The Global Economic Crisis and HIV Prevention and Treatment Programmes: Vulnerabilities and Impact

Executive Summary

TANZANIA

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The worldwide financial crisis and the economic recession caused the United Republic of Tanzania's economy to expand at a slower rate of 5% in 2009 (IMF), compared to 7.5% in 2008. This is the first such reduced performance in eight years and in comparison to many sub-Saharan countries is still a very robust one. The United Republic of Tanzania has experienced the effects of the global economic downturn since mid-2008, when the prices of agricultural products began to fall sharply. Between April and December of 2008, the price of coffee and tea fell substantially, due to weakened demand (IMF). The price of Nile perch, which has become an important export for Tanzania, dropped by nearly 80%. Since then, there has been a modest recovery in prices and a slight improvement in the level of export earnings that were expected for 2009.

The United Republic of Tanzania's commodity exports have become highly diversified in recent years, thanks to extensive measures to support diversification. Mineral exports (especially gold) account for 37% of commodity exports, followed by manufactured goods and agricultural products (coffee, cotton, tea, tobacco, cashew nuts and sisal). In terms of overall export earnings, services (tourism, telecommunication, and financial services) have gained immense importance in recent years, with tourism contributing the bulk of service earnings.

Workers' remittances form only a small share of transfers from abroad. This has helped curb the potentially sharp decline in export earnings that could have occurred. The impact of the sharp decline in prices of coffee, tea and cashew nuts, reduction in tourism receipts and reduced profitability in these sectors was dampened by a sharp rise in gold prices. This reduced the severity of potential negative economy-wide effects. Exports earnings growth however lagged behind the growth of the import bill substantially which caused a widening of trade deficit. As such, the current account balance that has been on a deteriorating trend over the last five years peaked at 14% of GDP in 2008.[1] The strain of lower foreign exchange earnings on reserves was reduced by higher than anticipated flows of official development assistance to the government. As a result, the United Republic of Tanzania has been able to sustain reserves at around four to five months of imports, the same level as the last two years.

During 2008 and 2009 tax revenues fell short of projections by around 9%; a larger deficit (before grants) is forecasted for 2009-10 (IMF). Apart from the economic slowdown, the decline in tax revenue is also a result of the reduced importance of trade taxes arising from regional trade integration efforts. Consequently, not only was economic growth expected to be less modest in 2009 (with the potential for increased unemployment, particularly in service industries), spending cuts across the board were also a possibility, which would have placed spending for HIV initiatives at risk.

The country's authorities have embarked on countercyclical policy measures, following consultations with the IMF, to mitigate the impacts of the global economic crisis on the domestic economy. The measures include an economic rescue plan incorporated into the 2009-10 budget, which includes a bailout plan for the export sector to stop job losses, particularly for crop exporters who suffered losses due to sharp world market price cuts. Others involve protecting budgets for important social programmes in the 2009-10 budget year. The World Bank agreed to the government's request to advance part of its Poverty Reduction Support Credit to the government to help fill the budgetary resource gap. The government also asked the IMF for a balance of payments support through the

[1] Economic Intelligence Unit estimates, July 2009

exogenous shocks facility, which was approved in May 2009. This could help keep the level of financial reserves at comfortable levels and counter the need to devalue the currency.

The government subsidises the price of ARVs and related supplies, which has made them accessible at relatively affordable prices. The government is also implementing an AIDS treatment programme which provides free access to ARVs to the poor. However, due to the depreciation of the shilling over the last two years, the purchase price for imported drugs (including ARVs) has generally gone up. So far no stock outs of ARVs in health facilities due to price increases have been reported. Interventions by the Bank of Tanzania seem to have stemmed the rapid depreciation of the shilling. If currency depreciation continues, alongside a decline in foreign financing for AIDS interventions, the government may find it harder to fulfil its universal access commitments for ARVs. This is especially important for the United Republic of Tanzania, because government and development partners have been supporting an increasing share of expenses for prevention, care, treatment and mitigation programmes since 2004. By May 2009, the number of AIDS patients undergoing antiretroviral therapy (ART) had reached 248,280 compared to 146,872 in 2007. Despite the huge increase in the number of people receiving ART, this constitutes only 55% of people enrolled in the programme. This is partly because some of the people enrolled are not yet eligible to receive ARVs, but also because some eligible people are not reached by the current service networks.

Early in the year, the United Republic of Tanzania announced a possible 25% cut in its AIDS budget. The Global Fund also asked grant recipients in the country to identify efficiency gains that would allow a 10% cut in requested funding. None of the anticipated cuts happened in 2009-10. The Tanzania Commission for AIDS reports a 5% increase in foreign AIDS funding during 2009, compared to 2008. The government also announced that it would protect important social programmes from spending cuts. A number of NGOs have reported budget cuts since 2008, with one NGO reporting a 25% shortfall for 2009. This decline is expected to affect care and support for people living with HIV, prevention programmes, programmes for orphans and vulnerable children, and capacity building and organizational development activities.

At the moment there is no evidence of a decline in funding for ART. This could be because all current spending has been within the allocations of existing funding commitments that have not changed in the wake of the global economic crisis. It could also be because of the announced safeguarding of funding by the government. However, both government departments and NGOs have experienced delays in budget disbursements. This has affected the mitigation component, particularly the provision of nutritious food to people living with HIV. It is not certain that this is due to the global economic crisis; as such delays could also be attributed to planning, monitoring and reporting shortfalls, which affect most of the donor-funded programmes in the United Republic of Tanzania.

The most direct channel of impact on social protection and nutrition support happens through the decline in household incomes due to unemployment or reduced remittances. There have been newspaper reports of staffing cuts in some industries, but there is no comprehensive information that could establish the extent of the job losses country-wide. In some sectors such as agriculture, where the impact has been more pronounced, the government has established a rescue plan to help companies recover trade losses and save jobs. Several newspapers have recently reported that some patients may not be able to continue with ART due to poor nutritional conditions. If ART cannot be supported by adequate nutrition due to loss of household income and funding problems, a greater number of people among the most vulnerable groups may discontinue their antiretroviral medication.

The United Republic of Tanzania is using a centralized procurement system for all essential drugs, including ARVs. For many years the system has suffered from delayed receipt of funding from the

central Health Ministry for drug procurement. Most of the past and present stock-out situations in health facilities have been a result of supply chain and procurement shortfalls, rather than funding problems related to the global economic crisis. The Ministry of Health and Social Welfare and the responsible procurement department, the Medical Stores Department, have been working on measures to resolve the supply chain issues, which could help ensure the availability of drugs in health facilities.

In terms of prevention services, there are also no indications yet to prove that condom supplies and awareness campaigns have suffered. Most of the programmes are continuing with their operations, which could possibly be attributed to the existence of previously guaranteed funding. However, it is anticipated that funding for prevention interventions could be the first to suffer in the future, should donor resources start to dwindle. This is because it takes a long time before results from prevention measures can be observed, whereas donors are keen to see results in the short run.

Funding for AIDS programmes is highly donor dependent. More than 90% of the funding in the last five years has come from foreign bilateral sources, with the Global Fund and PEPFAR playing a particularly prominent role in the last two to three years (contributing about 70% of total funding). This makes AIDS programmes more vulnerable to external funding problems. Severe cuts in foreign funding would be quickly felt and could be more disruptive than government cuts. Filling such a resource gap might not be possible for the government in the short to medium term, but it is feasible for authorities to adopt strategies to reduce the magnitude of potential impacts. This could involve cushioning the current government interventions from budget cuts, while finding alternative internal sources to increase funding; donors keeping their commitments; and implementers enhancing their effective use of resources.

In summary, the impacts of the crisis have begun to be felt in the United Republic of Tanzania in terms of reduced economic growth potential, reduced growth of export earnings and government tax revenue, and job loss. The evidence on the ground is, however, not strong enough to suggest that the economic crisis may have already resulted in reduced funding for HIV interventions. The evidence is also not conclusive enough to link drug shortages and stock-outs in health facilities to the economic crisis. This may be because the time span since the effects of the crisis started to be felt in the country has been too short for this study to yield conclusive findings. A more comprehensive study at a later stage could help to more clearly determine the impacts. Other possible explanation include the fact that funding commitments for most of the programmes in multi-year agreements have not changed; the fact that there are many donors AIDS arena so shortfalls from one source might have been filled from other source; and, the early adoption of mitigation measures, in particular the government's safeguarding of budgetary commitments for AIDS programmes.

The government established a task team to examine the potential economy-wide effects of the economic crisis during 2008-09. Following their recommendations, and after consultations with the IMF, some emergency measures have been adopted. The United Republic of Tanzania sought financial support from the IMF and the World Bank to halt balance of payments problems and avoid the budgetary cuts that could have affected social services sector. An economic rescue plan has been incorporated into the current budget to support productive sectors and avoid job losses. The central bank has also strengthened its surveillance of the banking system to detect signs of financial stress. Although these measures are not directly linked to HIV, they nonetheless may indirectly contribute to reducing likelihood of a decline in employment (and income) and government revenue, which would affect expenditures for AIDS-related programmes. No budget cuts have been instituted in 2009-10 for the health sector or for AIDS funding. The level of external aid to the general government budget has remained at around 34% in 2009-10 (as in 2008-09), thanks to the World

Bank's agreement to fill the impending resource gap. Specific cuts to AIDS funding from the Global Fund have not yet materialized, although authorities have been asked to identify efficiency gains that would allow a 10% cut in future funding.

As the future funding outlook is uncertain, close monitoring of the situation is crucial. As donor countries continue to implement their own recovery programmes, a decline in general and AIDS funding cannot be ruled out. Any funding cuts in the health budget will hamper the country's ability to maintain the salaries of health workers, could lead to shortages in drugs and other essential medical supplies, and may curtail the extension of ART therapy. The contraction of economic activity might also affect private sector workplace programmes and medical services. Overall increased poverty levels might occur due to loss of income. Since increased poverty undermines people's access to adequate nutrition, individuals under treatment may discontinue their antiretroviral medication.

Sustaining the existing programme would thus require the United Republic of Tanzania to take a series of specific steps to adjust to the AIDS funding shortfalls that may occur. Such measures could include improving the prioritization of interventions to make efficiency gains from limited resources; cushioning possible expenditure cuts in AIDS spending by gradually increasing the proportion of funding from domestic sources; improving the drug supply chain performance; and periodic monitoring and evaluation of HIV interventions to inform future re-programming. While donors are being asked to honour and increase disbursement commitments, implementing agencies need to strive to ensure effective utilization of funding. Efficiency gains could be made by establishing a plan to reallocate resources to activities that show results quickly. Since a coping plan specific to AIDS programmes does not seem to exist yet, implementing agencies may find it useful to establish one, possibly in consultation with funding partners, to look at how the effectiveness of interventions could be enhanced. Within donor-financed programmes, there is a likelihood that the focus could soon shift to higher priority activities with more immediate benefits and to reducing overhead and expensive technical support where it can be locally procured. Programmes therefore need to look for ways to provide better value, while reducing inefficient or ineffective approaches.

Major Government actions planned or taken:

- The government has requested emergency financing from multilateral financial institutions for the balance of payments and budget support purposes;
- Social sectors, including health and AIDS programmes have been protected from budgetary cuts for the 2009-10 budget period; and
- Authorities are implementing an economic rescue plan for the productive sectors, which is expected to halt further job losses.

Major Recommendations:

- Authorities should work on and establish a plan, in consultation with funding partners, which could be adopted to curtail the impact of the looming decline in funding for AIDS programs;
- Improve the prioritization of AIDS interventions to facilitate efficiency gains from limited resources, supported by strengthened monitoring and evaluation of current programmes; and
- Urge development partners to keep their disbursement commitments, while gradually increasing domestic funding for HIV to reduce funding vulnerability due to excessive dependence on foreign financing.