

MALAWI'S GOVERNANCE AND FOREIGN AID CRISIS: IMPLICATIONS FOR POVERTY REDUCTION AND AIDS RELIEF

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Introduction

In the wake of recent political unrest in Malawi, the government, under the leadership of President Bingu WaMutharika, has come under fire from bilateral and multilateral agencies for persistent failures in governance, his disregard for human rights and constraints on press freedom.

Western donors, particularly the United Kingdom, the United States, Norway, Germany², the European Union and the Global Fund³ have either suspended or ended general budget support to Malawi. The US has reportedly suspended its \$350 million aid package while Germany has put on hold half of its budget support to Malawi. Malawi has also lost a Global Fund application for US\$560 million with no option for re-submission. The Global Fund reduced allocations in Round 8, and it currently faces a funding gap of approximately US\$4 billion for the three-year period 2008–2010⁴. As a result of the global economic crisis, donor countries have become more conservative in their aid allocation to developing countries. It can therefore be argued that the human rights abuses and financial mismanagement by the Malawian government has given these bilateral and multilateral organisations justification to reduce their support to Malawi.

The seven largest sources of external finance to Malawi accounted for approximately 80% of official development assistance to the country. The World Bank, International Development Association, the UK, European Commission, Japan, the US, Germany and the African Development Bank/African Development Fund have been the dominant funders to Malawi since 1994. Norway, Denmark (until 2002), Sweden and the Netherlands have also been significant donors⁵.

Table 1: Official Development Assistance to Malawi by donor (US\$ million)

Donor	2000	2001	2002	2003	2004
United Kingdom	97	73	50	112	119
International Development Association	97	124	70	77	98
European Commission	52	70	55	81	66
United States	59	31	61	60	57
Japan	48	27	27	35	39
Germany	25	20	24	29	25

Source: OECD/DAC International Development Statistics (online database) (OECD DAC 2005).

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Understanding general budget support

Koeberle & Stavreski (2005) define budget support as the predictable, annual, medium term resource flows based on progress in achieving the poverty reduction strategy goals. According to Koeberle & Stavreski (2005), budget support is an increasingly popular instrument for development assistance as it is a partnership-based approach. The aid, which is provided as budget support, is linked to sector or national policies rather than specific project activities. Budget support is a form of programme aid where overseas development assistance is channelled directly to partner governments in this case, Malawi – who apply their own allocation, procurement and accounting systems.

Since the late 1990s, general budget support has been closely linked to the development of poverty reduction strategies which attempt to support nationally developed strategies rather than imposing external policy prescriptions. This is a necessary but not sufficient approach to the Paris Declaration on aid effectiveness.

The Paris Declaration is a more comprehensive attempt to change the way donor and developing countries do business together, based on principles of partnership. General budget support allows governments to deliver their own national strategies for poverty reduction against an agreed set of targets.

Africa's over-reliance on aid and the implications of donor flight and the economic recession

According to the UNAIDS 2010 report on the global AIDS epidemic, the majority of new HIV infections continue to occur in Sub-Saharan Africa with an estimated 1.8 million new infections in 2009. This is an improvement on the 2001 figure of 2.2 million new infections. This downward trend has been attributed to a combination of factors, including the impact of HIV prevention efforts and the natural course of HIV epidemics.

Empirical evidence has shown that most sub-Saharan countries are heavily reliant on external funding for HIV & AIDS programmes. This raises issues about the sustainability of these programmes, especially in the light of donors exiting from Malawi, coupled with the general effects of the global economic crisis which was triggered by a liquidity shortfall in the United States banking system in 2008.

Akukwe (2009), estimates that as many as 100 national AIDS programmes may be at risk from potential cuts in international financial assistance in the next few years as a result of the recession. According to an official communiqué from the first Ministerial Review Meeting of the International Health Partnership and related initiatives (IHP+) in Geneva in February 2009, the severity of the global economic downturn will put pressure on the development budgets of donor countries and make it difficult for developing countries to sustain domestic funding for health⁶. The withdrawal of funding to Malawi will also exert pressure on resources available to the Malawian government as the effects of the donor pull-out are abrupt and there is no gradual transition to self-sustainability.

The sustainability of donor funding has been questioned as foreign financiers can withdraw at short notice for political and economic reasons. According to Bulir & Harmann (2003), aid flows are seven times less predictable than domestically generated revenue. Yet, African governments have not come up with innovative indigenous solutions for Africa to address resource shortfalls.

Table 2: Domestic vs foreign funding (US\$ and %)				
Country	Domestic public expenditure		International expenditure	
	%	Value (USD)	%	Value (USD)
Zambia	15%	29,082,976	85%	160,846,928
Tanzania	43%	108,120,344	57%	145,833,136
Malawi	32%	18,264,048	68%	38,227,216
Namibia	51%	66,300,000	49%	64,200,000
Ghana	21%	4,928,503	79%	18,053,740
Mozambique	15%	14,301,520	85%	81,203,830
Source: http://data.unaids.org/pub/report/2008				

Potential effects of the donor flight on HIV/AIDS

According to UNAIDS (2009) the global economic crisis has the potential to affect the lives of 3.4 million people on antiretroviral treatment, another 7 million people who also need treatment but don't have access to it and others who will need treatment in the future. It is likely that those who are on treatment will develop resistance and may die prematurely due to unavailability of medicine and subsequent lack of adherence. According to UNAIDS (2009), the main concern about the effects of the recession is the financial sustainability of antiretroviral treatment programmes in countries like Malawi that depend mainly on external aid. The sustainability of antiretroviral treatment is going to be compromised by the decline in balance of payment support and lack of foreign exchange. .

The donor pull out may also affect other macroeconomic fundamentals like inflation, unemployment, high interest rates and trade deficits. This also increases the risk of declining food security as food prices increase, which may force some people to discontinue treatment. Adequate food is essential for those patients who are taking antiretroviral drugs.

It is anticipated that the financial crisis, together with the increasing demand for treatment, will have a serious negative impact on antiretroviral treatment in the long run. A joint World Bank/UNAIDS report (2009) reveals that in 11% of the countries surveyed the global crisis had already affected treatment programmes and 31% of the countries expected the financial crisis to have a negative impact on treatment. The survey also showed that some countries were already facing antiretroviral shortages and other disruptions to AIDS treatment.

Table 3 shows the HIV & AIDS programme priorities for six selected countries and the proportions allocated to a particular AIDS spending category.

The table shows that all the countries except Tanzania prioritise treatment programmes which are externally financed. This table illustrates clearly how the effects of the donor flight from Malawi could be potentially catastrophic.

Table 3: AIDS spending categories per country: proportions of budget allocated (2005, 2006 and 2007)						
AIDS spending category	Country					
	Zambia	Tanzania	Malawi	Namibia	Ghana	Mozambique
Prevention	24.8%	44.7%	10.2%	17.2%	31.3%	33%
Care & Treatment	47%	26.8%	48.7%	69.0%	68.7%	37.2%
Management	14.2%	26.2%	9.8%	13.8%	0%	15.3%
Enabling Environment	1.9%	0.3%	11.5%	0%	0%	0.9%
Orphans and Vulnerable Children	4.4%	0%	1.8%	0%	0%	7.6%
Incentives for Human Resources	1.5%	0.5%	7.2%	0%	0%	5.1%
Social Protection	0.3%	0%	0.6%	0%	0%	0.7%
Research	5.9%	0.7%	10.2%	0%	0%	0.2%

Source: <http://www.unaids.org/en/CountryResponses/Countries/>

What options exist to ensure minimal impact on Malawians?

UNAIDS (2010) asserts that 1.2 million people received HIV antiretroviral therapy in 2009 and this represented a 30% increase in a single year. It is reported that the increase in access to treatment contributed to a 19% decline in deaths among people living with HIV between 2004 and 2009. It should, however, be noted that these gains can only be maintained through sustainable financing of HIV programmes.

Government of Malawi

Improving revenue collection

Although the projected dwindling financial resources due to the global financial crisis is a global challenge, it presents an opportunity for African governments and other key stakeholders to reprioritise, refocus and find ways of making HIV/AIDS interventions more sustainable⁷.

Although the revenue base is expected to shrink due to the recession, governments can ensure that they develop ways of ensuring that their revenue collection strategies are effective.

Given the loss of donor aid, it is critical for the Malawian government to come up with innovative ways of closing the financing gap created by the donor flight. The government will have to ensure that HIV programmes remain adequately funded to prevent loss of lives.

The South African Revenue Service⁸ is an example of an effective system. The Malawian government can learn from SARS on how to effectively collect taxes using advanced

technology and thereby improve revenue collection. This method does not imply an increase in the tax rate. Rather it is about broadening the tax base and minimising tax avoidance.

Best practice: The AIDS levy in Zimbabwe

One option is to improve revenue collection systems by introducing a new tax to finance the HIV programmes. Zimbabwe introduced the 3% AIDS levy in 2000. The National AIDS Trust Fund (NATF) commonly referred to as the AIDS Levy was introduced by the government in 2000 through the National AIDS Council (NAC) Act Chapter 15/14 of 2000. The Act mandates individuals and companies in Zimbabwe to pay 3% of their taxable income to the NATF⁹. The funds are collected by the Zimbabwe Revenue Authority (ZIMRA) which then disburses the funds to National AIDS Councils through direct deposits. These funds are used to support national prevention, treatment and care, mitigation, advocacy, and monitoring and evaluation programmes in the response to HIV & AIDS¹⁰.

The success of the AIDS levy, however, depends on the number of people who are formally employed and the number of profitable corporate organisations. The success also depends on government accountability and whether the resources are being used efficiently to benefit the target population. Introducing a new tax for the formally employed and the corporate sector may actually worsen the standard of living as this increases the tax burden. It should also be noted that prohibitive taxation systems may negatively impact on potential investors thereby reducing foreign direct investment. Nevertheless, this can be an effective, sustainable and predictable and innovative way of ensuring the sustainability of the HIV & AIDS programmes.

Bilateral and multilateral organisations

Besides the budget support, development assistance can be administered through project aid to different sectors, investment projects and non-financial support. To minimise the effects of the withdrawal of aid on the general population, it is advised that financial aid be administered through non-governmental organisations. Project aid involves the identification of specific areas of intervention for donor involvement and the targeted use of funds for specific activities for which objectives and inputs have been defined (Foster & Leavy: 2001). Foster & Leavy further postulate that the level of local ownership may vary but that project aid involves a high degree of donor control.

Conclusion

Aid has certainly contributed to economic development and improvements in quality of life variables in many countries. Evidence for successful aid is particularly strong in targeted programmes with clearly defined objectives (Levine: 2004). It is worth mentioning that the positive contribution of foreign aid on the African continent is immense and should be applauded. The current status quo in Malawi reinforces the relationship that exists between macroeconomics and microeconomics. Decisions that are being made at the national (macro-level) end up negatively affecting households (micro-level). Malawi's foreign policy choices and poor governance will, in the short

term, be felt by the general population and those who are receiving ARVs courtesy of foreign aid. That said, given the humanitarian considerations that accompany the Low Income Status ranking of Malawi, it is important for the foreign donors to ensure that they find financing solutions which will minimise the effect on people infected and affected by HIV & AIDS and other marginalised populations.

Endnotes

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- 2 <http://reliefweb.int/node/388913>
- 3 www.businessweek.com
- 4 Donor funding for the period stands at US\$9.5 billion, falling short of the expected demand of at least US\$13.5 billion for 2008–2010. See updated demand estimate: http://www.theglobalfund.org/documents/replenishment/caceres/Updated_Demand_Estimate_March2009.pdf.
- 5 Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC)
- 6 UNAIDS (July 2009) Joint United Nations Programme, As global economy slows International Health Partners push for faster health progress, www.unaids.org/en/KnowledgeCentre
- 7 <http://nac.org.zw>
- 8 <http://www.sars.gov.za>
- 9 <http://nac.org.zw>
- 10 www.saf aids.net/files/SADC%20Best%20Practice%20Framework.pdf

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