3/5/2025

2025/26 Health Budget Analysis Report

Towards Universal Health Coverage: The Case for Greater Health Investment

Submitted to:

CENTRE FOR THE DEVELOPMENT OF PEOPLE (CEDEP)

Post Office BOX 3251,

Lilongwe,

Malawi

John Limited & Godwin Nyirongo
SP TRAINERS AND RESEARCH CONSULTANTS

Contents

1. Introduction 4
2. Health Financing Landscape in Malawi. 4
3. Current HIV Epidemiological Status and Financing Landscape 5
4. Analysis of the 2025/26 Health Sector Budget 7
5. Implications of the 2025/26 Budget on Health Financing and Health Services Delivery 10
6. Recommendations 11
7. Conclusion 12

LIST OF TABLES

Table 1: Key Health Financing Indicators 5

LIST FOR FIGURES

Figure 1: Health Expenditure by Financing Entity in Malawi 4

Figure 2: HIV/AIDS Expenditure by Financing Entities 6

Figure 3: HIV/AIDS Major Spending Categories 7

Figure 4: Trends in Total Health Budget Allocation in Billions Malawi Kwacha 7

Figure 5: Trends in Health Budget Allocation as a share of the Total Government Budget 8

Figure 6: Composition of Health Sector Budget by Fund Holder in Billions of Malawi Kwacha 8

Figure 7: 2025/26 Drug Budget Allocation to District Councils 9

Figure 8: ART Co-Financing Allocation Vs Global Fund Commitments 9

Figure 9: 2025/26 Health Budget Composition by Economic Classification in Billions Malawi Kwacha 10

1. Introduction

Malawi faces a critical public health challenge, with a significant burden of disease exacerbated by high rates of HIV/AIDS and other health issues. As the country strives to improve health outcomes and achieve Universal Health Coverage (UHC) by 2030, the need for effective health financing has never been more urgent. The 2025/26 health sector budget, amounting to MK741 billion, offers a glimpse into the government's commitment to enhancing healthcare delivery. However, this allocation, which represents only 9.2% of the total government budget, raises concerns about its adequacy in meeting the comprehensive health needs of the population.

The current health financing landscape in Malawi is characterized by a heavy dependence on donor funding, which accounts for an unsustainable 55% of total health expenditure (THE). This reliance compromises the long-term sustainability of health programs and limits local ownership and accountability. Furthermore, funding distribution remains skewed, with a disproportionate focus on treatment over prevention, hindering efforts to curb new infections and improve overall public health.

This report explores into the current epidemiological status of HIV in Malawi, analyzes the 2025/26 health sector budget, and explores its implications for health financing and service delivery. It also presents actionable recommendations aimed at strengthening health financing mechanisms and enhancing the efficiency and effectiveness of health services. By addressing these critical issues, Malawi can pave the way for a more resilient health system that effectively responds to the needs of its population and advances the goal of UHC.

2. Health Financing Landscape in Malawi.

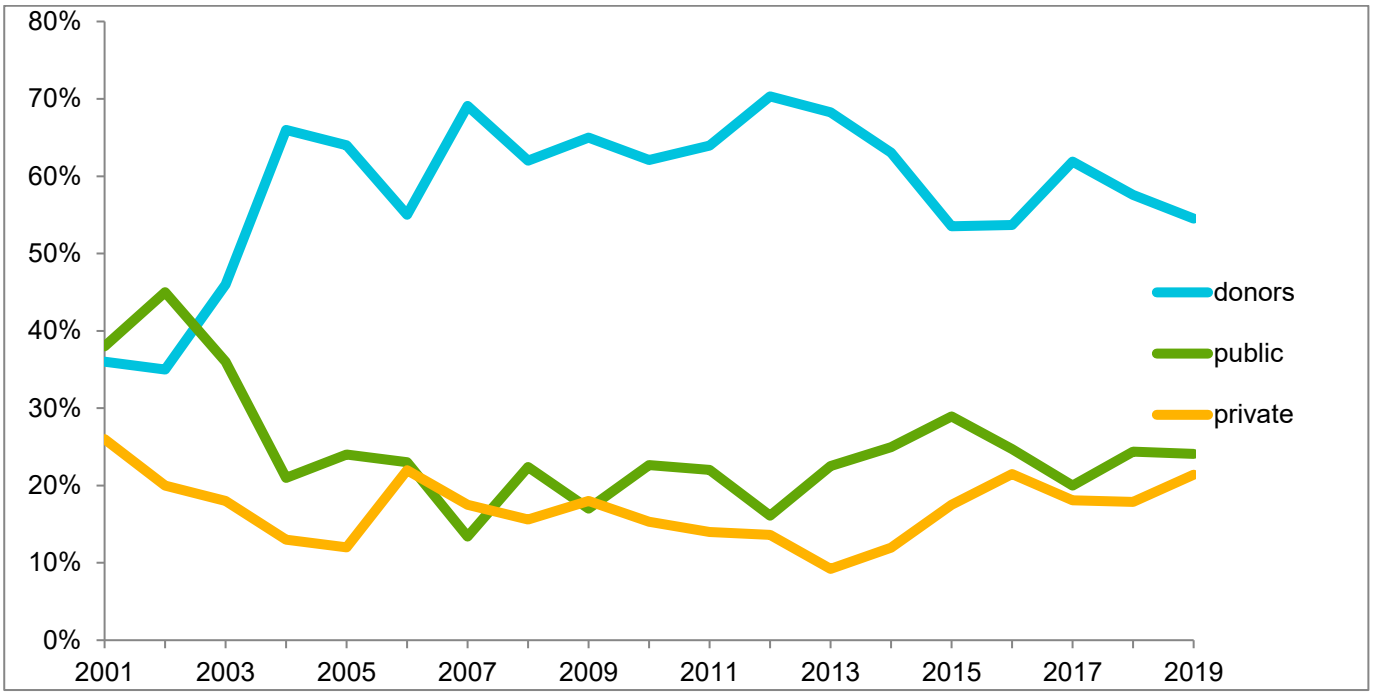


Figure 1: Health Expenditure by Financing Entity in Malawi

The health financing landscape in Malawi has been significantly shaped by the predominance of donor funding since 2003. Data indicates that donor contributions have consistently constituted over 50% of the total funding

for the health sector[1], overshadowing public and private investments. This reliance on external funding presents substantial risks to the sustainability and effectiveness of health programs, leaving them vulnerable to shifts in donor priorities and financial support.

In contrast, public funding has remained relatively stagnant, hovering around 24% of the total health expenditure[1]. This limited investment from the government underscores the challenges faced in achieving a self-sustaining health financing model. The private sector's contribution has also been minimal, further exacerbating the funding gap. These trends indicate a critical need for Malawi to diversify its funding sources and reduce dependency on donor assistance.

Adding to this challenge is the issue of population growth outpacing health expenditure growth. Currently, Malawi's per capita health expenditure stands at a mere US$39.9, significantly below the World Health Organization's recommended minimum of US$86 and the Health Sector Strategic Plan II's average requirement of US$173. This disparity highlights the urgent need for increased investment in health services to meet the needs of a growing population.

Moreover, a high out-of-pocket expenditure rate, averaging 55.61% of the private sector contribution to THE, places additional financial burdens on households, often leading to catastrophic health expenditures. As the government struggles to allocate sufficient resources to health, many families are forced to rely on out-of-pocket funding, which can lead to inequities in access to care.

Table 1: Key Health Financing Indicators

General indicators	
Population	20.4 million
GDP per capita (constant 2015 US$)	$554.20
Income classification	Low
Health financing	**Average 2017–2022**
Per capita total expenditure on health (US$)	$39.90
Government per capita THE (US$)	$9.60
THE as % of gross domestic product	8.80%
Government expenditure on health as % of THE	24.10%
Donor expenditure on health as % of THE	54.50%
Government THE as % of total government expenditure	8.40%
Total private health insurance spending as % of THE	9.10%
OOP on health as % of THE	11.90%
Total expenditure on primary healthcare as % of THE	39.70%
Percentage of THE pooled under government financing scheme	40.30%
Percentage of THE managed by government agents	39.40%
Percentage of THE spent on HIV/AIDS	40.00%

Notes: THE denotes total health expenditure; OOP denotes out-of-pocket. *Source*: National Health Accounts (2022).

3. Current HIV Epidemiological Status and Financing Landscape

HIV/AIDS remains a critical public health challenge in Malawi, with an estimated prevalence rate of 7.7%. Approximately 1 million individuals are living with HIV, and in 2024 alone, the country recorded around 13,000 new infections. Alarmingly, the demographics of these new infections reveal significant disparities:

[1] National Health Accounts (2022)

56% of new cases occurred among women aged 15 years and older, while 31% were among men in the same age group, and 13% among children aged 0 to 14 years. This demographic data underscores the urgent need for targeted interventions, particularly for women and children, who are disproportionately affected by the epidemic[2].

Despite the pressing nature of the HIV epidemic, the financing landscape for HIV programs in Malawi is primarily characterized by a heavy reliance on donor funding. Data shows that donor contributions have consistently accounted for a significant portion of HIV financing, now exceeding 95%. Major donors include the Global Fund (48%), the U.S. President's Emergency Plan for AIDS Relief (PEPFAR) (46%), and various United Nations agencies, including UNAIDS and UNICEF[3]. This dependency poses a risk to the sustainability of essential services, as any fluctuations in donor support can lead to critical gaps in funding.

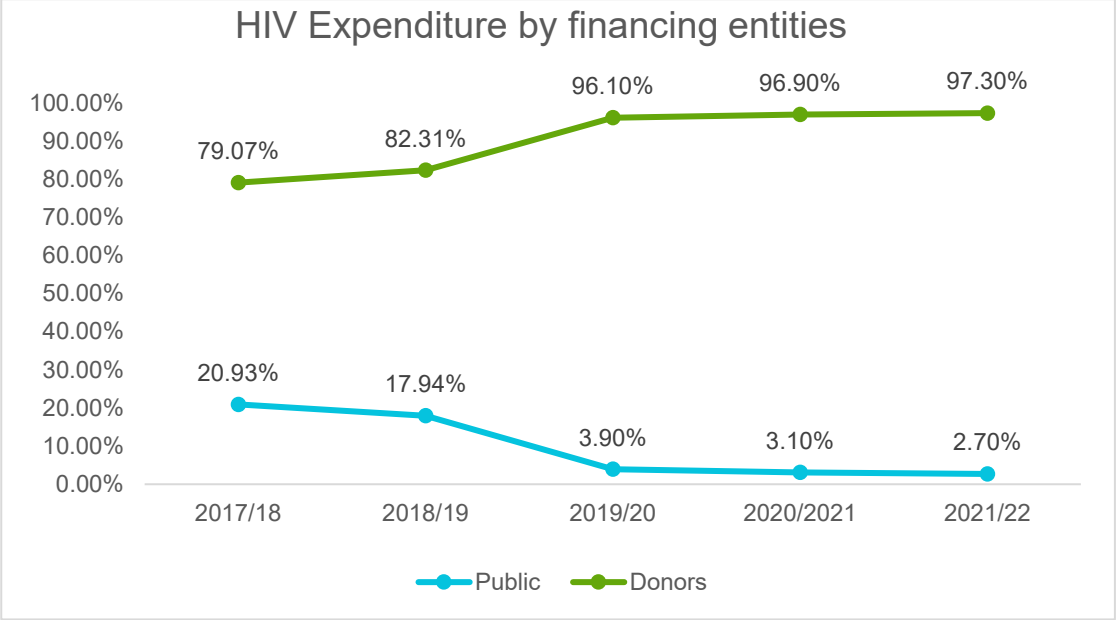


Figure 2: HIV/AIDS Expenditure by Financing Entities

In terms of expenditure, the allocation of funds for HIV/AIDS is largely skewed towards care and treatment, which constitutes 55% of total spending (See Figure 3). This is followed by program enablers and systems strengthening at 18%, while only 15% is dedicated to HIV testing and counseling, and a mere 10% is allocated for prevention efforts. Such a funding distribution highlights a critical imbalance, as the focus on treatment overshadows the necessary investments in prevention strategies that could reduce new infections.

[2] 2024 Malawi Spectrum and Naomi model estimates. MOH, NAC, UNAIDS

[3] 2024 National AIDS Spending Assessment

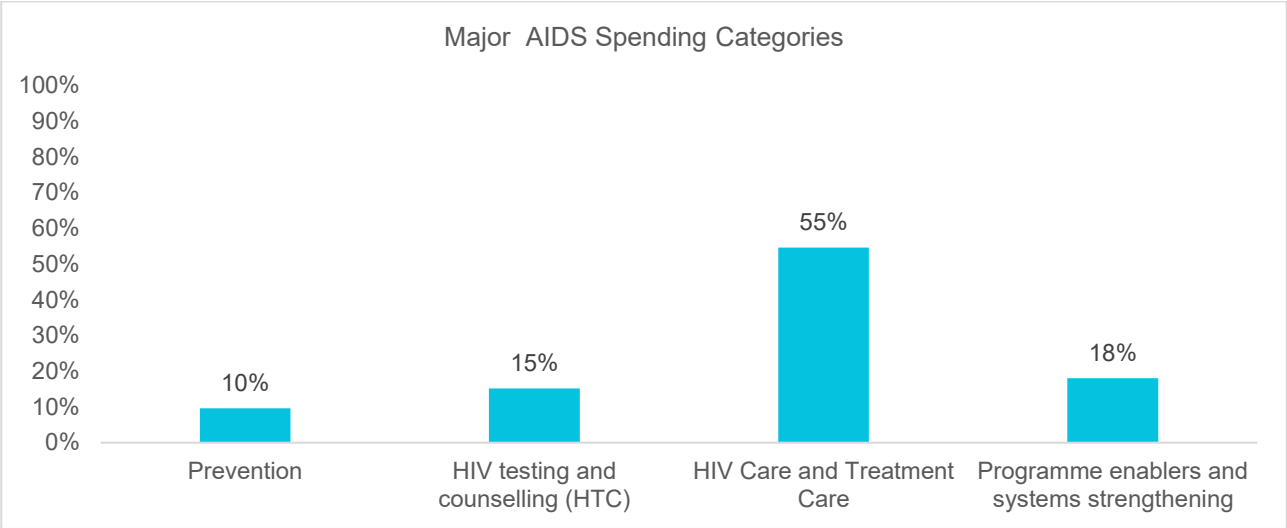
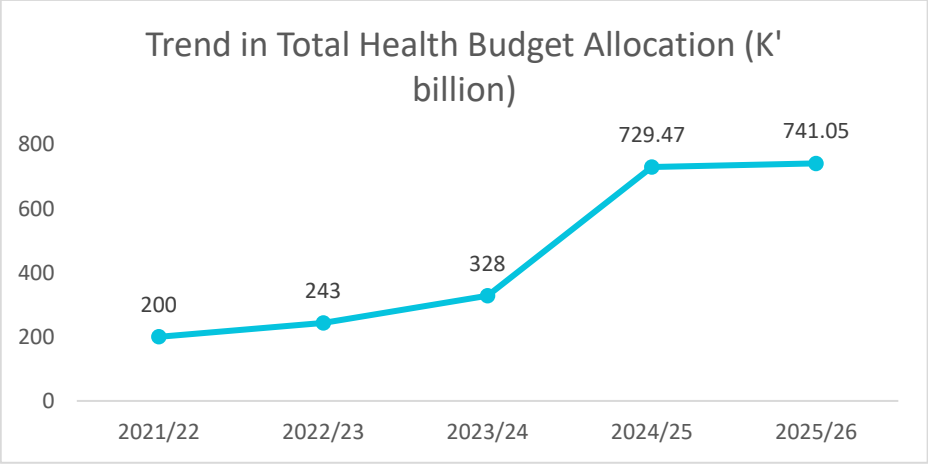


Figure 3: HIV/AIDS Major Spending Categories

The current funding model, heavily reliant on external sources, not only jeopardizes the continuity of HIV services but also limits local ownership and accountability. With limited domestic funding, the government struggles to effectively implement a comprehensive response to HIV/AIDS, particularly in prevention and community outreach efforts. As Malawi continues to battle this public health crisis, it is imperative to address the financing challenges to ensure that both treatment and prevention receive adequate support, ultimately leading to improved health outcomes for all affected populations.

4. Analysis of the 2025/26 Health Sector Budget

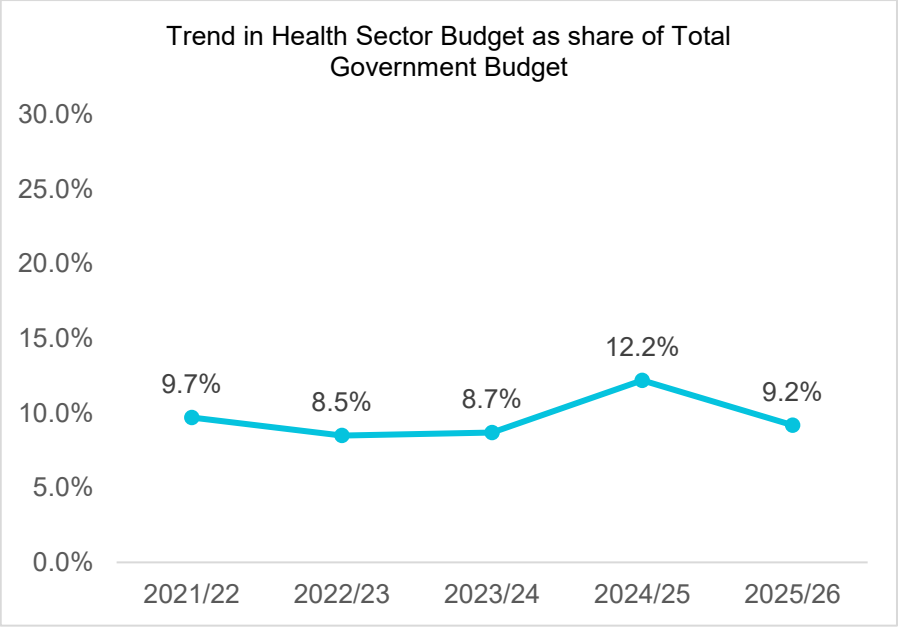
The 2025/26 health sector budget has been allocated MK741 billion, reflecting a nominal increase of 2% compared to the previous fiscal year's allocation of MK729 billion. While this increase may appear modest, it is critical in the context of Malawi's ongoing health challenges and the need for sustained investment in health services. The current budget translates to a per capita allocation of approximately MK33,356 (around US$19), which is insufficient to meet the health needs of the population and falls well below international benchmarks.



Despite this nominal increase, the overall health sector allocation has declined as a percentage of the total government budget, from 12.2% to 9.2%. This decline indicates that Malawi continues to miss the Abuja Declaration target, which calls for African nations to allocate at least 15% of their total

Figure 4: Trends in Total Health Budget Allocation in Billions Malawi Kwacha

budgets to health (See Figure 5). Compared to other sectors, the health budget remains among the largest three sector alongside education and agriculture receiving larger shares of16.6% and 9%, respectively. The inadequacy of the health budget allocation raises concerns about the prioritization of health in national planning and budgeting processes, especially in light of pressing public health challenges.



A significant portion of the health sector budget is centrally managed through the Ministry of Health (MoH), with 48.7% allocated to local councils for primary healthcare (See Figure 6). However, only 1% of the budget is designated for the management and operations of sub-vented health organizations. This decentralization is intended to enhance local accountability and service delivery, but it also poses challenges, as varying capacities among local councils can lead to

Figure 5: Trends in Health Budget Allocation as a share of the Total Government Budget

discrepancies in resource allocation and utilization.

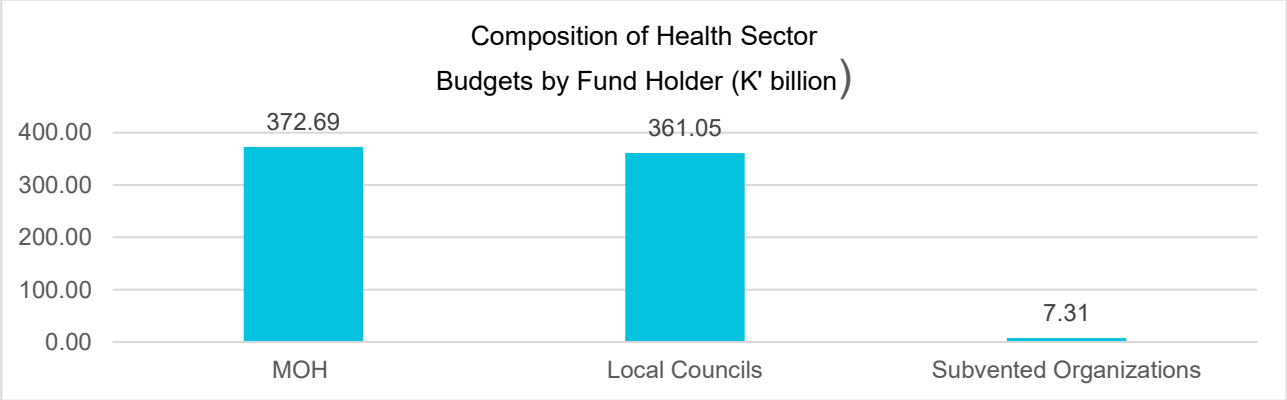


Figure 6: Composition of Health Sector Budget by Fund Holder in Billions of Malawi Kwacha

The budget allocation for the procurement of drugs in district councils has increased from MK25 billion in the 2024/25 budget to MK33.1 billion in the 2025/26 budget, representing a nominal increase of 33% (See Figure 7). However, the devolved drug budget remains unchanged at MK2.5 billion, which causes the share of the devolved drug budget to decline from the required 10% to 7.5%. This reduction in allocation contributes to ongoing challenges in ensuring the availability of essential medicines at the local level.

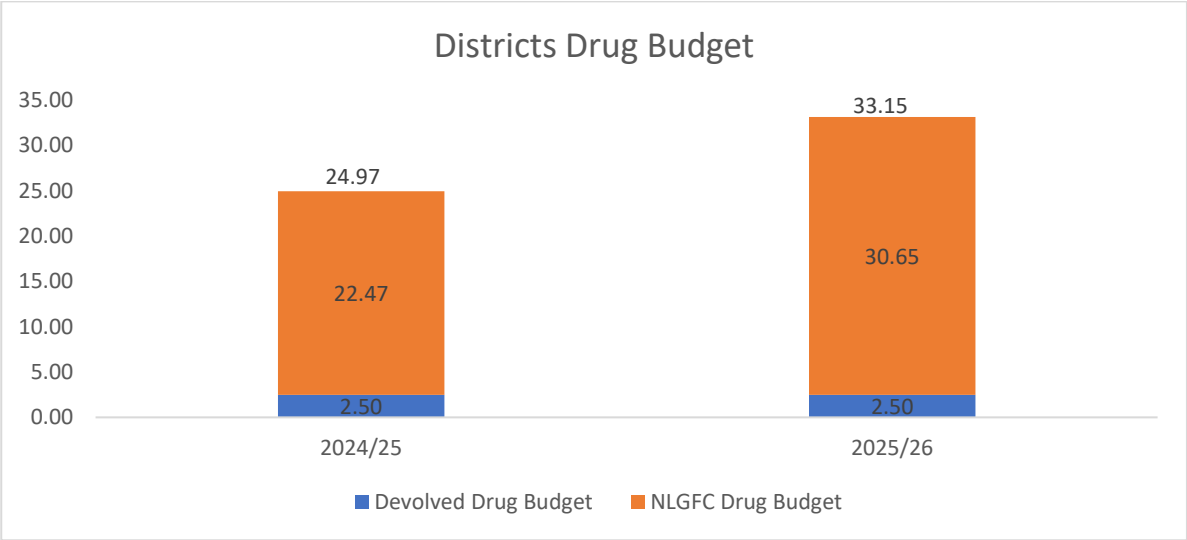


Figure 7: 2025/26 Drug Budget Allocation to District Councils

In a notable effort to address HIV care and treatment, the government has allocated MK1 billion to antiretroviral therapy (ART) co-financing, representing 200% of its commitment to the Global Fund (See Figure 8). However, this allocation is still insufficient to bridge the financing gap created by the freeze on U.S. Government (USG) funding, which previously accounted for 30% of total HIV care and treatment expenditure. The reduction in funding from this critical source exacerbates the challenges faced in delivering comprehensive HIV services and underscores the urgent need for alternative funding strategies.

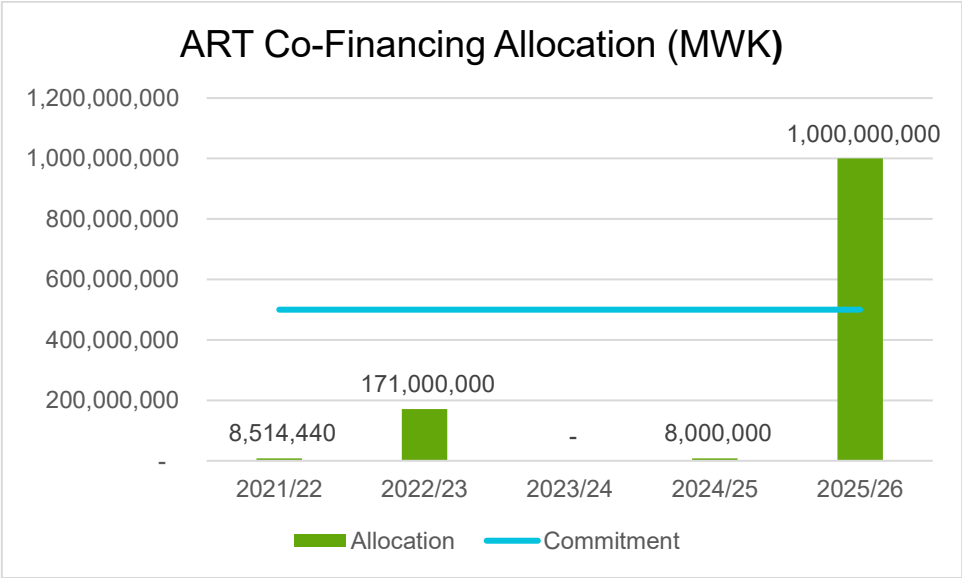


Figure 8: ART Co-Financing Allocation Vs Global Fund Commitments

Another concerning aspect of the budget is the unsustainably high level of donor funding, which remains at 97% for development projects (see Figure 9). This reliance on external funding not only threatens the continuity of health programs but also limits the government's ability to plan for long-term sustainability. The majority of government health resources are directed toward recurrent expenses, such as salaries and operational costs, leaving limited funds for programmatic initiatives that could improve health outcomes.

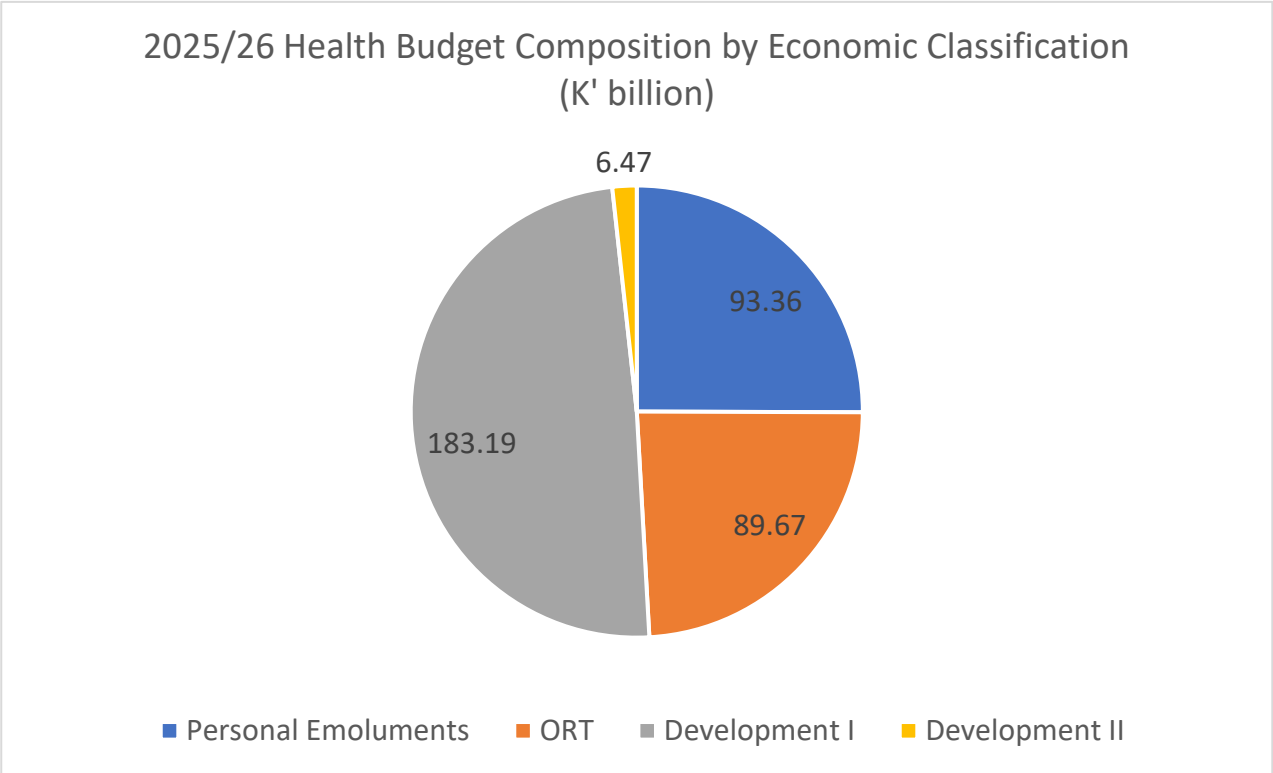


Figure 9: 2025/26 Health Budget Composition by Economic Classification in Billions Malawi Kwacha

Amidst these funding challenges, the government has introduced some health-related tax policy measures aimed at generating additional revenue. These measures include an increase in import duties on e-cigarettes and other smoking-related products, as well as amendments to customs procedures that facilitate the clearance of goods for health facilities. Such initiatives could potentially provide much-needed financial support to the health sector and improve overall budgetary allocations. Additionally, government has also amended the Customs Procedure Code 405, which is used for duty-free clearance of health-related imports, to include a title reading: "Goods for the use of Hospitals, Nursing Homes, Clinics, Surgeries, and Dispensaries as approved by the Principal Secretary for the Ministry of Health.

5. Implications of the 2025/26 Budget on Health Financing and Health Services Delivery

The 2025/26 health sector budget of MK741 billion, which represents only 9.2% of the total government budget, translates to a per capita allocation of approximately MK33,356 (around US$19). This allocation is significantly below the recommended US$76 per capita outlined in the Third Health Sector Strategic Plan (HSSP III)[4] and falls short of the target of allocating at least 10% of the total government budget for health in the medium-term expenditure framework (MTEF) for 2024-26 and 2030[5]. The insufficient funding creates substantial barriers to achieving Universal Health Coverage (UHC) by 2030 and compromises the government's ability to effectively respond to the pressing health needs of its population.

The heavy reliance on donor funding, currently at an unsustainable 97% for development projects, indicates a lack of self-sustainability in health initiatives. This dependency makes health programs vulnerable to changes in donor priorities and funding availability. If donors decide to reduce or withdraw support, as seen with some

[4] Health Sector Strategic Plan 3 (HSSP III)
[5] The medium-term expenditure framework (MTEF) for 2024-26 and 2030

U.S. Government funding, the programs could face significant challenges or even collapse. This situation not only threatens continuity of care but also diminishes local ownership and accountability, as stakeholders may feel less empowered to take initiative in health program planning and execution.

The freezing of U.S. Government (USG) funding has serious negative implications for HIV financing and health service delivery. With the USA contributing over 30% of the care and treatment budget, particularly for antiretroviral (ARV) drugs, the freeze will severely disrupt the supply of these life-saving medications. This disruption can lead to treatment interruptions, worsening health outcomes for individuals living with HIV.

Additionally, the funding freeze will further limit resources for prevention programs, potentially leading to an increase in new HIV infections. This outcome undermines years of progress made in HIV prevention and control efforts. With 18% of the HIV expenditure dedicated to health systems strengthening (HSS), the freeze will impact the overall capacity of the health system to manage and deliver HIV services. This includes the ability to conduct HIV testing and counseling, which is already underfunded at 15% of total HIV expenditure. A weakened health system will struggle to provide adequate support for both existing patients and new individuals seeking care.

Moreover, the introduction of health-related tax policy measures, such as increased import duties on e-cigarettes and an excise duty on smoking-related products, aims to generate additional revenue for health programs. This revenue could be allocated to health priorities, potentially improving funding availability. Furthermore, discouraging the consumption of these products could lead to better public health outcomes thereby reducing healthcare costs associated with treating smoking-related illnesses.

The inclusion of duty-free clearance for goods used by health facilities, including hospitals and clinics, represents another positive step. This measure aims to enhance the availability of medical supplies and equipment, thereby improving the quality of care provided. Increased access to essential health resources can significantly bolster healthcare delivery, especially in underserved areas.

6. Recommendations

To enhance health financing and service delivery in Malawi, the following recommendations are proposed:

1. **Increase Budget Allocation to the Health Sector**: The government should aim to gradually increase the health sector budget allocation, targeting a return to or maintenance of the previous fiscal year's allocation of 12.2%. This increase is crucial for ensuring adequate funding for essential health services, particularly in procurement of antiretroviral therapies (ARVs) for HIV treatment, HIV testing and counseling, and maternal, neonatal, and child health initiatives. Such an increase will help narrow the financing gap and support the achievement of Universal Health Coverage (UHC) by 2030.

2. **Leverage New Tax Measures**: The government should ensure that the additional revenue which is generated from increased import duties and excise taxes on e-cigarettes and related products is earmarked specifically for health programs and initiatives. This will make complete sense as the rationale for the introduction of these measures was solely on health grounds.

3. **Exploring other potential revenue-generating avenues**, such as local motorcycle Kabaza businesses, can further bolster funding for health. For instance, an analysis done in 2022 by MOH has shown that district and central hospitals are spending more resources on treating orthopedic injuries by Kabaza operators. The same analysis indicated that with the population of Kabaza operators at that time, over $1 million could be generated if each operator pays an annual fee of K1000 only. This is an eye-opening analysis which can be further explored and generate resources which could be redirected to health.

4. **Capacity Building for District Councils**: As health funds are increasingly decentralized to district councils, it is essential to allocate more resources to the Ministry of Health (MoH) for the capacity building of these councils. Strengthening planning, procurement, and contract management systems can enhance the efficiency of health projects and reduce waste. Regular reporting on health

expenditures will promote accountability and trust among stakeholders, ensuring that funds are utilized effectively.

5. **Diversify Funding Sources**: The government should explore diverse funding mechanisms beyond traditional donor support to create a more sustainable health financing model. This could include partnerships with private sector entities and community health initiatives that encourage local investment in health services.

6. **Strengthen Public-Private Partnerships**: Engaging the private sector through public-private partnerships can improve service delivery and facilitate access to essential health resources. This approach can also enhance the overall healthcare landscape by increasing investment in health infrastructure and services.

7. Conclusion

The health financing landscape in Malawi presents a complex array of challenges and opportunities. With a health sector budget that remains insufficient in relation to the population's needs and an overwhelming reliance on donor funding, the sustainability and effectiveness of health services are at significant risk. The current allocation of MK741 billion for the 2025/26 fiscal year, while a nominal increase, falls short of the necessary investments to ensure comprehensive healthcare access for all citizens.

To overcome these challenges, it is imperative for the government to prioritize health funding, enhance domestic revenue generation, and build local capacity within district councils. Implementing targeted tax measures and diversifying funding sources will be crucial for creating a more resilient health financing model. Furthermore, fostering public-private partnerships can drive innovation and investment in health services.

Ultimately, the path to achieving Universal Health Coverage by 2030 hinges on a commitment to reforming the health financing framework, ensuring that resources are allocated efficiently and equitably. By taking decisive actions now, Malawi can strengthen its health system, improve health outcomes, and secure a healthier future for all its citizens. The time for meaningful change is now, and with concerted effort and strategic planning, Malawi can turn its health challenges into a catalyst for progress.