

## **The 1<sup>st</sup> session of the Uganda Think Tank on AIDS (UTTA)**

**Topic: The impact of HIV/AIDS funding on  
macroeconomic stability: what is the middle line?**

### **Background information**

Uganda AIDS Commission  
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## **1.0 Introduction**

Poverty fuels the HIV/AIDS epidemic while the epidemic aggravates the poverty situation. Cognizant of this intricate relationship and the high HIV prevalence levels especially in Sub Saharan Africa, global partners are increasing their resource support to the developing world to enable governments respond appropriately. In Uganda, increased HIV/AIDS funding has generated debate about the impact of increased donor funds on the country's macroeconomic stability. The debate seems to have reached an impasse due to divergences of visions shaped along institutional priorities: AIDS actors emphasize the urgency to scale up the response by all means possible, whereas the government financial management actors are concerned about the impact of additional funding on foreign resource inflows and financial discipline. This debate is the focus of the 1<sup>st</sup> session of the Uganda Think Tank on AIDS (UTTA)

## **2.0 Brief background to the debate**

### **2.1 The evolution of the epidemic and the response in Uganda**

#### ***The epidemic***

After two decades of HIV/AIDS, Uganda is experiencing a mature generalized epidemic. National pooled antenatal prevalence rates have stagnated at around 6% since the year 2000 following declining trends from about 18% in 1995. Thousands of new infections take place every year. The Ministry of Health estimated about 70,000 new infections for 2002 alone. It is also estimated that more than 1 million people are living with HIV and the vast majority are adults 15-49 years of age. More than 150,000 of these are living with AIDS and in urgent need of anti-retroviral therapy (ART).

Over the years, the epidemic has ravaged the country with varying social and economic impacts at individual, household, community and national levels. Currently, AIDS is the leading cause of death among individuals aged 15-49 years, the age group that plays a crucial role in households, communities and the country as bread winners in households, the labour force in various sectors and leaders in society. Consequently, HIV/AIDS related morbidity and mortality has resulted in reduced household income, increased expenses for health care, reduced productivity in workplaces and increased orphaned and vulnerable children.

#### ***The response***

In Uganda, the importance of the impact of the epidemic on the country's economic and social development led to the adoption of a multi-sectoral approach to HIV/AIDS, contrary to a narrow focus on the health aspects of the epidemic. The 1992 Multisectoral Approach to the Control of AIDS (MACA) policy strategy nurtured concerted efforts from a wide range of actors from all sectors and at different levels in areas of prevention of HIV transmission and care, support and treatment of the infected and affected. These efforts yielded positive results especially contributing to declining prevalence rates and social support for the infected.

The stagnation of the prevalence rate in the last 4 years however calls for new interventions and for scaling up the response. This search for new means to fight the epidemic in Uganda matched the realization at international level, in the Barcelona AIDS Conference of 2002, that treatment was also an imperative in developing countries to fight AIDS and mitigate its effects. Encouraged by the fall in prices of antiretroviral (ARVs) drugs, a policy for ensuring universal access to ART was put in place in Uganda.

Cognizant of the need to scale-up efforts to address stagnating prevalence rates and provide care for those already infected and directly affected, resource mobilization efforts have been intensified at national and global levels, resulting in increases in HIV/AIDS funding levels. PEPFAR, MAP and Global Fund schemes illustrate this increased commitment. Indeed, government resources for HIV/AIDS work have been heavily supplemented by external development funding agencies that provide their support through either government budget support systems or individual projects.

AIDS has been recognized as a national priority for development and mainstreamed in the Poverty Eradication Action Plan (PEAP). However, the increased inflows of AIDS funding in the country have ignited debates around protection of sector budget ceilings and impact of increased inflows of donor funding on inflation. Assumptions that these new inflows could destabilize the country's economic stability have led the relevant government structures to question the desirability of additional HIV/AIDS funds outside the MTEF. Several questions have been raised but there is no common understanding as to how to address the situation yet: What level of AIDS funding could destabilize the economy, and with what consequences? Can the potential negative effects of this funding be mitigated?

## **2.2 The macroeconomic concerns raised by increased in HIV/AIDS foreign funding**

Macroeconomic destabilization can occur when there is a sharp increase and sustained in volumes of foreign resources, which are exceptionally large relative to the size of the real economy of the country. For a developing economy, large inflows of donor money present a problem of absorptive capacity, as well as the institutional capacity to utilize these funds efficiently.

The two main concerns raised by the scaling up of efforts on HIV/AIDS for the macro economy are related to foreign exchange appreciation and financial discipline. Other concerns include the additional requirements from the public sector in terms of human resources and coordination capacity; an economic environment that would privilege non productive sectors and the trade offs between HIV/AIDS activities and other health activities.

### ***Appreciation of the exchange rate***

An important flow of foreign exchange in the country, leading to the appreciation of the exchange rate is damaging for exports, a major engine of growth. The country experienced a 3.5 percentage of GDP increase in ODA grants between 1995 and 2000,

and despite prudent fiscal management has experienced an appreciation of its exchange rate, making exports more costly and constraining growth.

### ***Inflation***

The risk of inflation occurs where rising inflows finance local goods and services. Inflation from excessive government spending impacts negatively on low and middle income households, it reduces the incentives for investments and reduces access to credit. The contraction of the economy in turn negatively affects the resources available for public programs

### ***Fiscal balance within health and across sectors***

The Ministry of Finance and Economic Development suggests that an increase in AIDS funding would lead to the overshooting of budget ceiling for the health sector. Yet the cost of ART alone for those already infected cannot be accommodated under the ceiling of this sector, which must also address other priorities. There is therefore need to address the question of how the National Strategic Plan for HIV/AIDS activities fits in the overall budget of Uganda in the frame of the multisectoral approach.

### ***Affordability, sustainability and management capacity***

Increased flows imply greater spending on the part of government. Donors provide physical inputs: infrastructure, drugs, supplies, and training. Governments are expected to take care of management and logistics, delivery, financing of non-donated inputs, and tracking performance. As inflows increase, government spending and management are meant to scale up accordingly. This in turn raises the issue of the sustainability of aid flows. Given the uncertainty on the long-term availability of funding, hiring full time public sector staff and building up the national effort in response to rising inflows can be problematic if funding flows are abruptly reduced.

## **3.0 Expectations from the UTTA session**

Against the foregoing background, panelists to the 1<sup>st</sup> Think Tank session are required to explore the various elements of the debate and come up with recommendations that will inform policy and program review and development at various levels of the national response. The objective of the Think Tank session is to apply empirical evidence with innovation, and come up with practical and acceptable recommendations. The debate could be set at two levels:

- How can we weigh the impact of AIDS funding on economy? What is the positive impact in mitigating the socio-economic consequences of the epidemic against the risks of macro-economic stabilization?
  - How does the epidemic undermine the process of development, what are the short and long term impacts of AIDS on the economy? How does increased HIV/AIDS funding jeopardize the results achieved by Uganda's efforts on fiscal discipline?
  - What is the short and long-term cost effectiveness of AIDS interventions especially ART?

- Increased aid flows means increased necessity for a sound management of public resources. Coupled with the issue of dependency on external aid to respond to HIV/AIDS and capacity limitations, what are the implications for scaling national capacity according to this funding?
- How can the negative impacts of increased aid flows on macroeconomic stability be mitigated? Some proposals and suggestions have been made to address the stalemate but have not been subjected to collective scrutiny to assess feasibility and there are limited opportunities for learning from experiences in applying such proposals:
  - Increasing efficiency of AIDS funding and monitoring utilization of resources. How is funding related to outcomes such as trends in prevalence? Does flow of funds and impact of programs correlate? How can we improve absorptive capacity?
  - Mainstreaming AIDS in development processes and vice versa. The country adopted the multisectoral policy yet most funding is reflected under the health sector budget. Absorption of AIDS funding under the different sectors could be explored to address the issue of bursting individual sector budget ceilings.
  - Exploring off-shore procurements for commodities such as ARVs and external technical assistance which represent an important part of AIDS funding could address the issue of exchange rate destabilization due to foreign currency inflows.

#### **4.0 Conclusion**

It is acknowledged that the country must scale up its response to prevent further spread of HIV and provide quality care, support and treatment to the infected and affected. This demands for more resources that cannot be mobilized from local sources. Global partners have expressed willingness to support the developing world including Uganda to address HIV/AIDS. The country's economic performance cannot however be ignored in the face of the epidemic as it also impacts on the national HIV/AIDS response

There is therefore need to come up with a balanced position basing on an unbiased assessment of the advantages and inherent difficulties in increasing funding levels for HIV/AIDS, considering broader economic costs and feasibility of strategies for mitigating spill over effects of funding on macro-economy.

*Compiled by Florraine Gaillardin with contributions from Rosemary Kindyomunda*