Independent observer of the Global Fund

FLUCTUATING CURRENCIES AND THE IMPLICATIONS FOR HIV AND AIDS FINANCING

From 1990 to 2015, gross domestic product (GDP) rose by an average annual rate of 3.86 percent in sub-Saharan Africa, compared to 2.79 percent for the world. Those differences are even more pronounced when looking at different time periods. From 2000 to 2015 GDP in sub-Saharan Africa rose by an average of 5.04 percent compared to 2.87 percent globally, according to World Bank data.

This upward trend has seen the emergence of a view that governments, particularly in the developing world, should take greater autonomy, relying less on foreign aid and more on the gains made as a result of their own economic development. The concept of "dead aid," or the belief that foreign development assistance has a finite impact on how much it can help a country grow, is emblematic of this. In addition, there are new challenges facing the governments in the rich world: environmental change and mass movement of people to name just two.

Nowhere is this shift more obvious than in the world of HIV and AIDS. At the beginning of the epidemic, responses to the disease in the developing world were largely been funded by international organizations (IOs), non-governmental organizations (NGOs), and foreign donor governments. Recently however, there has been a strong push for developing countries to allocate a larger amount of domestic resources towards their HIV and AIDS response, while at the same time international financing has begun to plateau or even fall.

This trend has been premised on the idea that the economies of recipient countries will continue to grow. While the outlooks for many lower to lower-middle income countries have slowly and steadily improved, there are significant barriers for many of these countries to overcome in order to achieve sustained economic growth.

This push calls in to question whether or not countries are actually able to take on an increased proportion of their own HIV and AIDS response financing. For example, in 2012 Swaziland received over U.S.$100 million in development assistance whereas Malawi received just over U.S.$1.1 billion according to World Bank figures. Figure 1 shows the breakdown of HIV and AIDS spending by international and domestic sources. Swaziland spends over U.S.$82 million on HIV and AIDS, of which 68 percent is from international sources. Malawi, on the other hand, spends over U.S.$145 million on HIV and AIDS of which 92 percent is from international sources according to UNAIDS.

Figure 1 – HIV Spending from Domestic and International Sources

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These numbers have serious implications for a countries' ability to self-finance their HIV and AIDS response. For example, it would be impossible for Malawi to domestically fund their program at the same level it is currently at without significant help from international donors.

Exchange Rates and Currency Fluctuations

Domestic

One of the under-considered issues is the importance of foreign exchange rates. If a decreased international commitment to financing HIV and AIDS programs is premised on strong economic growth of the recipient countries, declining currencies could have a significant and negative impact on their ability to fund their own HIV and AIDS response. As such, increased reliance on domestic contributions for combatting the epidemic may be premature.

Of great significance to the response to HIV and AIDS has been the decline in the value of most African currencies, which have decreased significantly over the past 10 years. In Southern Africa the South African Rand, has seen historic lows in the exchange rate when compared to the U.S. Dollar. This is seen in Figure 2 which shows the U.S.$ to ZAR exchange rate. At the peak in the last five years one rand bought 13 U.S. cents, at the lowest level in the beginning of 2016 the rand bought less than 6 U.S. cents.

This depreciation is particularly worrisome because a number of countries in the Southern African region have pegged their own currency to the rand. Lesotho, Namibia, and Swaziland are in a Common Monetary Area (CMA) with South Africa. Their exchange rates are identical: a change in the value of the rand leads to the same change in the value of the Lesotho Maloti, Namibian Dollar and Swazi Lilangeni. The CMA is crucial as the agreement overlaps the highest prevalence countries in the world. In addition, other regional currencies such as the Botswana Pula, Zambian and Malawi Kwacha and Mozambican Meticais have the rand as a major part of the basket of currencies that determine their exchange rates. As the rand continues to devalue so to do the currencies of these countries.

Figure 2 – U.S.$ to South African Rand Five Year Exchange Rate (from Xe.com)

Figure 1 – US$ to South African Rand Five Year Exchange Rate

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If the countries are picking up costs denominated in foreign currencies (such as drugs or supplies) this is a problem. What this means for the HIV and AIDS response is that when the value of local currencies continues to decline (or remain at a low level) the domestic commitment from these countries must increase by an even greater amount in order to get the same “bang for your buck.”

International

A similar potential problem can be seen when looking at the amount of money committed by foreign donors. International contributions to HIV and AIDS are generally expressed in U.S. dollars. As the dollar continues to appreciate, donor pledges in their own local currencies may flat-line or even decrease. The 2016 Aidspan article titled, “The Global Fund Reports Pledges of U.S.$12.9 Billion at the End of the Replenishment Conference” looks at this exact phenomenon.

For example, at the time of the last global replenishment conference the Canadian dollar was at par with the U.S. dollar. In 2016 CAD$1 was worth only U.S.$0.76. Therefore, even though the Canadian government pledged to increase its international commitment to the Global Fund by 24 percent, this figure is almost completely negated by the declining value of the Canadian dollar. This can also work the other way. For example, Japan repeated its 2013 commitment with another U.S.$800 million pledge. With the Japanese Yen depreciating significantly since 2013, this repeat pledge, made in U.S.$, actually constitutes a significant increase in the amount donated by Japan as stated in the previously-named Aidspan article. Of course for Canadians the increase in the pledge means more of their tax dollars are going to the Global Fund as exchange rates are largely irrelevant.

Exchange rate fluctuations must always be considered when money is crossing borders or commodities are bought on the international market.

In conclusion

It is absolutely critical that funding levels for HIV and AIDS remain high in order to maintain and improve upon the significant gains made over the past 15 years. This may not be feasible for countries as economic uncertainty continues to permeate the region. It may also be too soon for the international community to transition to a system increasingly reliant on domestic contributions to fight the HIV and AIDS epidemic. Finally the currency in which the fight is funded is the U.S. dollar. This means exchange rates need serious consideration when looking at what it is both in terms in income and expenditure.

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