Sexually Transmitted Diseases (STDs)), general and basic health, and water and sanitation, funding amounted to the largest share of health funding in 2008 (39.4%), as it had in prior years. The remainder was split between general/basic health (31.4%) and water/sanitation (29.1%).
- Within these broader categories, funding for HIV/AIDS and STD's, accounted for the largest share of health funding (30.0%) in 2008 followed by large-system water supply/sanitation (18.5%) and basic health care (9.3%). All other sub-sectors within the health sector received 5.9% or less of funding in 2008.



**Graph 2.3: Health Official Development Assistance (ODA) by Region 2001 – 2008**

Source: OECD Database and CRS, 2010

**Explanation of graph:**

Amounts are in gross US dollar commitments. ODA combines data from four (OECD) Creditor Reporting System's (CRS) sub-sectors: (1) Health; (2) Population policies/programmes and reproductive health (includes HIV/AIDS & STD's); (3) Water supply/sanitation; and (4) Other social infrastructure and services – social mitigation of HIV/AIDS. Global totals include ODA for unspecified recipients and regional programmes.

According to Graph 2.3, sub-Saharan Africa's funding percentage rose by (44%-37%) 7% and globally by (18%-11%) 7%, while other categories showed minimum changes over this seven year period.

Shiffman (2002) maintains, "The health sector, specifically the disease control sector as a whole, was severely under-funded and it must be kept in mind that no disease without a cost-effective intervention receives priority." Donors may have different reasons why they donate money to certain causes. Donors may be responding to factors such as domestic pressure, political pressure and fears for the safety of their own citizens rather than the developing world's needs. Also, diseases may be in competition for scarce resources, each having political constituencies. Several studies have considered patterns of funding

for developing world health by recipient and donor country. There are a number of factors that shape donor decisions.

Shiffman (2002) also stated that there are three main factors that influence donor funding:

1. Rational consideration of the seriousness of the crisis.
2. Characteristics of the victims.
3. Factors of a political and economic nature.

An investigation was undertaken on worldwide funding. This worldwide analysis focused specifically on three countries, each on a different continent. First the focus was on Canada, while in Europe, Germany was investigated and lastly, Australia. These countries were selected because they are First World countries and are identified under the Top Ten countries that give funding towards the health sector. There is a difference between the health systems First and Third World countries use. This was supported by the literature study. The difference in health systems also influences the funding needed by a particular country.



**Figure 2.5: Descriptive Map of the World**

Source: Google maps

Figure 2.5 gives a clear overview of First, Second and Third World countries. The empirical review in Chapter 7 offers support concerning the sustainability of First World countries and which give funding to Third World countries; while Second World countries are mostly sustainable and don't usually give funding to other countries.

## 2.4.1 Canada

### ➤ **Background on Canada**

Canada is the second largest country in the world in land area (World Guide, 1997/98). It covers an area of 9,984 million square kilometres. According to The Central Intelligence Agency (CIA, 2011), Canada has a population of 34 million people and a population growth of 0,794% per year (2011 estimates). Life expectancy is around 81 years: 78,8 years for males and 84,1 years for females. In 2009 the infant mortality rate was 4,92 per 1000. The total fertility rate was 1,58 children born per woman and the country had a HIV/AIDS adult prevalence rate of 0.3%, which is ranked 50th in the world.

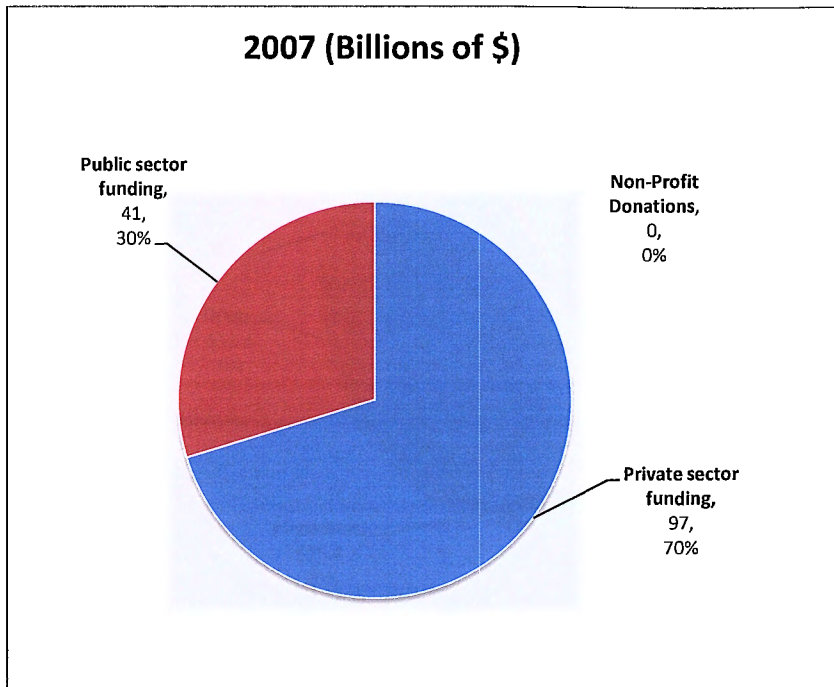
In 2009, 68,000 people were living with AIDS and the death rate was less than a 1000 a year. Approximately 99% of Canada's males and 99% of their females (aged 15 and over) can read and write (2003 statistics).

### ➤ **Background on the health sector in Canada**

Between 1880 and 1920 was a key period of development for public health in Canada. This period was heavily influenced by the British experience. Canada and other OECD countries have participated in two decades of the "new public health", an era characterised by attention to chronic disease, occupational health, injury prevention, and health promotion (Public Health Research and Knowledge Translation Network, 2005). The structure of public health systems in Atlantic Canada's four provinces varies from province to province. Canada has faced increased pressure to reform hospital structures to accommodate the changing pattern of care from an institutional to a community-based model (World Health Organization, 1996).

### ➤ Funding towards Canada's health sector

Canada's health sector is funded by private and public funds. When looking at Western countries, Canada is far ahead when it comes to public funding, but is still behind countries like Czech Republic, Denmark and Norway, which has the same infrastructure and country development.



**Graph 2.4: Health Sector Funding**

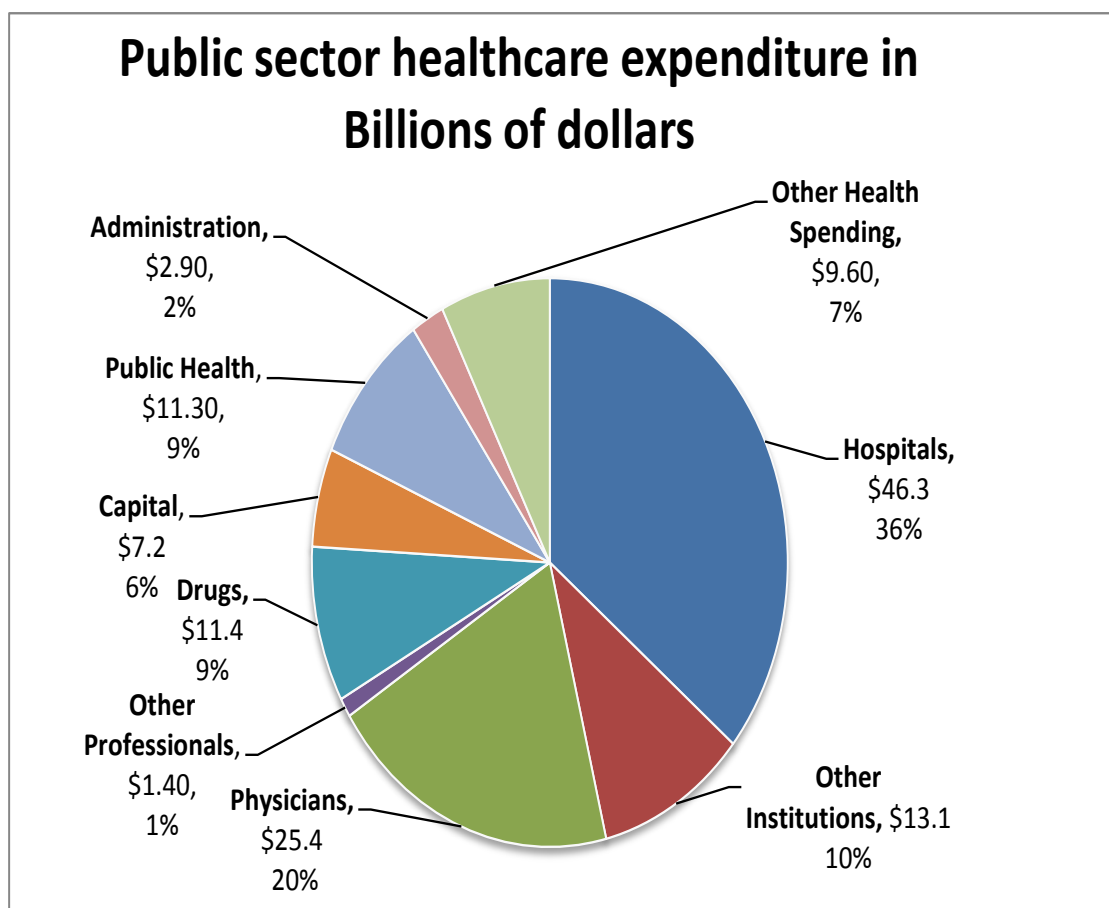
Source: Greb (2008)

Graph 2.4 indicates that most of Canada's funding is generated through the private sector. Canada doesn't receive non-profit donations (donor funding) as some other countries do, as Canada is classified as a First World country and thus is self-sustainable.

If you think research is expensive, you should try disease.

- Mary Lasker: Founder of the Lasker Foundation

(Funding First, 2000)

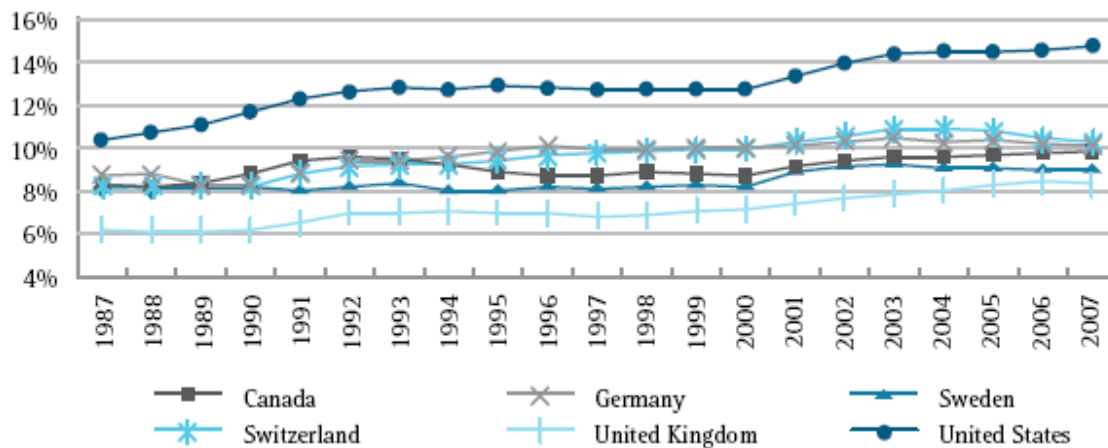


**Graph 2.5: Public Sector Healthcare Expenditure 2008**

**Source:** Constant, Peterson, Mallory and Major, 2011

Constant, Peterson, Mallory and Major (2011) stated that there was not much difference in growth between the categories as outlined in Graph 2.5. Hospitals, physicians and other institutions were responsible for the highest percentage expenditures, but the growth of each was negligible. Although some figures may seem high, they are in line with other countries' health care expenditures.

They also stated that while Canada's expenditure increased over the last decade, its figures are in line with the figures of other countries, placing Canada mid-way among the OECD countries. Seventy per cent of Canada's healthcare expenditure is subsidised by public funds, which are below the OECD average. Figure 2.6 below shows that Canada's healthcare expenditure is in line with other major countries' expenditures.



**Figure 2.6: Total expenditures on Health as a Share of Gross Domestic Product (GDP) from 1987 to 2007 for Selected OECD Countries**

Source: Constant, Peterson, Mallory and Major, 2011

## 2.4.2 Germany

### ➤ Background on Germany

The total population of Germany is about 82 million (40 million males and 42 million females). The major economic problem in Germany is the high rate of unemployment. On average, an estimated 4.1 million people were unemployed in 1999 (European Observatory on Health Care Systems, 2000). According to the CIA (2011), Germany has a population growth of -0.208% (estimated for 2011). Germany covers 357 hundred thousand square kilometres. The total life expectancy at birth is 80.7 years, 77.82 years for males and 82.44 for females. The infant mortality rate is 3.54 deaths per 1 000, whereas the fertility rate is around 1.41 children per woman.

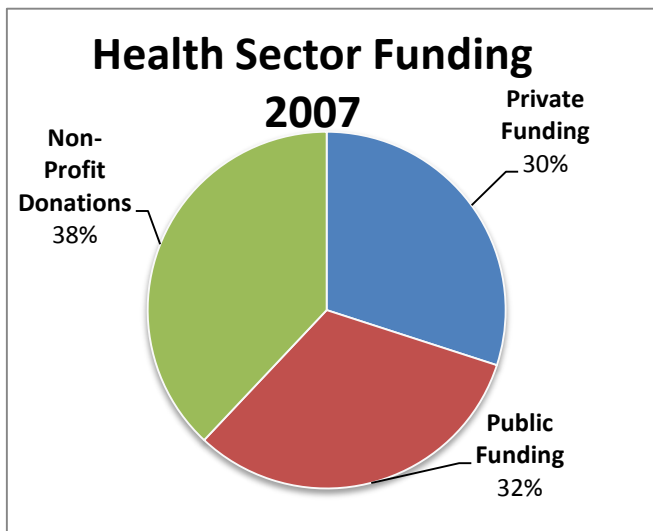
The HIV/AIDS adult prevalence rate is 0.1% (2009 estimate); whereas 67 000 people were living with AIDS in 2009 and each year fewer than 1000 people die from AIDS. These statistics rank Germany 51st in the world. Approximately 99% of males and 99% of females (age fifteen and over in Germany) can read and write.

### ➤ **Background on Germany's health sector**

In total, 9.1 million (12.3%) of the total population were classified as “not healthy”. The main causes of death were CVD's, this account for about 50% of all deaths, whereas malignant tumours account for 25%. Infant and maternal mortality rates are lower than the European average. The incidence of AIDS has been stable since the early 1990s and amongst the lowest in the European Union (EU) (around 2.5 new cases per 100 000 per year in 1996); this may be due to a concerted strategy towards prevention. Current health concerns are mainly related to diseases associated with the age structure and demographic trends of the German population (European Observatory on Health care systems, 2000).

### ➤ **Funding towards Germany's health sector**

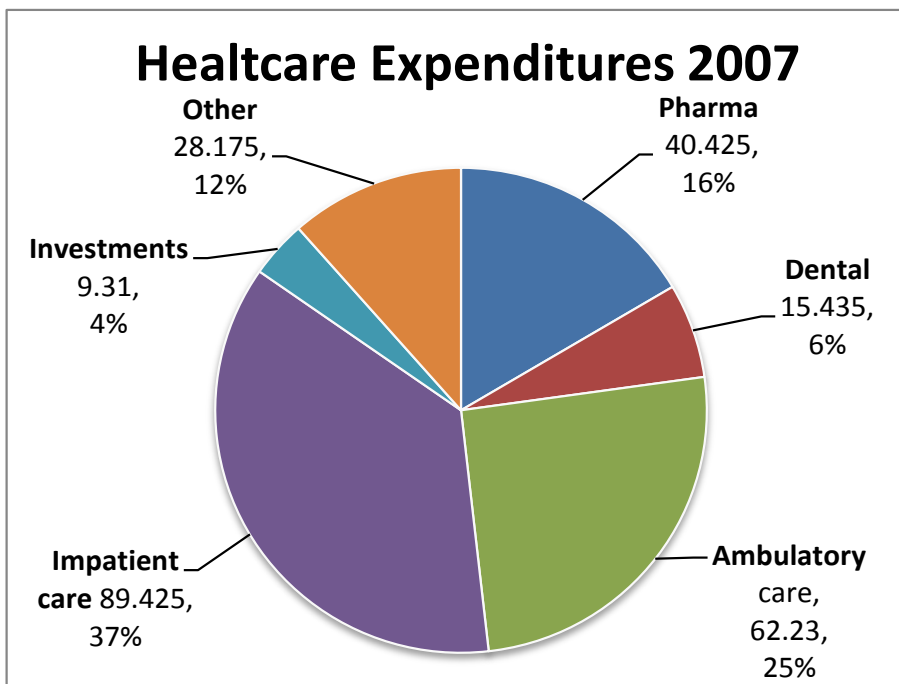
According to MSF (2008), Germany is ranked as the third largest economy in the world. Despite that, the need for public research is much higher than the funds allocated to research.



**Graph 2.6: Health Sector Funding in 2007**

**Source:** International Forum on Quality and Safety in Health Care, 2009.

According to the above graph, funding generated towards Germany's health sector is evenly distributed between public- (32%), private- (30%) and donor funding (38%). Thus Germany is not classified as a self-sustaining country, as almost a third (38%) of its funding comes from donors.



**Graph 2.7: Healthcare Expenditure 2007**

Note: All figures are in billions of dollars.

Source: Statiachs Bundesamt, 2008

From Graph 2.7 it is clear that less than half (37%) of healthcare expenditure goes to Impatient care, followed by a quarter (25%) going towards ambulatory care. Thus it is clear that patient care is very central to Germany, as 62% (37+25) of their funding goes towards the patients care (Impatient care, 37% & Ambulatory care 25%, together).

### 2.4.3 Australia

#### ➤ **Background on Australia**

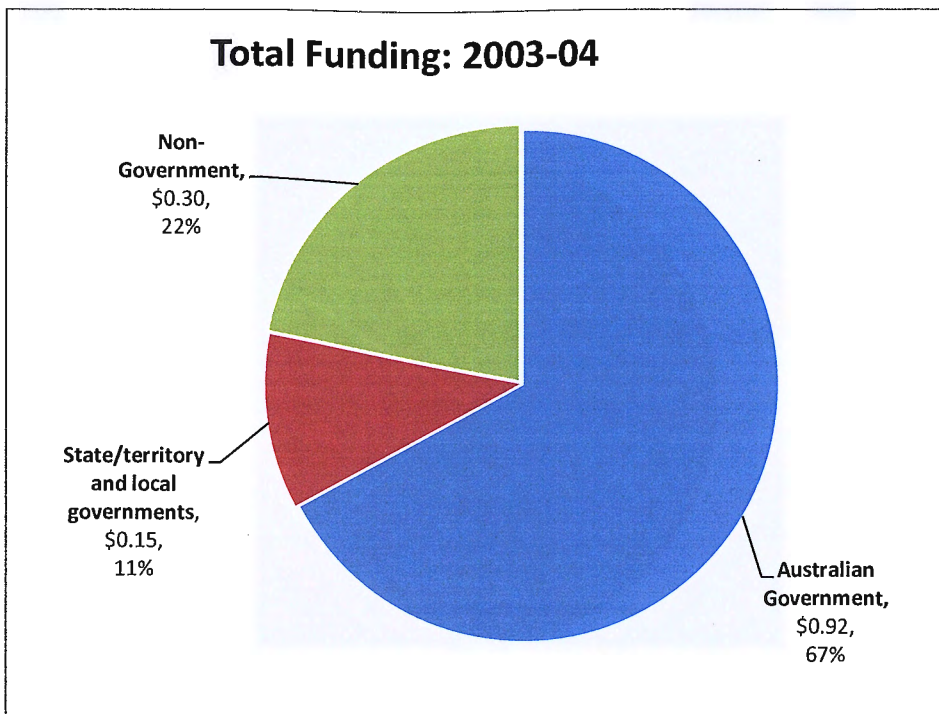
According to the CIA (2011), Australia is the world's smallest continent but sixth largest country. Australia covers 7,741 million square kilometres. It has a population of 21.766 million people and an annual growth rate of 1.15% (2011 estimates). The life expectancy at birth is 81.81 years, 79.4 years for males and 84.35 years for women. The fertility rate is 1.78 children per woman and the HIV/AIDS adult prevalence rate is 0.1% (2009 estimate), while the people living with AIDS was 20 000 people in 2009. These figures rank Australia 78th in the world. Approximately 99% of males and 99% of females (age fifteen and over) can read and write (2003 estimates).

#### ➤ **Background to Australia's health sector**

Australia is a Federation, governed by a national government (the Australian or Commonwealth Government) with eight state and territory governments. According to Australian Institute of Health and Welfare Canberra (2005), the flow of money around the Australian health care system is complex and is determined by the institutional frameworks in place, both government and non-government. Commonwealth education funding determines the numbers of doctors and nurses and other health professionals the (state-registered) universities can produce (Coleman, 2005).

Everything is Free but nothing is readily available  
- Frogue et al. 2001.

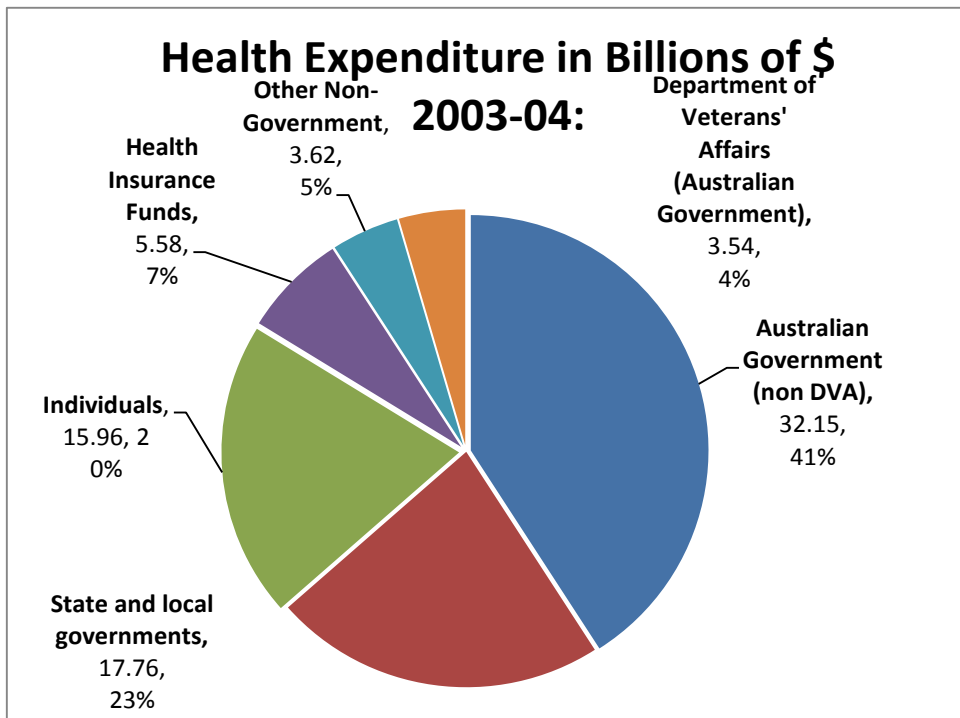
### ➤ Funding towards Australia's health sector



**Graph 2.8: Recurrent Expenditure on Health Research, 2003–04**

**Source:** Coleman, 2005

Graph 2.8 demonstrates that two thirds (67%) of Australia's funding is generated from the government, while only a quarter (22%) of funding being from non-government sources. This shows that Australia is an economically strong country and can look after its health care system independently. Australia utilises only (11%) donor funding to sustain its health sector.



**Graph 2.9: Estimated Total Health Expenditure 2003-04**

**Source:** Coleman, 2005

From Graph 2.9 it is clear that Australia is reliant on government funding to sustain their health sector, as almost two thirds (41% + 23% + 4%) of their funding are generated through the Australian government (government and state and local governments). Their individuals also make a large contribution towards the health sector.

Three African countries, namely: Kenya, Zambia and Sierra Leone were scrutinised. They were all identified as Third World countries with weak infrastructures. Some recently endured violent warfare. These three countries are also some of the Top Ten countries that received donor funding in Africa. One of the many consequences of war and instability are health problems. Deficient infrastructure, health systems and food shortages are also crises that these three countries encounter.