Gearing Macroeconomic Polices to Reverse the HIV/AIDS Epidemic

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Monday 20 November

Main points from yesterday's discussions:
--Aid volatility and inconstancy is actually a bigger problem for recipient countries than Dutch disease as a result of HIV/AIDS inflows.
--Dutch disease is a real but minimal danger as a result of HIV/AIDS aid inflows. There is little empirical evidence of it resulting from external HIV/AIDS resources.
--One effective way to counter Dutch disease is to employ the underutilized sectors of the economy.
--Sector and programme efficiency is a better place to set our sights on than the adverse macroeconomic effects of HIV aid inflows.
--The IMF seems to be slowly moving away from setting such low inflation and deficit targets – but there's still disagreement about whether countries are discouraged from spending large HIV/AIDS resources quickly.

Introduction to the Macroeconomic Issues of Scaling-Up HIV/AIDS Financing

The effects HIV/AIDS, and aid inflows in response to it, have on production potential was addressed by **Fernando Cardim, Federal University of Rio de Janeiro, Brazil**. In the 80s macroeconomic thought was dominated by the idea of the natural level of employment. This idea has lost some currency today, but the main point to be explored is the nature of potential output. Dutch disease is by no means a necessary result. Historical experience – one clear thing is that there is no developed country whose development did not at some point involve the an integral role for the state.

The IMF position is that scaling up HIV response, and funding for it, is important, according to **Mwanza Nkusu of the IMF**. Concerns about Dutch disease are legitimate, but symptoms can be mitigated and they do not have to occur in all circumstances. Scaling up aid is important to reduce poverty.

David Goldsborough, Center for Global Development, former IMF evaluator identified five emerging messages – (i) There are some signs of a gradual shift to greater 'fiscal flexibility' in more recent vintages of IMF programmes. Some recent programmes actually target for deficits to go up. (ii) Evidence indicates that IMF programme countries have kept pace with the health spending of non-programme countries. (iii) More recent aid projections are only a little more optimistic. (iv) Some elements of programme design are still sketchy. (v) Excessively low inflation targets are *not* the main issue. The critical issues are more about the fiscal deficit pattern. Reasons you need 'humility' in making pronouncements about the macroeconomic effects of health spending scale up: There's no obvious 'fiscal anchor' after debt relief; you have to keep in mind some sense of certain expenditures effectiveness; you'll never have complete information, so uncertainty is inevitable; not all policy decisions can or should be taken right now.

Beng'i Mazana Issa: Prime Minister's Office, Tanzania AIDS Commission reported that HIV/AIDS spending accounts for 10 percent of Tanzania's national budget. Donors provide 90 percent of the funding for HIV. Fixed budget ceilings are an obstacle for scale up. Projectisation of HIV activities increases transaction costs. Challenges: Government doesn't have a culture of working together with civil society. Demands still exceed what is available. Not all declared assistance by development partners is actually flowing into the country – most of it is for servicing their own organizations from home countries. Delay in disbursement restricts the programmes.

Response of Governments / International Institutions / Civil Society on Scaling Up HIV/AIDS Financing

Aisha Baldej, National AIDS Secretariat, The Gambia looked at the question of why are commitments lagging? She identified aid volatility; bureaucracy (including IMF targets); absorptive capacity; costing difficulties; and shifting donor priorities. How can we close the funding gap? Strengthening governance; Donors need to have a common basket of funding – including GFATM.

Countries aren't raising enough money for health, noted **David Evans, WHO Director of Health Systems Financing.** WHO is attracted by sin taxes as low-cost ways of raising revenues and promoting health.

The bulk of the money from bilaterals doesn't reach country level, according to **Phillip Nyadhoda of UNAIDS/UNDP Zimbabwe.** Most of it goes to international NGOs, UN agencies, etc. – Challenges in Zimbabwe: macroeconomic situation is characterized by 1027% inflation, migration of skilled labour, foreign currency shortages, international isolation and there were no GFATM grants approved for Round 6.

Paulo Meireles, National AIDS Programme Brazil noted that Brazil has been able to allocate most of the funding for HIV from its own resources. They partner with multi- and bilateral agencies for smaller projects. They have some money to invest in foreign countries – in Latin America and to a lesser extent in Africa. They have also participated in establishing UNITAID and the air ticket levy.

Syed Rahman, Durjoy Nari Shongo, Bangladesh asked 'who is not a client of sex workers? Economists, doctors, UN workers?' HIV is a professional hazard for sex workers. He also stressed the importance of bearing in mind the community dimension even when discussing abstract macroeconomic principles.

Background Papers on Macroeconomic Policies for Combating HIV/AIDS

John Serieux, University of Manitoba, examined exchange rates. He gave a brief definition of Dutch disease as real exchange rate appreciation that harms the competitiveness of the export sector. Exceptions: underutilized capacity and productivity effects. He also noted that aid disbursements tend to be pro-cyclical rather than anti-cyclical, making good situations better and bad situations worse. PRSP conditionalities result in biases towards single-digit inflation levels; aversion to large fiscal and current account deficits; and reserve accumulation. He advises worrying about the exchange rate only once it's gone up and stayed up.

Matias Vernengo, University of Utah, examined monetary policy and stated that although **t**here is a consensus that aid inflow may lead to overvaluation of currency, there is disagreement about what countries should do in that case. Dutch disease effect from HIV/AIDS resources doesn't seem to be there in the Asian countries. Same in the African countries. Latin America does have it – but they have a long history of overvaluation of currency. Conclusions: It would be particularly problematic if contractionary monetary policy is used to control inflation. The pandemic may have significant effects on productivity and human development, and the possibility of Dutch disease is not worth the cost of not responding to it..

Bernard Walters, Fiscal Implications, University of Manchester – HIV/AIDS spending decisions should be made according to the characteristics of the epidemic, not short-term macroeconomic concerns.. This implies working backwards from disease characteristics to spending priorities to fiscal projections and aid needs. In the context of humanitarian relief, aid must be both absorbed and spent. The fiscal deficit must rise, financed by the domestic counterpart to the aid inflow. This requires fiscal and monetary coordination. Spending on HIV is likely to have a high import content (ARVs). Conclusions: Dutch disease is to some extent a red herring. Inflation will occur if spending is ahead of absorption.

David Bevan, Oxford University, Macroeconomic Policies for Combating HIV and AIDS - The consensus we've been given is that Dutch disease is quite problematic in theory. Empirically, it's not as clear what's happening. Is Dutch disease a crucial factor in the AIDS response? Probably not. It's crucial in the overall aid environment, but in HIV, not as much. It's not silly for economists to worry about it, but it's not a showstopper in terms of what the development community is trying to do. Donors rarely realize the level of aid inconstancy and the inefficiencies this causes. The Risk of aid inconstancy is probably more severe and less tractable than the risk of Dutch disease. The volatility of funding for AIDS treatment may be even more debilitating than for other types of aid. It's crucial to find ways of handling this.