Domestic revenues, debt relief and development aid: Transformative pathways for ending AIDS by 2030

REPORT ON
EASTERN AND
SOUTHERN AFRICA

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Abbreviations and acronyms

BEPS	Base Erosion and Profit Shifting (OECD)
CIT	corporate income tax
CPA	country programmable aid (OECD DAC)
CRI	Commitment to Reducing Inequality Index (DFI)
DAC	Development Assistance Committee
DSAs	debt sustainability analyses
DSSI	Debt Service Suspension Initiative
HIPC	Heavily Indebted Poor Countries Initiative
ICRICT	Independent Commission for the Reform of International Corporate Taxation
LIDCs	low-income developing countries (IMF grouping)
MDRI	Multilateral Debt Relief Initiative
OECD	Organisation for Economic Co-operation and Development
PEPFAR	U.S. President's Emergency Plan for AIDS Relief (USA)
PIT	personal income tax
SADC	Southern African Development Community
TIWB	Tax Inspectors Without Borders
UHC	universal health coverage
VAT	Value-added tax

Executive summary

Why this report?

The COVID-19 pandemic and the polycrises of 2023–2024 have undermined decades of progress on global health and slowed progress in response to HIV. Even prior to COVID-19, the United Nations target to achieve a 75% reduction in the number of new HIV infections between 2010 and 2020 was significantly off-track.

Financing is a key challenge. Globally, US$ 20.8 billion was made available in 2022 for HIV programmes in low and middle-income countries from both domestic and international sources. This funding—already on the decline relative to previous years—is under increasing pressure. When it comes to international donor support, other priorities such as the need to respond to urgent humanitarian crises, climate change and other natural disasters, the need to support refugees in donor countries, and growing shortfalls in funding for almost all of the UN Sustainable Development Goals (SDGs), threaten to redirect much-needed international funds away from health and the HIV response. Domestic tax revenues also face competing priorities, especially diversion to pay rapidly rising debt service, with 60% of low-income countries at high risk of debt distress or already in a situation of debt distress. These developments threaten to undermine the internationally agreed goal of ending AIDS as a public health threat by 2030. This report forms part of a series of analyses commissioned by UNAIDS to identify how financing can be scaled up to strengthen and accelerate regional HIV responses.

Recent HIV response financing: Dependence, stagnating taxes and rising debt

A renewed commitment to fully fund the HIV response would have a considerable impact in eastern and southern Africa, given that 52% of people living with HIV reside in this region in 2023. Eastern and southern Africa have made impressive gains over the past decade and, by 2023, seven countries in the region had already met the 95–95–95 targets through government leadership and donor support. The region is, however, facing growing financing gaps. It was estimated that in 2022, $10.5 billion was needed to finance the HIV response, of which $9.8 billion was available. Furthermore, there is a need for the HIV response to be more nuanced, focusing on the most marginalized populations affected by broader health problems, including extreme poverty, lack of access to education and limited spending on health, education and social protection—all of which require investment.

While the infrastructure and systems necessary to support health are provided by governments, along with HIV-specific resources and funding, dependence on development assistance for overall HIV responses remains high in most countries in the region. Such financing is declining. At the same time, countries within the region have made only very gradual progress in mobilizing additional tax revenues as a consequence of the COVID-19 pandemic and ongoing challenges including tax loopholes, tax dodging and lack of progressive tax regimes.

Tax revenue as a share of gross domestic product (GDP) has declined by more than 3% from 2017 to 2023 in a number of countries including Ethiopia, Kenya, Malawi, Namibia and Zimbabwe. This has put pressure on spending on the social sectors, in a context where most countries in the region are far from achieving universal coverage of health, education and social protection.

High and growing public debt service undermines country capacities to meet basic social expenditure needs, including ending HIV, and has been a challenge before the COVID-19 pandemic. However, many countries resorted to additional external (and particularly expensive domestic) borrowing during the pandemic. Consequently, from 2017 to 2023, total public debt service in the region rose from 5% to 8% of GDP. In US dollar terms, the amount spent on debt service in 2023 exceeded $68.7 billion, 2.7 times higher than budget expenditures on health at just $25.7 billion. Debt service also consumes increasingly large shares of tax revenue, and in Angola, Kenya, Malawi, Rwanda, Uganda, and Zambia, it exceeds 50% of tax revenues. Debt servicing crowds out public spending for education, health and social protection, which are vital to ending AIDS. As a result, of the 18 countries addressed in this report, seven are already classified by the International Monetary Fund (IMF) and World Bank as 'in debt distress' or obtaining debt relief (Angola, Ethiopia, Malawi, Mozambique, Somalia, Zambia and Zimbabwe), and two more are considered at 'high risk' of debt distress (Kenya and South Sudan). Recent debt relief measures have achieved very little to reduce debt burdens—for example, after relief, Zambia will still pay two-thirds of its budget in debt service from 2024 to 2026.

Future financing needs and filling the gaps: Tax, debt relief and aid

Looking ahead to 2030, the financing picture remains challenging. Adjusting cost estimates prepared by UNAIDS in 2020 for recent and projected inflation reported by the IMF, eastern and southern Africa will need to mobilize almost $12 billion in 2024 to fully fund the HIV response. Funding needs increase to $17 billion by 2030.

The highest financing needs are in South Africa, Ethiopia, South Sudan, Mozambique and the United Republic of Tanzania, every one of which will need to mobilize at least $1 billion in resources annually by 2030 to fund HIV prevention and treatment services fully (in addition to their need to spend much more on broader health, education and social protection).

Current policy forecasts indicate that it will be challenging to meet these spending needs for the following reasons:

- Many eastern and southern African countries have committed to mobilizing more **domestic revenues** to end HIV. Tax revenue as a share of GDP is forecast to rise by at least 2% in Madagascar, Malawi, Rwanda and South Sudan, and by 1–2% in Burundi, Ethiopia, Somalia, South Africa and Uganda. Even with these increases in tax revenues, however, clearly only a small portion is likely to be allocated to the HIV response in view of countries' multiple sustainable development priorities. At the same time, only marginal rises or a stagnation in domestic tax revenues is forecast in other countries, including Botswana, Eswatini, Kenya, Lesotho, Namibia, United Republic of Tanzania, Zambia and Zimbabwe, with falls projected for Angola and Mozambique. This will make the financing picture for the HIV response even more challenging for them.
- **Debt servicing** will rise faster than tax revenue between 2024 and 2027 and stay above 8% of GDP until 2030. This means that even if countries make additional efforts to mobilize tax revenues, debt servicing will likely consume these gains. Even if countries apply for debt relief, current debt relief results are insufficient to provide additional leeway for spending on HIV and related sectors.

Eastern and southern Africa are also extremely vulnerable to development aid shocks. In a baseline scenario in which development assistance levels stagnate in US dollar terms between 2022 and 2030, the amount of financing needing to be mobilized through other sources, such as tax revenues, private out-of-pocket expenses and philanthropic support, would be $9.8 billion by 2030. If development aid for HIV *declines* by 5% annually from 2024 to 2030 due to competing pressures, the financing gap will rise from US $5.8 billion in 2024 to almost $7.4 billion by 2030 relative to annual financing needs. Furthermore, following COVID-19, a similar pandemic shock—for which studies suggest there is a 14–23% annual probability—would leave the region with a considerably higher overall budget financing gap ($50 billion a year higher), and with a persistent 'scarring' effect on revenue collection of around $20 billion a year thereafter.

Recommendations: Ambitious revenue increases, debt relief and development assistance

It will be challenging for eastern and southern Africa to mobilize adequate financing to meet the 2030 goal to end AIDS as a public health threat under a business-as-usual scenario. Solutions are needed that address resource needs, while at the same time do not worsen current high levels of debt. There are three potential sources for this financing:

1. **Tax revenues.** One key source is increasing domestic revenues, which is crucial to reducing long-term dependence on development aid and making health systems more sustainable. As discussed above, many countries in the region are already implementing increases. Other options to mobilize more tax revenues include:

    a. Explore reforms to personal income tax rates on wealthy segments of the population (Angola, Botswana, Burundi, Kenya, Lesotho, Madagascar, Mauritius, Mozambique, Rwanda, Seychelles, South Sudan and United Republic of Tanzania) as well as to corporate income tax rates (Angola, Botswana, Lesotho, Madagascar, Mauritius, South Sudan and Zimbabwe). Other avenues which could be explored, subject to individual countries' circumstances include taxes on capital gains, property, wealth taxes and strengthening taxes on goods which undermine public health, such as alcohol, tobacco and sugar.

b. Collecting more tax by dramatically reducing unjustified (and inequitable) tax exemptions (especially in Burundi, Kenya, Madagascar, Rwanda and South Africa), which currently cost countries an average of 2.6% of GDP in lost revenue across the region, and enhancing efforts to combat tax-dodging, by improving auditing of large taxpayers and making maximum use of exchange of information with other tax authorities on offshore profits and wealth holdings.

c. Countries can also take essential measures to strengthen the efficiency and performance of their tax administrations to maximize revenue collection. Initiatives like the Organisation for Economic Co-operation and Development (OECD)/United Nations Development Programme (UNDP) Tax Inspectors Without Borders (TIWB) programme can be helpful in this area.

Even with these extra efforts, however, it is unlikely countries could exceed an average of 2% revenue/ GDP rises from 2024 to 2030. Considering existing efforts, by 2030, an extra $15 billion a year could be raised (an average of 1.05% of GDP), which would be enough to close the HIV financing gap in the region and protect against a development assistance shock. But it would fall well short of the extra financing needed to protect against a further pandemic shock. In addition, it would provide virtually no additional funds to enhance education, health and social protection systems, which are vital in the fight against AIDS.

2. **Debt reduction.** High debt is a concern across the region, and public debt service levels will remain high, crowding out key social spending between 2024 and 2030. The austerity path now being followed by many countries in the region, of trying to reduce debt by cutting public spending to reduce budget deficits, has repeatedly been shown in the past to be a recipe for lower growth and even heavier debt burdens. Instead, two types of measures are needed:

   a. For countries which do not have regular access to international markets and which are in debt distress or have high debt service (Angola, Burundi, Ethiopia, Kenya, Madagascar, Malawi, Mozambique, South Sudan, United Republic of Tanzania, Uganda, Zambia and Zimbabwe), comprehensive debt reduction is needed. This requires the participation of all creditors, including private, bilateral and multilateral creditors. The aim should be to reduce debt service to no more than 15% of budget revenues, as was done under the Heavily Indebted Poor Countries (HIPC) Initiative. This could free up an average of 6.5% of GDP or $41 billion a yea—funds that could in part be redirected to end HIV in conjunction with broader spending on education, health and social protection.

   b. For countries that regularly access financial markets to finance budgets (Botswana, Eswatini, Lesotho, Namibia and South Africa), and where comprehensive debt relief may not be required, the international community should pursue all options to refinance their private debts at lower borrowing costs, including the use of guarantees by the African Development Bank, World Bank and other development financing institutions; and the issuance of Special Drawing Rights (SDRs) by the IMF with their reallocation to emerging and developing economies. If such refinancing halved their interest costs, it would expand their fiscal space for HIV and other essential social spending from 0.25% of GDP (Botswana) to 2.1% (Namibia and South Africa). In the case of South Africa alone, this would provide US $9 billion a year of extra spending room. Bilateral creditors should also ensure they provide these countries with loans on affordable terms.

3. **Access to adequate concessional resources:** The OECD and non-OECD development partners must make far more grant financing available for the HIV response , as well as broader education, health and social protection needs between now and 2030. However, under even the most optimistic scenario in which

development cooperation for HIV increases by 5% annually, only $2.2 billion more would be mobilized by 2030. For there to be a step change in the global provision of grant financing on the scale last seen during 2005–2015, more robust measures such as new SDR issuances and global taxes on financial transactions, carbon emissions, transport fuels and corporate/personal wealth (as discussed during and since the June 2020 Paris financing summit) will need to be introduced. This would potentially mobilize revenues well into the trillions.

Urgent action is needed on all three of these fronts to direct focus on meeting SDGs 3 and 3.3, and to ensuring that the 2030 goal for ending AIDS is met.

CHAPTER 1

Introduction, context and methodology

Key messages

- The COVID-19 pandemic undermined decades of progress on health and wellbeing (SDG 3) and further slowed progress in the response to HIV (SDG 3.3).
- Financing has become much more difficult in eastern and southern Africa. High public debt, elevated borrowing costs, high inflation, weak public finances and a decline in foreign investment, combined with higher spending needs due to the COVID-19 pandemic and other shocks and crises, are putting pressure on funding for the HIV response at a time when resources are most needed.
- Competing priorities have the potential to redirect much-needed international funds away from health and the HIV response.
- Of all world regions, a renewed commitment to fully fund the HIV response could have the greatest impact in eastern and southern Africa, which remain at the epicentre of the HIV epidemic with 52% of all people living with HIV in the world.
- This report sets out to identify how to unlock resources at scale and speed *from all domestic and external public sources* to fulfil the commitments set out in the 2021 Political Declaration on HIV and AIDS: Ending Inequalities and Getting On-Track to End AIDS by 2030.

This chapter outlines the historical context and current challenges in funding HIV responses in eastern and southern Africa. It elaborates on the data collection and analysis methodology, ensuring a robust foundation for the recommendations provided. Key focus areas include the impacts of global financial trends and regional fiscal policies on health funding.

Context of this report

The world is now beyond the midpoint towards achieving the 2030 Agenda for Sustainable Development. Yet the UN's 2023 SDG report showed that the SDGs are a *"promise in peril"* and that a *"rescue plan for people and planet"* is urgently needed to restore hope that the SDGs can be achieved by 2030.[1] Multiple recent overlapping crises, including the COVID-19 pandemic, conflict and climate change, have derailed hard-won progress towards poverty reduction, increasing access to education, reducing inequality and more.

The COVID-19 pandemic undermined decades of progress on health and wellbeing (SDG 3) and has further slowed progress in the response to HIV (SDG 3.3).[2] Global lockdowns to contain the spread of the COVID-19 led to disruptions in access to HIV treatment and prevention services and other priorities, such as the urgent need to respond to multiple humanitarian crises around the world, climate change and other disasters, have the potential to redirect much-needed international funds away from health and the HIV response. At the same time, domestic resources face competing priorities and are increasingly under pressure from recent significant increases in public debt.[3]

Even prior to the COVID-19 pandemic, the UN target to achieve a 75% reduction in the number of new HIV infections between 2010 and 2020 was off track, with only a 32% decline achieved.[4] Between 2020 and 2021, at the height of the COVID-19 pandemic, the number of new HIV infections declined by just 3.6 %, the smallest annual decline registered in five years.[5]

Acknowledging that recent overlapping crises have caused progress to stall, the 2021 Political Declaration on HIV and AIDS: Ending Inequalities and Getting On-Track to End AIDS by 2030, adopted by UN Member States, sets out a renewed agenda for action.[6] It aims to set the world back on track to end AIDS as a public health threat by 2030 and commits countries to fully fund the HIV response, increasing annual investments to low and middle-income countries to US$ 29 billion by 2025.[7] Meeting these targets will require mobilizing resources from multiple sources at an unprecedented pace, and a more efficient allocation of resources to reach and meet the needs of vulnerable populations.

Financing has, however, become much more difficult, including in eastern and southern Africa. High public debt, elevated borrowing costs, high inflation, weak public finances and a marked decline in foreign investment, combined with higher spending needs due to the COVID-19 pandemic and other shocks and crises, have combined to create a 'perfect storm' where there is less room to deploy funds, both domestic and external, to the HIV response at a time when they are most needed. Fiscal austerity as a means to close budget deficits and maintain debt sustainability threatens future spending on health and other key social sectors, education and social protection.

Against this backdrop, this report sets out to identify how to unlock resources at scale and speed *from all domestic and external public sources* to fulfil the commitments set out in the 2021 Political Declaration, while avoiding exacerbating the current debt and fiscal crisis that exists in many developing countries. It covers countries in the UNAIDS eastern and southern Africa region, specifically Angola, Botswana, Eswatini, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mozambique, Namibia,

1 The Sustainable Development Goals report: Special edition. New York: United Nations; 2023. https://unstats.un.org/sdgs/report/2023/The-Sustainable-Development-Goals-Report-2023.pdf

2 Economist Impact. A triple dividend: The health, social and economic gains from financing the HIV response in Africa. London: Economist; 2023. https://cdn.vev.design/private/BCwBc9ZFZyVz8yQQKr9VeLxSn-jf1/3nhml-EI-UNAIDS-Financing%20the%20HIV%20response-A4-v15.pdf

3 Ibid. https://cdn.vev.design/private/BCwBc9ZFZyVz8yQQKr9VeLxSn-jf1/3nhml-EI-UNAIDS-Financing%20the%20HIV%20response-A4-v15.pdf
See also: Health financing in a time of global shocks: strong advance, early retreat. Double Shock, Double Recovery Paper Series. Washington, DC: World Bank; 2023. http://documents.worldbank.org/curated/en/099062823105530219/P17016105c97c900309627044440a9c6e78

4 UNAIDS 2024 epidemiological estimates and Economist Impact. A triple dividend: The health, social and economic gains from financing the HIV response in Africa. London: Economist; 2023. https://cdn.vev.design/private/BCwBc9ZFZyVz8yQQKr9VeLxSnjf1/3nhml-EI-UNAIDS-Financing%20the%20HIV%20response-A4-v15.pdf

5 Ibid. https://cdn.vev.design/private/BCwBc9ZFZyVz8yQQKr9VeLxSn-jf1/3nhml-EI-UNAIDS-Financing%20the%20HIV%20response-A4-v15.pdf.
See also: UNAIDS epidemiological estimates 2024

6 United Nations General Assembly. Political declaration on HIV and AIDS: Ending inequalities and getting on track to end AIDS by 2030. https://www.unaids.org/sites/default/files/media_asset/2021_political-declaration-on-hiv-and-aids_en.pdf

7 With the right investment, AIDS can be over. A US$ 29 billion investment to end AIDS by the end of the decade. https://www.unaids.org/sites/default/files/media_asset/JC3019_InvestingintheAIDSresponse_En.pdf

Rwanda, Somalia, South Africa, South Sudan, United Republic of Tanzania, Uganda, Zambia and Zimbabwe.[8]

Of all world regions, a renewed commitment to respond to HIV and fully fund the HIV response could have the greatest impact in eastern and southern Africa. The region remains the epicentre of the HIV epidemic, with 52% of all people living with HIV in the world.[9] In 2023, there were 20.8 million people in the region living with HIV, of whom 12.9 million were women and 800 000 were children.[10] In the same year, the virus claimed the lives of an estimated 260 000 people and infected 500 000 more.[11]

Despite these challenges and the disruptions to HIV programmes caused by the COVID-19 pandemic, the region has made the most substantial progress against HIV since 2010. New infections declined by 57% overall from 2010 to 2022, with a 70% decline registered among children.[12] Overall, there were 58% fewer deaths due to AIDS-related causes in 2022 compared with a decade earlier.[13] The extensive involvement of community-led organizations and networks in HIV activities is a hallmark of the regional response.[14] Political commitment to tackle HIV is high across the region, and most countries have set ambitious targets to expand HIV-related programmes and increase domestic funds for HIV responses.[15] Botswana, Eswatini, Kenya, Malawi, Rwanda, Zambia and Zimbabwe have already achieved the 95–95–95 targets and other countries, including Lesotho and Namibia, are close to achieving the targets.[16] At the same time, more needs to be done to ensure that the region maintains and accelerates progress. For example, across the region, just 2% of resources target the most vulnerable populations, including people living in poverty and women and children. Just 10% of overall spending is allocated to HIV prevention interventions.[17] This is problematic since every new HIV infection involves lifelong treatment and care. Additionally, the COVID-19 pandemic delayed the implementation of critical prevention and treatment programmes in many countries. For instance, the use of HIV testing services declined by 30% in Uganda and by almost 50% in South Africa.[18] Climate change, conflict and insecurity also intensify pressures on domestic and international funds. As increased vulnerability to shocks and crises appear to be the 'new normal', sustaining the political commitment to tackling HIV and ensuring that HIV programmes are adequately resourced will be critical to ensure that progress is not to be reversed.

8 Comoros and Eritrea are not included in this report due to the lack of data on several variables.
9 UNAIDS 2024 epidemiological estimates. www.aidsinfo.unaids.org
10 UNAIDS 2024 epidemiological estimates. www.aidsinfo.unaids.org
11 UNAIDS 2024 epidemiological estimates. www.aidsinfo.unaids.org
12 UNAIDS 2024 epidemiological estimates. www.aidsinfo.unaids.org
13 UNAIDS 2024 epidemiological estimates. www.aidsinfo.unaids.org
14 Let Communities Lead. World AIDS Day report 2023. Geneva: Joint United Nations Programme on HIV/AIDS; 2023. Licence: CC BY-NC-SA 3.0 IGO.
15 These commitments are set out in countries' most recent National Strategic Plans (NSPs) to end AIDS.
16 UNAIDS 2024 epidemiological estimates. www.aidsinfo.unaids.org
17 UNAIDS data 2022. Geneva: UNAIDS; 2022. https://www.unaids.org/sites/default/files/media_asset/data-book-2022_en.pdf
18 Economist Impact. A triple dividend: The health, social and economic gains from financing the HIV response in Africa. London: Economist; 2023. https://cdn.vev.design/private/BCwBc9ZFZyVz8yQQKr9VeLxSn-jf1/3nhml-EI-UNAIDS-Financing%20the%20HIV%20response-A4-v15.pdf

A TRIPLE DIVIDEND: THE HEALTH, SOCIAL AND ECONOMIC GAINS FROM FINANCING THE HIV RESPONSE

Why invest in the HIV response? Recent research by Economist Impact, supported by UNAIDS, analyses the wider health, social and economic impacts that could be achieved by meeting 100% of the funding commitments contained in the 2021 Political Declaration. The research shows that investing in the HIV response also advances other policy priorities, like reducing inequalities, improving educational outcomes and boosting productivity and economic growth. This strengthens the case that investment in the HIV response delivers a sound return on investment. In the analysis of 13 African countries, including nine in eastern and southern Africa, key findings for the region include the following:

- In Mozambique and South Africa, 810 000 and 1.35 million new HIV infections, respectively, could be averted between 2022 and 2030 if 100% of the 2021 Political Declaration funding commitments are met.[19] This could help to reduce the spread of new infections among vulnerable populations like girls who are at particularly high risk.
- An additional 87 000 children could be enrolled in school in Mozambique in a single year in a scenario in which funding targets for HIV are fully met.[20] Reducing infections in adults could also contribute toward reducing gender inequalities in access to education in light of evidence that young girls are more likely to miss school and take on caregiving roles for family members living with HIV.[21]
- The GDP of South Africa could be 2.8% higher (equivalent to $17 billion) in 2030 if HIV funding targets are met. Kenya could see its GDP rise by 1.1%, or $1.3 billion.[22]

These findings suggest that increasing investment in the response to HIV is a key component of economic recovery, particularly in low and middle-income countries.

Structure and methodology

This report is structured as follows:

- Chapter 2 looks at recent trends and the current situation regarding HIV spending and how HIV financing needs are currently being met from domestic and external sources.
- Chapter 3 examines the forecast spending needs required to 'end AIDS' and how these might be financed from various sources, using a baseline 'business as usual' scenario and various 'shocks' which might affect eastern and southern African economies between now and 2030, and outlining suggestions for how to mobilize the financing needed to fill the HIV financing gaps between now and 2030.
- Chapter 4 presents the overall conclusions and recommendations of the report.
- An annex presents a short country profile for each country, examining recent HIV spending and financing trends, future spending needs and financing sources, and key recommendations.

Two main types of sources were used for the data and analysis presented in this report.

The first is documentation and data supplied by UNAIDS. These include data from the UNAIDS Financial Dashboard and other data available from the Aidsinfo.unaids.org website, and data provided by the UNAIDS team working on the report. Background and context on the HIV and AIDS situation in countries have been taken from countries' National Strategic Plans (NSPs) to end AIDS prepared by the national authorities in each country covered by the report. All data on HIV trends, spending needs and financing sources are collected from these UNAIDS sources.

19 Ibid. https://impact.economist.com/health/the-triple-dividend-of-hiv-financing/key-findings/
20 Ibid. https://impact.economist.com/health/the-triple-dividend-of-hiv-financing/key-findings/
21 Ibid. https://impact.economist.com/health/the-triple-dividend-of-hiv-financing/key-findings/
22 Ibid. https://impact.economist.com/health/the-triple-dividend-of-hiv-financing/key-findings/

The second is data compiled by Development Finance International (DFI). These cover broader data on spending, financing and recent or potential sources of financing to end AIDS. DFI has used:

- Data on health, education and social protection spending compiled by DFI for the Commitment to Reducing Inequality (CRI) Public Services Spending Database[23] and the Government Spending Watch database,[24] which are in turn taken from the most accurate and recent information from national budgets and international organizations.

- Data on tax revenue and its composition by different types of tax, compiled by DFI for the CRI Global Tax Database, which are in turn drawn from the most accurate and recent national budget and international organization sources.

- Data on debt service for each country (external and domestic), taken from the newly compiled Debt Service Watch database,[25] which is based on national budget and debt management documents, International Monetary Fund (IMF) Article IV and programme reports and Debt Sustainability Analyses (DSAs).

Drawing from the same sources, DFI has also compiled a set of forecasts for these variables. It has also adjusted UNAIDS forecasts of spending needs to end AIDS, which were expressed in constant 2019 US dollars, for inflation and currency fluctuations since 2019, and for those which are projected by the IMF to 2030, taking into account the rapid rise in health costs between 2020 and 2023. [26]

23 The Commitment to Reducing Inequality Index 2022. Oxfam: Oxford; 2022. www.inequalityindex.org

24 www.governmentspendingwatch.org

25 See the newly released Debt Service Watch summary database and briefing at www.development-finance.org. The data supplied to UNAIDS are taken from the much more detailed unpublished database.

26 All of these data are contained in the final forecasts database, which will be supplied to UNAIDS after comments are received on this draft report and forecasting methods are adjusted. The inflation and exchange rates are from the IMF World Economic Outlook, whose latest database at the time of writing was for April 2023: https://www.imf.org/en/Publications/WEO/weo-database/2023/April


ICWAFRICA
WOMEN IN ALL THEIR DIVERSITIES TO END AIDS
No getting to zero
ICWAFRICA
UN WOMEN
United Nations Entity for Gender Equality and the Empowerment of Women
NO GETTING TO ZERO WITHOUT WOMEN AND GIRLS

CHAPTER 2

HIV financing in eastern and southern Africa: The current picture

Key messages

- In 2022, $9.8 billion in funding was available for the HIV response, of which $5.19 billion (61%) came from international donors and $3.9 billion from domestic sources (public and private).
- Two donors provided 52.5% of all international development assistance resources to the region: the United States (US) President's Emergency Plan for AIDS Relief (PEPFAR) programme, and the Global Fund. This leaves the region vulnerable to shifts in aid priorities, particularly given that many countries within the region are dependent on donors for almost all of the funding needed for the HIV response.
- Development aid to the region fell from $30.3 billion in 2020 to $26.3 billion in 2021, an almost 13% decrease. This reflects a decline which was already under way before the COVID-19 pandemic.
- Despite commitments to increase domestic spending on the HIV response, countries face continued challenges of low domestic tax revenues. Many countries within the region still have not seen a return to pre-pandemic levels of revenues. Across the region, tax revenues fell by 0.9% of GDP between 2017 and 2023—from 16.3% in 2017 to 15.4% of GDP.
- The region spent 1.13% of GDP on the HIV response in 2019, but this fell to 0.96% in 2020 and fell again in 2021 to 0.79%. This represents a decline of over 50% between 2017 and 2021.
- The COVID-19 pandemic hit broader health, education and social protection expenditures hard. Government spending on education in the region declined from 4.3% of GDP in 2019 to 3.7% in 2022. Government budgets for health have remained largely stagnant at 2.4% of GDP over the last five years, a decline in real terms when taking population growth into consideration.
- High public debt is exacerbating financing challenges. Five countries in the region are classified as 'in debt distress' (Malawi, Mozambique, Somalia, Zambia and Zimbabwe); three are considered at 'high risk' (Ethiopia, Kenya and South Sudan); five are classified at 'moderate risk' (Lesotho, Madagascar, Rwanda, United Republic of Tanzania and Uganda). None are considered low risk.
- Between 2017 and 2023, total public debt service had risen from 5% to over 8% on average. The amount spent on public debt service is almost 3.3 times the government budget allocated to public health on average in the region. The amount spent on debt service is also almost six times the amount spent on the HIV response. In 2023, public debt service was consuming 42.7% of government revenues on average in the region.
- Debt relief to the region has so far proved inadequate relative to need. The G20 Debt Service Suspension Initiative temporarily deferred $4.1 billion in debt service from the region due to the COVID-19 pandemic. However this has been insufficient for most to resolve debt difficulties. Further debt relief via the 'Common Framework Process' has proven slow and only covers some creditors. After debt relief provided via this mechanism, Zambia will still be paying 75% of its budget revenue back out in debt service in 2023, 62% in 2024 and 59% in 2025.
- More debt relief is needed to ensure that governments do not increasingly cut back on much-needed public expenditures, including on health, to service debt. As budgets for health are weakened, there is a risk the HIV response may be deprioritized. As previous periods of fiscal austerity have shown, this will hit the poorest and most vulnerable the hardest.

Chapter 2 provides a detailed examination of the current financing landscape for the HIV response in the region. It assesses sources of funding, including domestic tax revenues and international aid, and discusses the availability and volume of these sources. This chapter also addresses the challenges involved in mobilizing more tax revenues as well as increasing public debt, emphasizing the impact of changes on health financing.

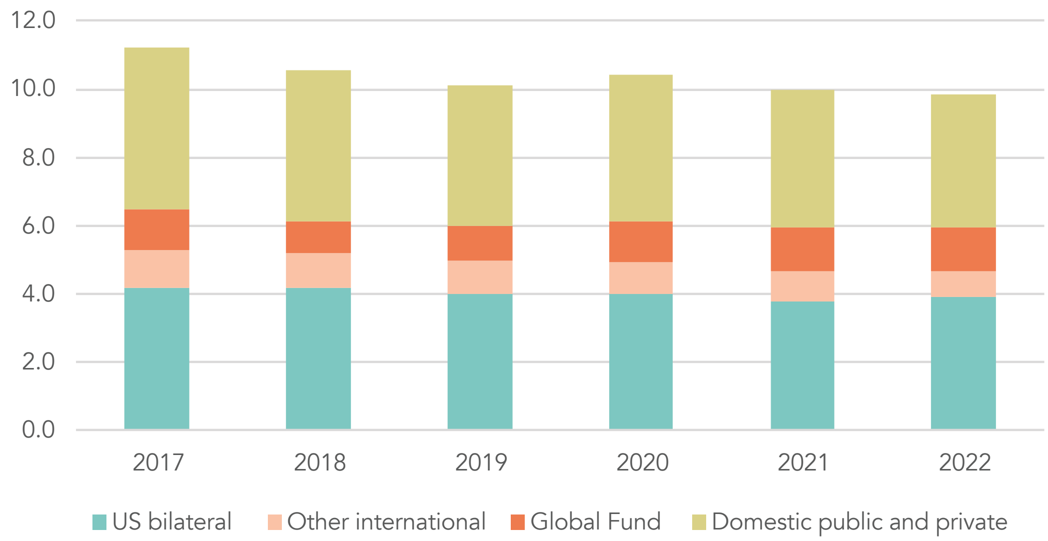
HIV financing needs and sources

Financing needs for the HIV response in eastern and southern Africa are extremely high.[27] Of the total resources available in 2022 ($9.8 billion)[28], $5.19 billion (or 61%) came from international donors, while $3.9 billion was domestically funded (public and private).[29]

Just two donors provide the majority of aid funds for the HIV response: the U.S. President's Emergency Plan for AIDS Relief (PEPFAR) programme and the Global Fund (which is also heavily supported by the US government). In 2022, these two donors provided 52.5% of all international development assistance resources to the region for the HIV response.[30] All other donors combined provided under $1 billion ($760 million) in aid funds to the region in 2022.

Not only is the region far from meeting its annual HIV response financing needs, but the amounts allocated have also declined in recent years. In 2022, funds for the HIV response were 1% lower than they were the previous year, and they have decreased almost 12% since 2017.[31] Overall, the region remains heavily reliant on international aid to fund the HIV response, with several countries in the region, including Ethiopia, Madagascar, Malawi, Mozambique, Rwanda, Somalia, South Sudan, Uganda and Zambia dependent on development assistance to fund almost all of their prevention and treatment interventions.[32] In some countries, there may be reluctance to fund HIV prevention services, particularly for key vulnerable populations, leading to a greater dependency on donors for these activities (Figures 1–4).

Figure 1.
Sources of funds for the HIV response in eastern and southern Africa (in billions of US dollars) (UNAIDS HIV Financial Dashboard)



27 DFI calculations based on data supplied by UNAIDS.
28 All amounts in constant 2019 US dollars.
29 Data provided by UNAIDS.
30 Development Finance International (DFI) calculations based on UNAIDS data.
31 DFI calculations based on UNAIDS data: https://hivfinancial.unaids.org/hivfinancialdashboards.html?_ga=2.226918877.1168272705.1691492186-2048359172.1691400770&_gl=1*1c7o2d3*_ga*MjA0ODM1OTE-3Mi4xNjkxNDAwNzcw*_ga_T7FBEZEXNC*MTY5MTY2MjM5OC42L-jEuMTY5MTY2MzQ4OS42MC4wLjA.#
32 DFI calculations based on data supplied by UNAIDS.

Figure 2.
Donor dependency for the HIV response: eastern and southern Africa (UNAIDS HIV Financial Dashboard)

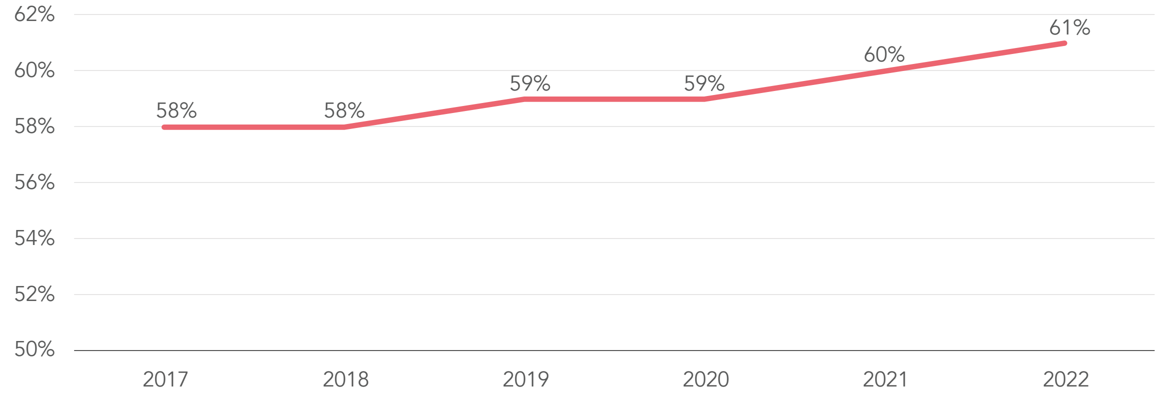


Figure 3.
Donor dependence (most recent data) (UNAIDS HIV Financial Dashboard)

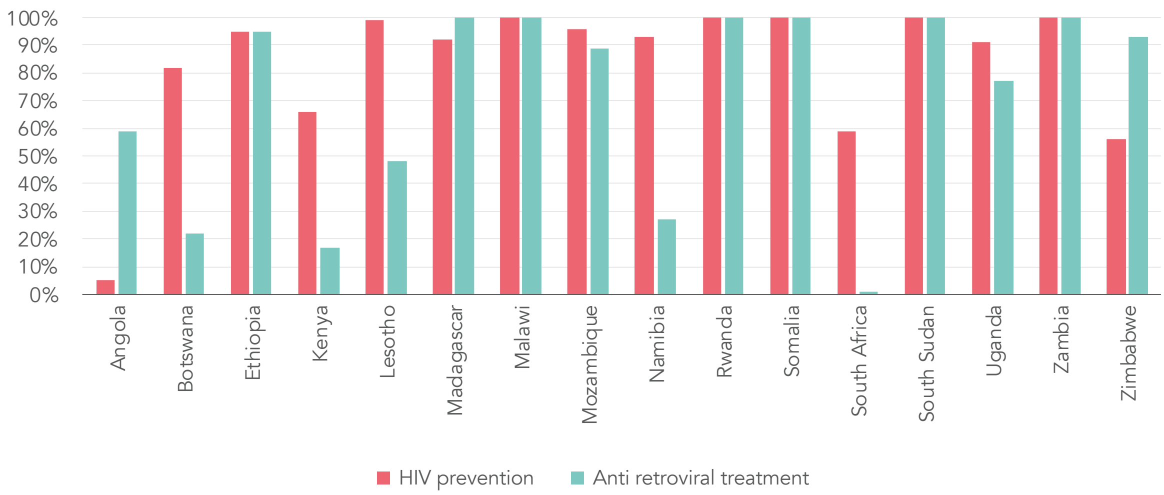


Figure 4.
Dependency on international funds for the HIV response, in millions of 2022 US dollars (UNAIDS Financial Dashboard)

Figure 5.
Eastern and southern Africa: average tax revenues (percentage of GDP, 2017–2023)

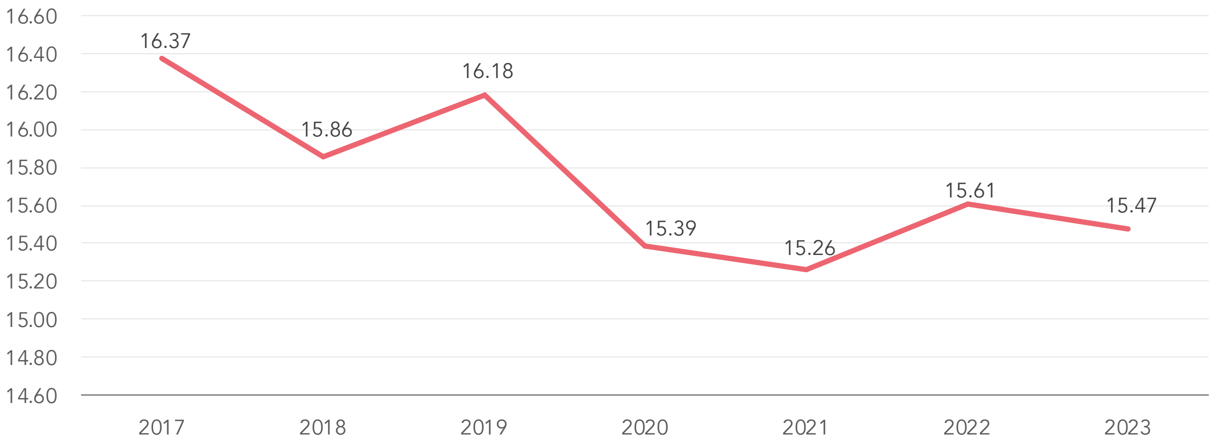
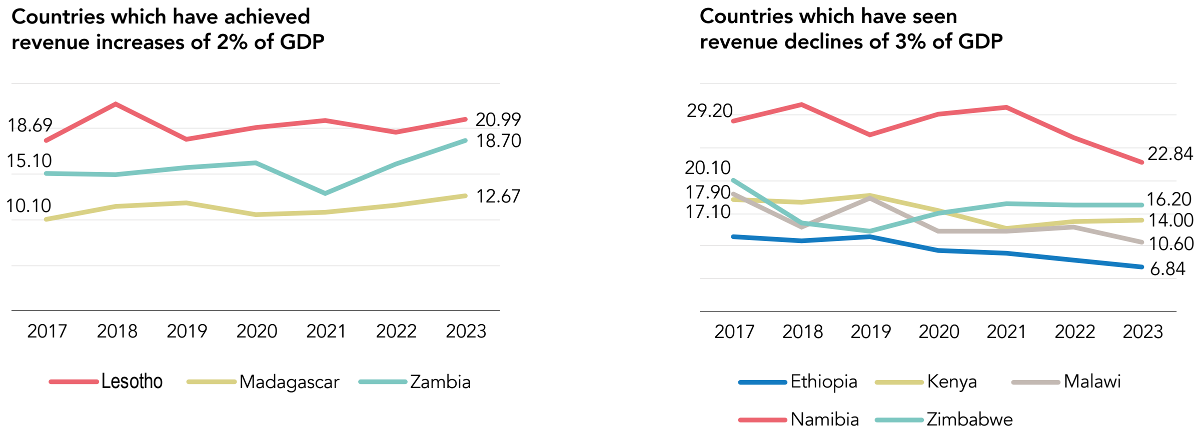


Figure 6.
Countries which have achieved revenue increases of 2% of GDP (left); countries which have seen revenue declines of 3% of GDP (right)



Tax revenues and their composition[33]

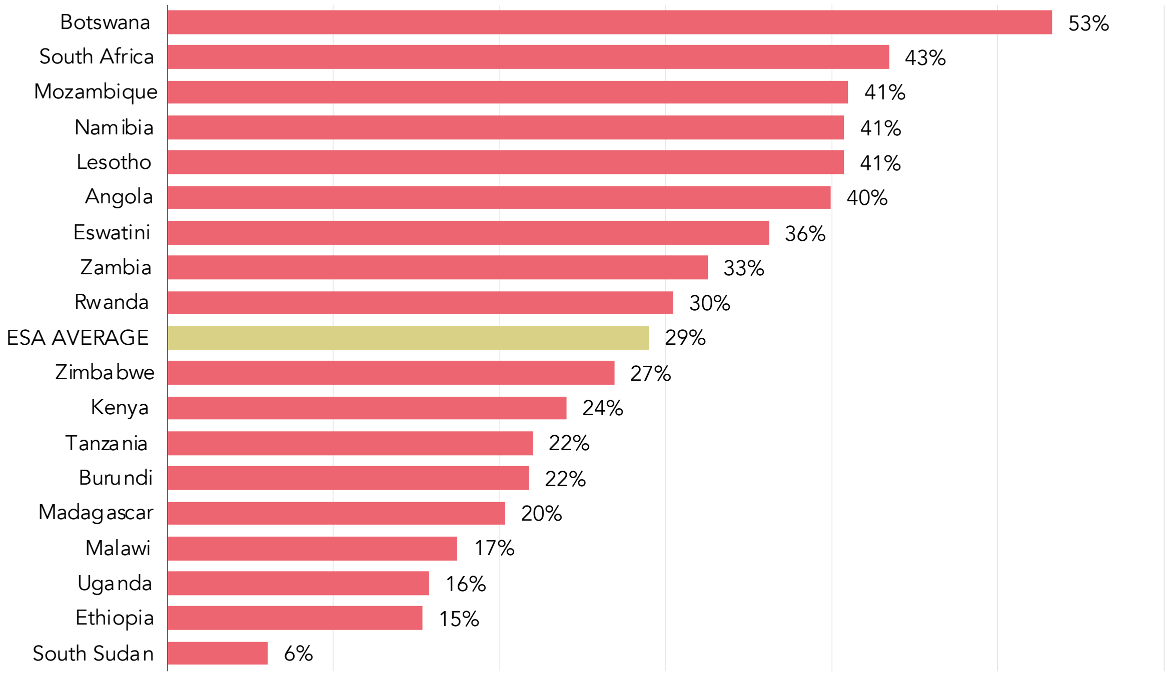
While many countries have committed to mobilizing more domestic revenues for health and the HIV response, most have struggled to do so. The recent period has also seen particularly great pressures on domestic tax revenues due to the COVID-19 pandemic and other regional shocks and humanitarian crises.

Tax revenues declined sharply in nominal terms from $180 billion in 2019 to $154.4 billion in 2020 and $165.3 billion in 2021 for the region as a whole.

33 All tax data and calculations in this section are based on the DFI Global Tax Database prepared for the Commitment to Reducing Inequality index, available at www.inequalityindex.org

Ethiopia, Kenya, Malawi, Namibia and South Africa have not yet seen a return to pre-pandemic levels of revenues. Across the region, tax revenues fell by 0.9% of GDP between 2017 and 2023—from 16.3% in 2017 to 15.4% of GDP. The most significant declines are observed in 2020 and 2021, at the height of the COVID-19 pandemic. Although a few countries managed to increase tax revenues over this period, these increases were generally minimal, and only Lesotho, Madagascar and Zambia managed to increase tax revenues by more than 2% of GDP between 2017 and 2023. Meanwhile, Ethiopia, Kenya, Malawi, Namibia, and Zimbabwe saw domestic tax revenues decline by at least 3% of GDP between 2017 and 2023. Revenue/GDP has stagnated in Mozambique, Rwanda, Somalia, South Africa and United Republic of Tanzania (Figures 5 and 6).

Figure 7.
Tax collection 'productivity' (percentage of expected revenue, 2022)



How do these amounts compare with what countries 'could' be collecting? There are two ways to assess what is known as country tax 'effort'. The first is simply to compare tax revenue collected with the tax rate multiplied by the tax base, also known as 'tax productivity'. On this basis, as shown in the figure below, eastern and southern African countries are collecting, on average, only 29% of expected revenue, with a considerable variation between Botswana at 53% (collecting most of its revenue from diamond mining) and South Sudan at only 6% (Figure 7).

The second method is to conduct a more complex analysis of each country's 'tax potential' based on the influence of such issues as its level of GDP per capita, the proportion of agriculture and informal labour in the economy, etc.[34] The most recent analysis of this type by the IMF shows that low-income developing countries[35] (LIDCs) are collecting only 67% of their tax potential (at 13.2% of GDP) and could increase tax collection by around 6.7% of GDP to 19.9%.

Emerging market economies[36] collect 78% of their tax potential (at 17.5% of GDP) and could increase their collection by around 5% to 22.5%. As shown in Table 1, many eastern and southern African countries are collecting much higher levels of revenue than these averages. Emerging market eastern and southern African economies average 24% of GDP (with all well above 17.5%, and only Botswana well below the IMF's suggested average potential of 22.5%), and half of LIDC eastern and southern African economies are above the LIDC average.

34 For the latest IMF analysis see: Benitez JC, Mansour M, Pecho M, Vellutini C. Building tax capacity in developing countries. Staff Discussion Notes No. 2023/006. Washington, DC: IMF; 2023. https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2023/09/15/Building-Tax-Capacity-in-Developing-Countries-535449

35 Of the countries covered in this report, this IMF country group includes Burundi, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mozambique, Rwanda, Somalia, South Sudan, United Republic of Tanzania, Uganda, Zambia and Zimbabwe.

36 Of the countries in this report, this group includes Angola, Botswana, Eswatini, Namibia and South Africa.

Table 1.
Potential extra tax revenue in eastern and southern African countries

Potential tax capacity method				
Country	Tax/GDP (2022/2023)	Non-resource tax effort as a percentage of potential	Potential maximum revenue	Potential extra revenue (% GDP)
Angola	24.15	60	30.75	6.60
Botswana	18.69	58	32.22	13.53
Burundi	13.23	91	14.54	1.31
Eswatini	22.13	81	27.32	5.19
Ethiopia	6.84	66	10.36	3.52
Kenya	14	86	16.28	2.28
Lesotho	20.99	92	22.82	1.83
Madagascar	12.67	77	16.45	3.78
Malawi	10.6	88	12.05	1.45
Mozambique	22.11	82	26.96	4.85
Namibia	22.84	84	27.19	4.35
Rwanda	15.85	81	19.57	3.72
Somalia	2.17	N/A	N/A	N/A
South Africa	24.23	78	31.06	6.83
South Sudan	2.31	N/A	N/A	N/A
Tanzania, United Republic of	11.93	81	14.73	2.80
Uganda	12.12	78	15.54	3.42
Zambia	18.7	87	21.49	2.79
Zimbabwe	16.2	N/A	N/A	N/A

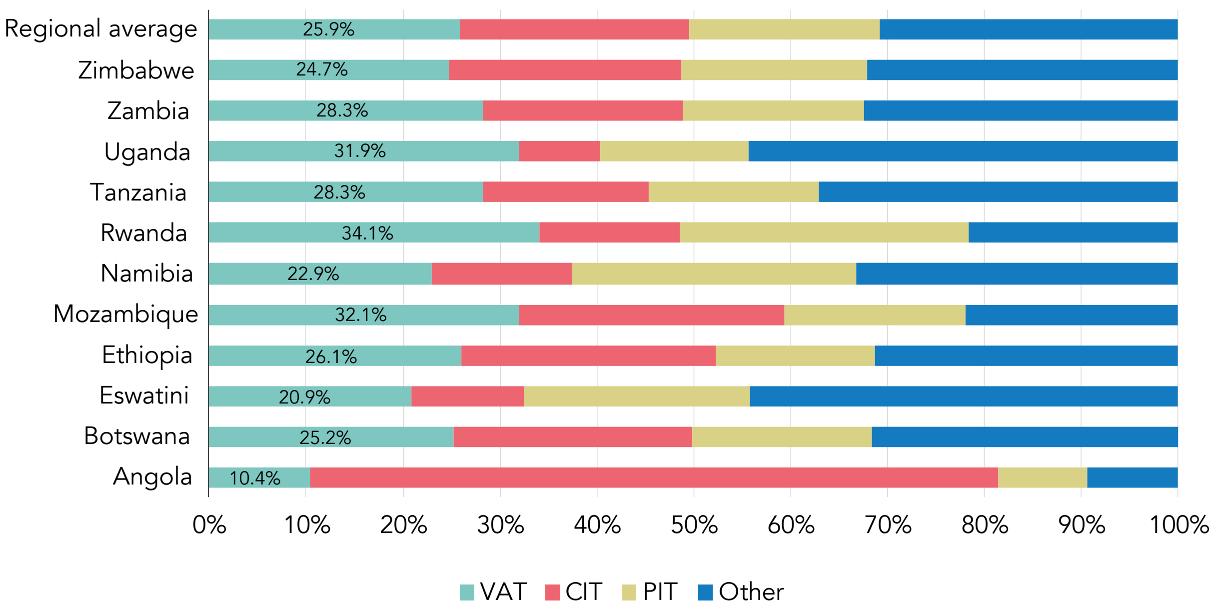
More detailed, earlier, country-specific tax potential studies[37] (as reported in the final column of the table) also show that the potential for most countries in the region to increase their tax collection is well below the global average. Only Angola, Botswana, Eswatini and South Africa could potentially increase tax revenue by 5% of GDP or more, whereas the average potential tax increase for LIDCs in the region (excluding Somalia and South Sudan, which are in conflict) is only 2.9%. As many of the authors of these studies stressed, such increases to maximize 'tax potential' should be expected to occur only gradually over as much as a decade.

Another important aspect explaining revenue shortfalls is the composition of tax revenues in eastern and southern African countries. This is dominated by value added tax (VAT), which accounts for over 25% of tax revenue in 15 countries. This means that a large share of the tax burden is falling on the region's poorer citizens, who consume a much higher share of their incomes and pay VAT on consumption. The exceptions are Angola, Eswatini, Namibia and South Africa—whose performance reflects high hydrocarbons and mineral tax revenue and higher per capita incomes in Namibia and South Africa. On the other hand, Angola, Botswana, Ethiopia, Mozambique, United Republic of Tanzania, Uganda, Zambia and Zimbabwe will mobilize under 20% of their total tax revenues through personal income tax in 2023, while Eswatini, Namibia, Rwanda and Uganda will mobilize less than 15% through a corporate income tax (Figure 8). These low levels of income tax collection indicate that the search for financing in Chapter 3 should focus on income taxes.

There are four main reasons why countries fall short of their 'tax potential': policy gaps (such as low tax rates, absence of certain taxes); administrative shortfalls in collecting taxes; preferential tax treatments (such as exemptions and deductions); and tax evasion (whether legal avoidance or illegal evasion). These provide the potential for increasing tax collection and are discussed in Chapter 3.

37 For data of most eastern and southern Africa countries, see Brun J-F, Diakite M. Tax potential and tax effort: an empirical estimation for non-resource tax revenue and VAT's revenue. Paris: CERDI - Centre d'Études et de Recherches sur le Développement International; 2016. halshs-01332053. https://shs.hal.science/halshs-01332053.
Data for Angola and Ethiopia were taken from: Fenochietto R, Pessino C. Understanding countries' tax effort. IMF Working Paper 13/244. Washington, DC: IMF; 2013. https://www.imf.org/external/pubs/ft/wp/2013/wp13244.pdf.
No data were available for Somalia, South Sudan, or Zimbabwe.

Figure 8.
Eastern and southern Africa region: composition of tax revenues for selected countries (2023) (CIT: corporate income tax; PIT: personal income tax)



Development assistance and government spending on HIV

The failure to mobilize more tax revenues and the continued great dependence on development partner resources to fund the HIV response is of particular concern at a time when development assistance is in decline—both overall, and in eastern and southern Africa. The war in Ukraine has diverted substantial aid funds to in-donor country refugee costs, while other priorities like climate change are also increasingly competing for scarce aid funds.[38] The OECD reports that it provided $30.3 billion in development assistance to the region in 2020, but this fell to $26.3 billion in 2021, an almost 13% decrease. This reflects a decline in aid to the region, which was already under way before the COVID-19 pandemic. Only about $10 billion, or just under 40% of this was, in turn, delivered as country programme aid (CPA), the component of aid which is available to spend in-country.[39]

The amount of government spending on the HIV response as a proportion of GDP is also on the decline in the region.[40] The region as a whole spent 1.13% of GDP on the HIV response in 2019, but this fell to 0.96% in 2020 and fell again in 2021 to 0.79%. This represents a decline of over 50% between 2017 and 2021. A substantial drop was seen in Kenya, where government spending on the HIV response declined from 1.43% of GDP in 2017 to just 0.55% in 2022. Zambia also saw a sharp decline following the pandemic—from 1.34% of GDP in 2019 to 0.32% in 2021. Similarly, Malawi also saw a fall from 2.33% of GDP in 2019 to 1.66% in 2021. No country within the region has significantly increased the amount spent on the HIV response as a percentage of GDP.

On a per capita basis, total spending on the HIV response (from all sources) fell from an average of $33.2 in 2017 to $13.9 in 2020. Only the United Republic of Tanzania managed to significantly increase expenditure on the HIV response, though this was from a low overall starting point—from just under $5 per capita in 2017 to $9.62 in 2020 (Figure 9).

38 Official Development Assistance (ODA) in 2022 by members of the Development Assistance Committee (preliminary data). London: Flourish; 2023. https://public.flourish.studio/story/1882344/

39 Development Finance International (DFI) calculations based on OECD data.

40 All data on the scale and financing of the HIC response in this section are from UNAIDS.

Figure 9.
Expenditure on the HIV response as a percentage of GDP

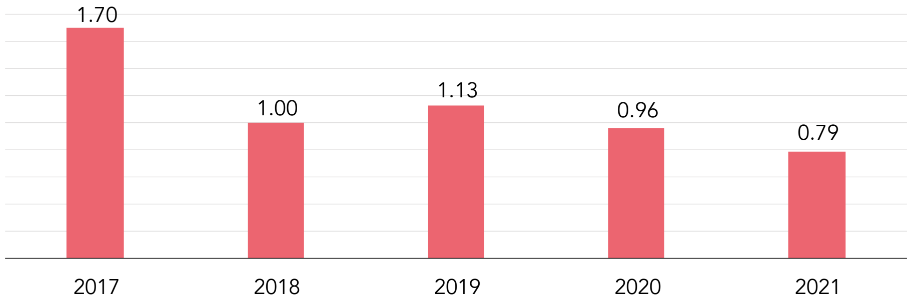
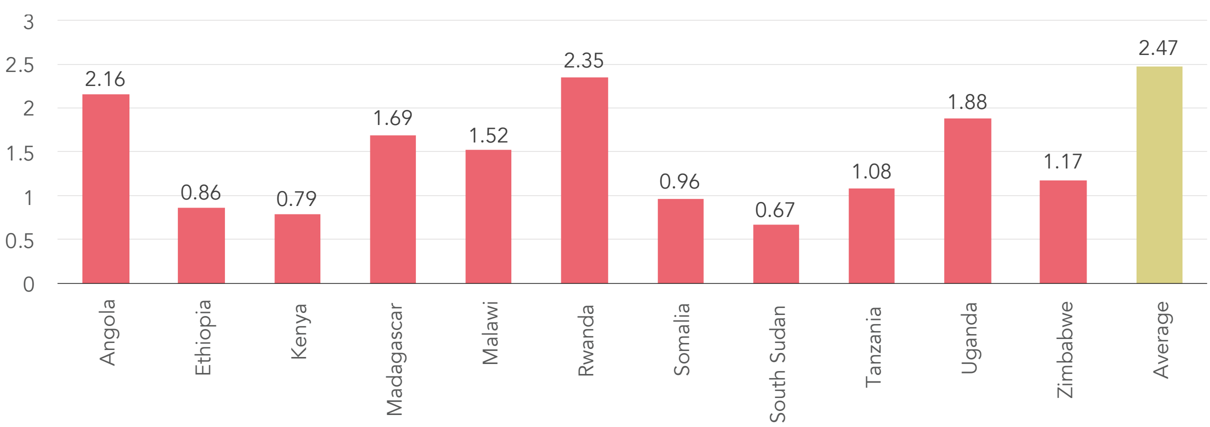


Figure 10.
Government budget allocations to health that are less than the regional average (% of GDP)



Broader spending on health, education and social protection

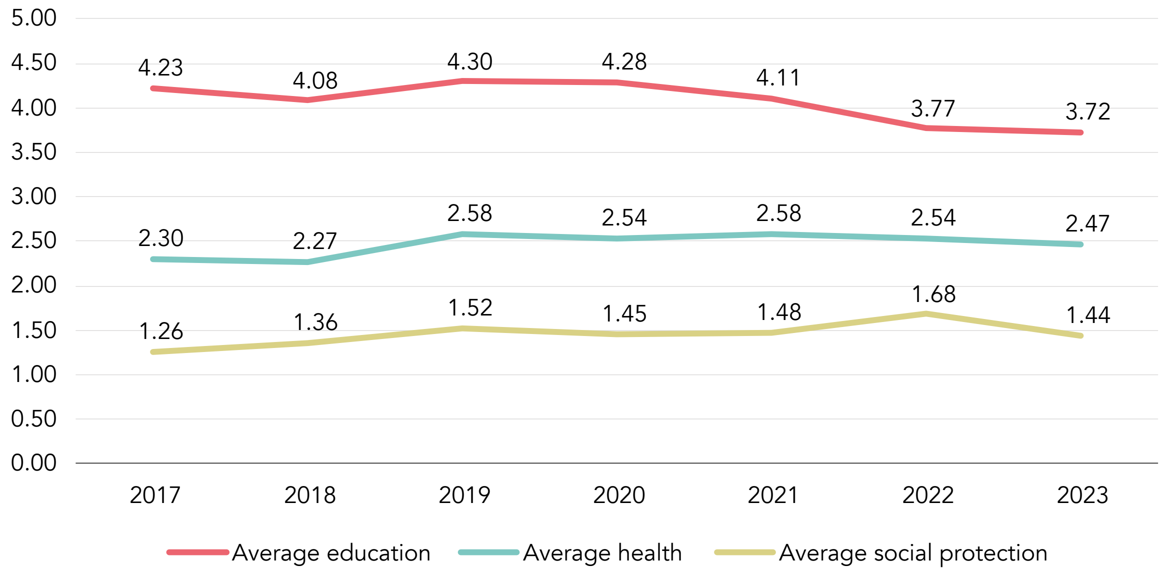
Declines in financing for the HIV response are of concern but must also be viewed *alongside* investments in broader health systems and universal health coverage (UHC). For example, well-resourced national health-care and delivery systems can have a positive impact on the HIV response by enhancing efficiencies across health-care services and better addressing the multiple health-care needs of those affected by or vulnerable to HIV and AIDS, ensuring that all communities have access to the health-care services they need. The UN has been clear that access to HIV prevention and treatment services will be inadequate as long as universal health coverage is not achieved.

Spending on health varies widely within the region. In 2023, government budgets for health amounted to an average of 2.47% of GDP and have remained largely stagnant at this level over the last five years.[41] There is significant variation among the region's countries. In a few (mostly) higher-income countries within the region, government budgets for health are over 3% of GDP, including Botswana, Eswatini, Namibia, South Africa and Zambia. In many others, however, government budgets are less than 2% of GDP, and sometimes far less. These include Ethiopia, Kenya, Madagascar, Malawi, Somalia, South Sudan, United Republic of Tanzania, Uganda and Zimbabwe, all of which have a significant HIV prevalence, except Madagascar. A substantial fall was observed in Ethiopia, where the government budget allocated to health dropped steadily per year from 1.8% of GDP in 2017 to just 0.8% in 2023.[42] The amount *per capita* spent on health has also declined for the region, and for many countries, it remains at or below pre-pandemic levels (Figure 10).

41 Calculations based on: DFI, Commitment to Reducing Inequality Public Services Database.

42 Calculations based on: DFI, Global Tax Database and Commitment to Reducing Inequality Database.

Figure 11.
Eastern and southern Africa: Domestic public expenditure on education, health and social protection (percentage of GDP, 2017–2023)



In general, these levels of spending on health compare very poorly with other countries around the world. As shown in Table 2, only Botswana, Burundi and Namibia are in the top third of low and middle-income countries globally in terms of the share of public spending allocated to health. In contrast, no fewer than ten countries are in the bottom third globally.

Trends in expenditures on health and the HIV response are also unfortunately mirrored in spending on education and social protection (Figures 11 and 12):

- The COVID-19 pandemic has hit education expenditures particularly hard, with spending in the eastern and southern African region declining from 4.3% of GDP in 2019 to 3.7% in 2022.[43] These falls come in a context where the UN has warned that the pandemic caused severe learning losses worldwide and that only one in six countries is on track to achieve the universal secondary education completion target by 2030.[44] Countries in the eastern and southern African region perform somewhat better on education than on health in terms of global comparisons of the shares of their budgets allocated to education, with eight countries in the top third globally and six each in the middle and bottom thirds.

- Social protection spending rose in richer countries during the pandemic, as they could afford to provide grants to replace lost income and enable their citizens to shelter from COVID-19. However, in most poorer countries, it fell as a proportion of total budgets (on average, worldwide from 18.8% to 18.6% between 2019 and 2022). In terms of spending as a percentage of GDP, the eastern and southern Africa region saw only a very brief temporary rise in 2022. Overall, this is the sector where eastern and southern Africa perform worst among low and middle-income countries. No country is in the top third regarding budget shares committed to social protection, seven are in the middle, and no fewer than 13 are in the bottom.

These low spending levels translate into very poor progress indicators in most eastern and southern African countries. The countries which spend the least on health, education and social protection are also the furthest from achieving universal coverage of these public services, according to data from the World Health Organization (WHO), the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the International Labour Organization (ILO). For example, most countries within the region have low universal health

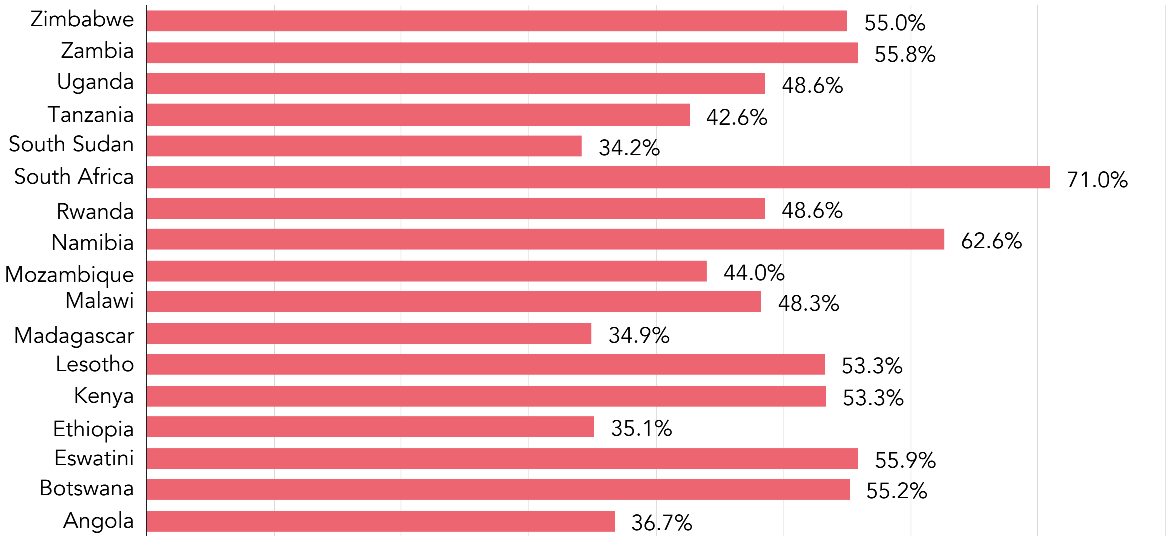
43 Calculations based on: DFI, Commitment to Reducing Inequality Database.

44 SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. New York: UN; 2020. https://sdgs.un.org/goals/goal4#:~:text=Progress%20and%20Info,-2023&text=Even%20before%20the%20COVID%2D19,to%20quality%20education%20by%202030.

Figure 12.
Country rankings for shares of budgets allocated to social sectors

Country	Health	Education	Social protection
Angola	106	114	119
Botswana	27	11	133
Burundi	38	14	143
Eswatini	99	79	121
Ethiopia	108	9	104
Kenya	124	27	124
Lesotho	56	107	96
Madagascar	135	54	106
Malawi	132	62	129
Mauritius	100	50	97
Mozambique	94	37	112
Namibia	37	3	75
Rwanda	122	68	128
Seychelles	93	126	71
South Africa	58	7	92
South Sudan	161	161	161
Tanzania, United Republic of	142	91	95
Uganda	127	131	157
Zambia	119	111	142
Zimbabwe	77	74	109
KEY	In top 3rd of 158 countries	In middle third of 158 countries	In bottom third of 158 countries

Figure 13.
Universal health coverage in eastern and southern Africa in 2021



coverage scores, which measure the extent to which people have access to the full range of quality health services they need, when and where they need them, without financial hardship (Figure 13).[45]

Most countries score around or below 50% coverage of their population, with the subpar performers (Angola, Ethiopia, Madagascar and South Sudan) reaching barely one-third.[46]

45 Definition of universal health coverage according to WHO. Universal health coverage (UHC). Fact Sheet. Geneva: WHO; 2023. https://www.who.int/news-room/fact-sheets/detail/universal-health-coverage-(uhc)

46 All data from WHO, UHC Service Coverage Index: https://data.who.int/indicators/i/9A706FD

Public debt in eastern and southern Africa

High public debt is compounding this challenging financing landscape. The COVID-19 pandemic, which stifled economic activity and growth, also led governments—worldwide and within the region—to take on extra debt to tackle the pandemic, compounding a pre-pandemic trend of high government borrowing. The Brookings Institution estimates that to finance their pandemic responses, sub-Saharan African governments borrowed 4.5% more than predicted had the pandemic not occurred.[47]

47 Sub-Saharan Africa's debt problem: Mapping the pandemic's effect and the way forward. Africa Growth Initiative. Washington, DC: Brookings Institution; 2021.

The public debt picture in eastern and southern Africa is challenging. Five of the low and middle-income countries that receive a debt risk rank from the IMF are classified as 'in debt distress' (Malawi, Mozambique, Somalia, Zambia and Zimbabwe). A further three are considered at 'high risk' (Ethiopia, Kenya and South Sudan), while five are classified as being at 'moderate risk' (Lesotho, Madagascar, Rwanda, United Republic of Tanzania and Uganda).[48] None are considered low risk. The IMF also reports debt vulnerabilities in the region's 'market access' countries. Debt has climbed steadily in Eswatini, Namibia and South Africa, and the IMF has pointed to elevated risks of debt distress in Eswatini, in particular, which has built up substantial payment arrears on its domestic debt (Table 2).[49]

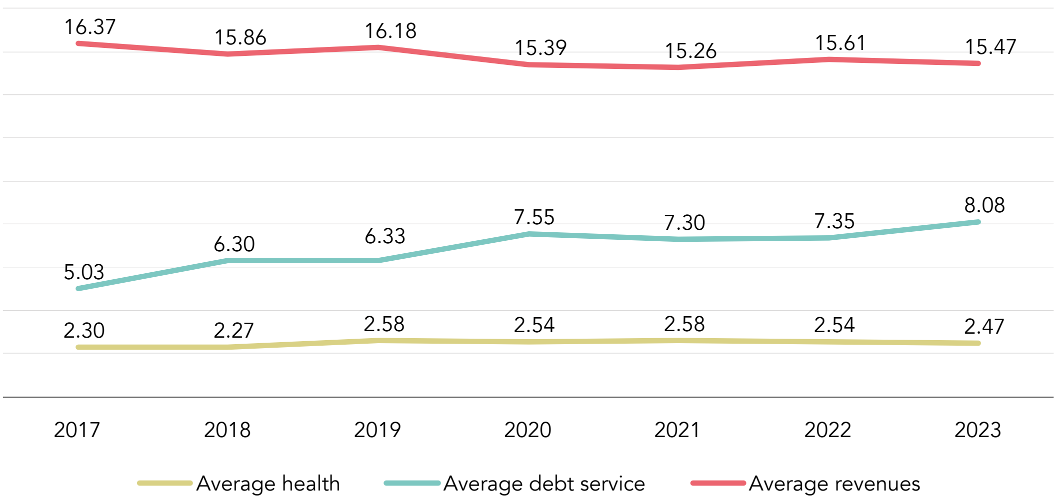
48 IMF: https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf

49 IMF: Eswatini Article IV Consultation (2023)

Table 2.
Public debt situation in eastern and southern African countries

Country	Debt risk rank[50]	Debt service composition: domestic (%)	Debt service composition: external (%)
Angola	Already restructuring debt	44.1	55.9
Botswana	Not publicly available	80.4	19.6
Eswatini	Elevated risks	90	10
Ethiopia	Already restructuring debt	83.2	16.8
Kenya	High	70.4	29.6
Lesotho	Moderate	50.8	49.2
Madagascar	Moderate	74.7	25.3
Malawi	In debt distress	66.3	33.7
Mozambique	In debt distress	54.2	45.8
Namibia	Not publicly available	66	34
Rwanda	Moderate	78	22
South Africa	Not publicly available	0.8	99.2
South Sudan	High	2.1	97.9
Tanzania, United Republic of	Moderate	66.1	33.9
Uganda	Moderate	74.6	25.4
Zambia	In debt distress	52.3	47.7
Zimbabwe	In debt distress	43.3	56.7

Figure 14.
Eastern and southern Africa: domestic revenues versus debt service and public health expenditures (percentage of GDP 2017–2023)



As public debt has risen, so has the cost of servicing this debt. The data show that while revenues have declined slightly due to the pandemic, debt servicing has significantly increased. Between 2017, total public debt service as a percentage of GDP has risen from about 5% to over 8% on average.[51]

The amount now spent on public debt service is almost 3.3 times the government budget allocated to public health on average in the region as a percentage of GDP, while in 2017, it was about 2.3 times the amount (Figure 14). The amount spent on debt service is also almost six times the amount spent on the HIV response (Figure 15).

50 IMF: https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf Market access countries are not ranked.

51 All debt service data used in this section are taken from: th DFI Debt Service Watch database.

Figure 15.
Eastern and southern Africa: Debt service versus expenditure on the HIV response (percentage of GDP 2017–2022)

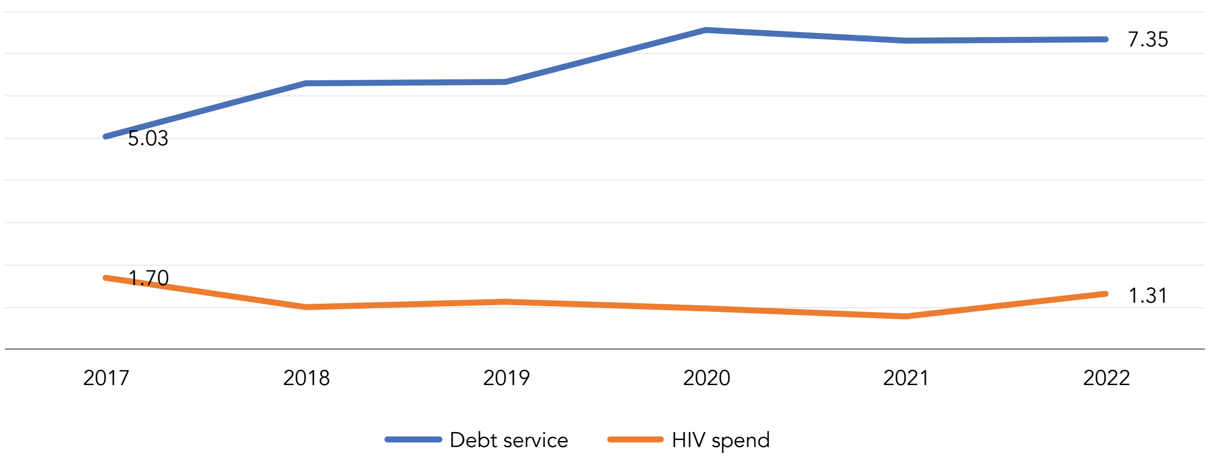
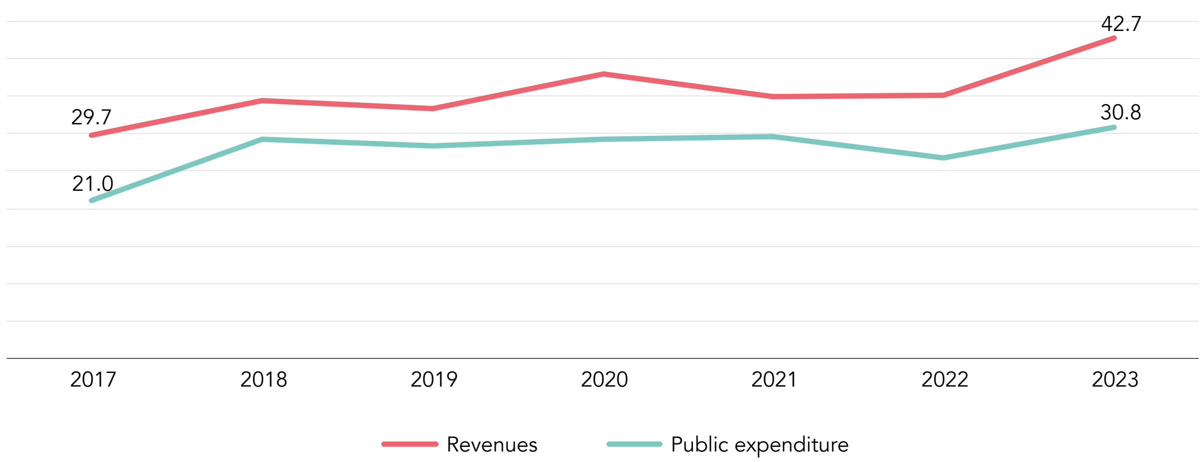


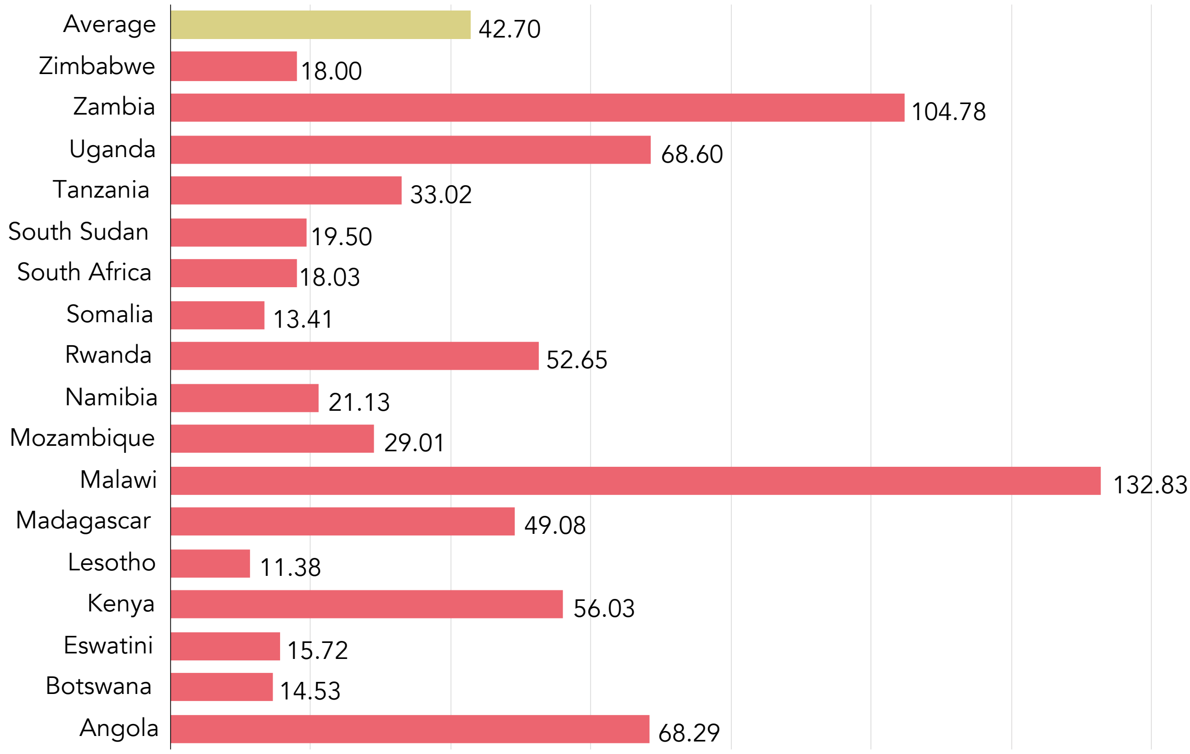
Figure 16.
Eastern and southern Africa: Debt service as a percentage of revenues and public expenditure (2017–2023)



Public debt service is consuming increasingly large shares of government revenue across the region. Total public debt service as a percentage of government revenues rose significantly between 2017 and 2023, from 29.7% to 42.7% (Figure 16). The largest increases are seen in Eswatini, Kenya, Madagascar, Malawi, Namibia, Rwanda, Somalia, Uganda and Zambia. In Angola, Kenya, Malawi, Rwanda, Uganda, and Zambia, debt service now exceeds 50% of government revenues.[52] Similarly, debt service represents an increasingly large share of public expenditure across the region (Figure 17). Total debt service as a percentage of public expenditure amounted to an average of 21% in 2017, but had climbed to 30.8% by 2023.

52 Calculations based on: DFI, Global Tax Database and Commitment to Reducing Inequality Database.

Figure 17.
Debt service as a percentage of revenues (2023)[53]



These debt trends have also caused a rapid increase in the interest payments on debt. The rise of interest payments is a widespread problem across the region and reflects the fact that sub-Saharan African countries pay much more to borrow than developed countries.[54] In eastern and southern Africa, seven countries spent more on interest repayments on their public debt than on health in 2022 as a percentage of GDP (Figure 18): Angola, Kenya, Malawi, South Africa, South Sudan, United Republic of Tanzania, Uganda and Zambia. This reflects an increased reliance on domestic debt relative to external debt, which is typically more expensive and carries shorter maturities. For most countries, debt service on domestic debt is a much higher share of their overall burden than debt service on external debt. The proportion of revenues allocated to domestic rather than external debt servicing stands, on average, at 58.7% versus 41.3% in 2023 across the region, but in many countries, the domestic debt burden is far higher (Figure 19). While multilateral development banks (MDBs) remain important lenders to the region, especially for the lower-income countries, several are now characterized by an increasingly complex creditor profile, which includes a higher proportion of debt owed to non-traditional bilateral lenders and private domestic and external creditors. This, in turn, can make any future debt difficulties more challenging to resolve since it involves a broader set of actors with differing agendas and constraints.

High public debt service can crowd out public investment across a range of critical development priorities, including health, education, social protection and infrastructure. Of particular concern is that governments will increasingly cut back on much-needed public expenditures, including on health, to service debt, close budget deficits and reduce further borrowing (Figure 20). As budgets for health are weakened, the HIV response may be further deprioritized. Moreover, as previous periods of fiscal austerity have shown, this will hit the poorest and most vulnerable households the hardest.[57] It will also make the ambitions of the 2021 Political Declaration on HIV and AIDS much more challenging to achieve in a region which has made substantial progress towards ending HIV and AIDS as a public health threat.

53 Data for Ethiopia were not available.

54 UNCTAD reports that sub-Saharan African countries borrow at rates four times higher than the USA and eight times higher than Germany: A world of debt. Report 2024. A growing burden to global prosperity. Geneva: UNCTAD; 2024. https://unctad.org/publication/world-of-debt

57 Ortiz I, Cummings M. Austerity the new normal: a renewed Washington consensus 2010–2024. Working paper. New York: Initiative for Policy Dialogue; International Confederation of Trade Unions; Public Services International; European Network on Debt and Development; The Bretton Woods Project; 2019.

Figure 18.
Composition of debt service as a percentage of revenues (2023)[55]

Figure 19.
Eastern and southern African region: Composition of external debt (2022)[56]

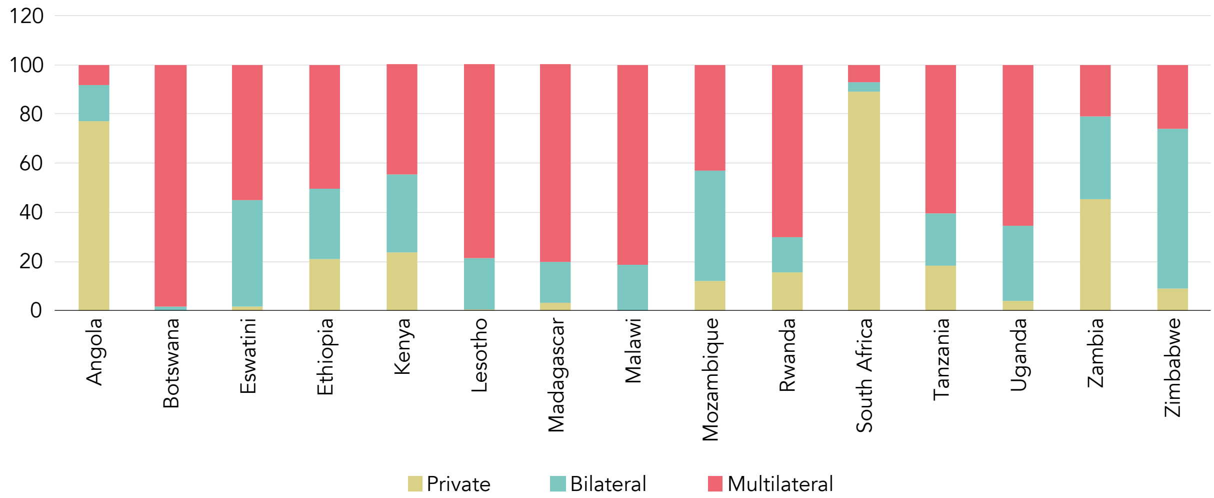
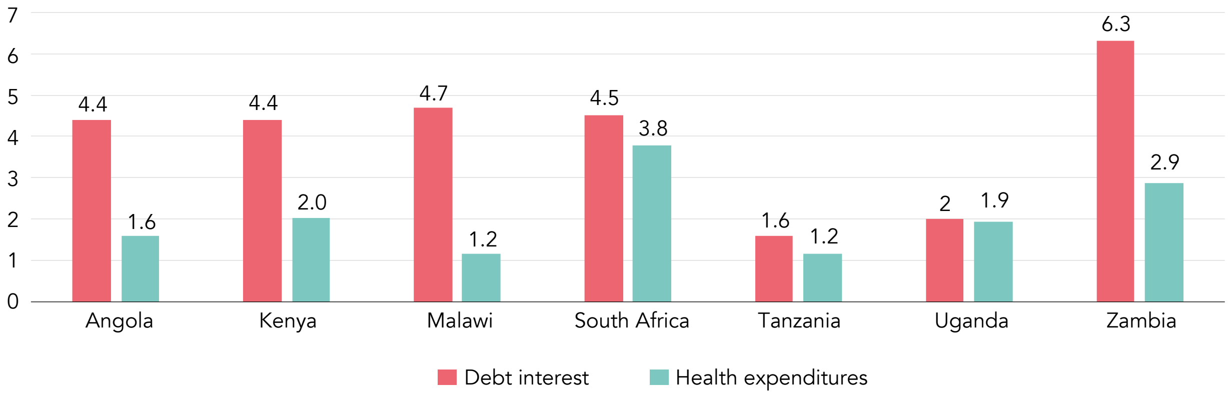


Figure 20.
Interest payments on public debt versus public health expenditures (percentage of GDP 2022)



55 Data for South Africa were not available.

56 A world of debt. Report 2024. A growing burden to global prosperity. Geneva: UNCTAD; 2024. https://unctad.org/publication/world-of-debt.

Efforts to relieve the eastern and southern African debt burden between 2020 and 2023

Since the start of the COVID-19 pandemic, the international community has been increasingly recognizing that many eastern and southern African countries have a growing debt burden, but has struggled to provide comprehensive solutions comparable to those provided between 1996 and 2010 for heavily indebted poor countries (HIPC)—a group of which 11 eastern and southern African countries were members.

In 2020, confronted by the sharp decline in GDP and budget revenue in most lower-income countries, the international community introduced the Debt Service Suspension Initiative (DSSI). This postponed the payment of debt service by lower-income countries between May 2020 and December 2021, but added interest to the postponed amounts, thereby increasing the countries' longer-term debt burden.

Eleven eastern and southern African countries decided to participate in the DSSI, temporarily saving themselves $4.1 billion. Rwanda and South Sudan decided not to participate, although they were eligible, in Rwanda's case because it wanted to retain prospects of borrowing on global capital markets during this period.

However, since 2018, it has become apparent that various countries in the region require fundamental restructuring and reduction of their debt burdens to reach sustainable debt levels. Since 2019, Angola, Ethiopia, Malawi, Mozambique and Zambia have all received debt relief from their major creditors.

More recently, in 2021, the international community has established a Common Framework Process now supplemented by a Sovereign Debt Round Table, in which creditors attempt to agree on coordinated levels of debt relief. So far, this process has proven to be very slow and has effectively covered only official bilateral creditors (governments), with commercial and multilateral creditors mostly refusing to provide their fair shares of debt relief.

But more importantly, the degree to which it has provided additional 'fiscal space' for countries to spend on health (including HIV response), education or social protection has been minimal. For example, according to IMF forecasts, after its debt relief, Zambia will still be paying 75% of its budget revenue back out in debt service in 2023, 62% in 2024, and 59% in 2025 (the average for all countries benefiting from the Common Framework Process is 48% of budget revenue going to debt service after relief during 2023–2025).[58] This is because some creditors (commercial bondholders, multilateral institutions and especially domestic debt bondholders) are not participating. But it is mainly because the deals with participating creditors have been structured in such a way that while they reduce the stock of debt substantially, they do not reduce the debt service by nearly enough and are thereby virtually ignoring the countries' SDG spending needs, including the large financing gaps for HIV and AIDS and broader health. This contrasts strongly with the type of relief provided under the HIPC and MDRI Initiatives, which reduced country debt service/revenue ratios to an average of 11%.

Furthermore, in the case of Zambia, a clause is being built into the agreements with creditors, indicating that should Zambia's economic growth and revenues improve during this period, higher amounts of debt service are still to be paid to external creditors. This is an unforgivable mortgaging of the country's economic future and contrasts sharply again with the HIPC scheme and the Multilateral Debt Relief Initiative , where the adjustment was in the opposite direction: if growth and revenues fell short of forecasts, debt relief was *increased* to help fill the gap.

As a result of the delay in providing relief and the relatively limited degree to which the agreements have reduced debt service/expenditure burdens between the current time and 2030, eastern and southern African countries have so far found themselves having to agree to sharp overall budget spending cuts, within which there is barely room to protect existing social spending levels. These cuts average 4% of GDP cumulatively over the next five years in countries which are restructuring their debts, meaning that austerity is further shrinking countries' fiscal space to scale up SDG spending.

The debt relief agreements reached so far certainly provide no room for additional social spending, which would allow countries to end AIDS or expand access to education, health care and social protection. To achieve this, it will be essential to design debt relief agreements that reduce debt service sharply immediately after the agreement.

58 Chad, Ghana, Sri Lanka, Suriname and Zambia. For details of this analysis, see 11 October: The worst debt crisis ever: shocking new debt service numbers. Development Finance International; 2023.

CHAPTER 3

Looking forward to 2030: financing prospects for the HIV response

Key messages

- Adjusted for inflation, eastern and southern Africa will need to mobilize $10.5 billion in 2024 to fully fund the HIV response. This will climb to $15.84 billion by 2030. The greatest financing needs are in Ethiopia, Mozambique, South Africa, South Sudan and United Republic of Tanzania, which will all need to mobilize at least $1 billion in resources annually in 2030 to fund HIV prevention and treatment services.
- In 2024, the region will need to spend an average of 1.91% of GDP on the HIV response, rising to 2.06% by 2030. This compares with only 0.79% spent in 2021. Spending will, therefore, need to treble as a proportion of GDP by 2030 if the region is to end AIDS as a public health threat.
- Under a business as usual financing scenario, achieving these spending increases will be difficult. *Tax revenues* are projected to rise marginally from about 15.9% of GDP to about 16.8% by 2030. *Debt service will remain above 8% of GDP between 2024 and 2030.* Debt service is also projected to consume, on average, over 54% of tax revenues over this period. Due to these challenges, *expenditure on the HIV response is projected to fall* from 1.38% of GDP in 2024 to only 0.84% by 2030.
- *At the same time, eastern and southern Africa remains extremely vulnerable to a wide variety of downside pressures and risks, including an aid shock and another pandemic shock.* In a scenario in which development assistance stagnates between 2024 and 2030 relative to its 2022 levels, countries would need to increase domestic financing by 17% a year to fully fund the HIV response. However in a scenario in which development assistance declines by 5% annually relative to 2022, domestic revenue funding would need to increase by more than 20% annually to fund target spending of $15.8 billion. A renewed pandemic would also massively disrupt progress on all the SDGs, including SDGs 3 and 3.4.
- It will be vital for the region to search for other financing sources. Depending on their individual circumstances, countries can implement a range of tax reforms, including increases in corporate income tax rates, increases in personal income tax for wealthy segments of the population, wealth taxes, reform of preferential tax regimes, and measures to combat tax evasion and avoidance. With enhanced revenue effort, this could raise around another 1.05% of GDP by 2030 on top of forecast tax increases.
- Comprehensive debt relief will also be needed to close HIV and AIDS financing gaps between now and 2030. Bringing all countries' debt service down to HIPC comparable levels (15% of budget revenue) would save considerable amounts across the region—as much as 6.5% of GDP on average in the next few years. For those countries that do not want debt relief, particularly the region's market access countries, steps could be taken to reduce their borrowing costs. This could save up to 2% of GDP in annual debt service costs.

In this chapter, future financing needs for ending AIDS as a public health threat by 2030 are projected, and various scenarios that may affect future financing are considered, including changes in debt levels, tax revenues and international aid. Strategic recommendations are offered to bridge financing gaps.

Spending needs to end AIDS as a public health threat

The UNAIDS Global AIDS Strategy 2021–2026 estimates that $29 billion will be needed annually by 2025 to put the world back on track to end AIDS as a public health threat by 2030.[59] In eastern and southern Africa, if we forecast resource needs up to 2030, and adjust for inflation (in line with recent inflationary pressures worldwide), it is estimated that eastern and southern Africa will need to mobilize $10.5 billion to fund the HIV response fully.[60] This will climb to $15.84 billion by 2030, reflecting the challenge that medical inflation tends to rise faster than overall inflation in the economy.[61] The highest financing needs are seen in Ethiopia, Mozambique, South Africa, South Sudan and United Republic of Tanzania, which will all need to mobilize at least $1 billion in resources annually in 2030 to fund HIV prevention and treatment services fully (Figure 21).

The revised spending needs to end AIDS, adjusted for inflation, indicates that in 2024, the eastern and southern African region will need to spend an average of 1.91% of GDP, rising to 2.06% by 2030 (Figure 22). This compares with only 0.79% spent in 2021, the last year for which relatively comprehensive UNAIDS data on regional spending are available. Spending will, therefore, need to increase sharply, by 1.27% of GDP—approximately trebling its proportion of GDP by 2030—if the

Figure 21.
Total HIV financing needs for the eastern and southern African region, 2024–2030 (in millions of US dollars)

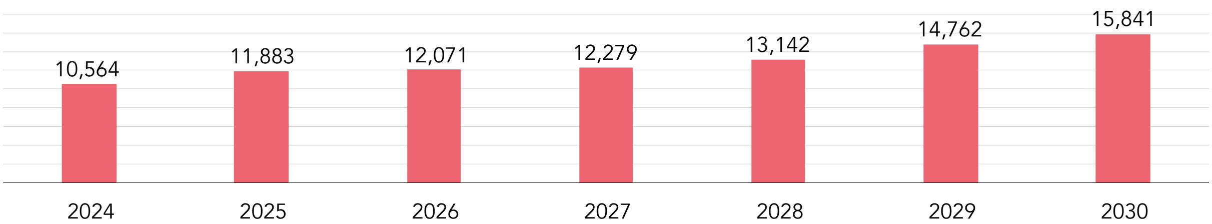
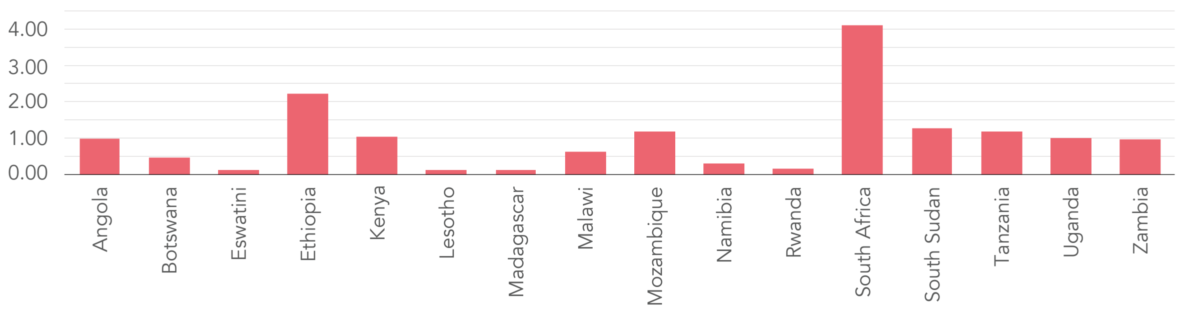


Figure 22.
Financing needs for the HIV response by country (in billions of US dollars, 2030)



59 For further information, see: Global AIDS Strategy 2021-2026. End Inequalities. End AIDS. Geneva: UNAIDS; 2021. https://open.unaids.org/funding-trends#:~:text=The%20new%20Global%20AIDS%20Strategy,to%20end%20AIDS%20by%202030.

60 The methodology for performing this adjustment was agreed with UNAIDS. Data on ending AIDS costs in US dollars from the UNAIDS databank were converted into local currency and then adjusted for GDP deflator inflation forecast by the IMF between 2019 (the date when the costings were calculated) and 2030. They were then reconverted into US dollars using the implicit exchange rates forecast by the IMF in its World Economic Outlook (WEO) database. For the time being, this estimate excludes Zimbabwe, for which additional annual spending needs are likely to be around $700 million by 2030, once it is adjusted for inflation and the exchange rate, because the inflation and exchange rate numbers forecast by the IMF do not produce reliable results. For further information and data, see: UNAIDS, The path that ends AIDS: UNAIDS Global AIDS Update 2023. Geneva: UNAIDS; 2023. https://www.unaids.org/en/resources/documents/2023/global-aids-update-2023

61 Data for the totals exclude Zimbabwe, because IMF WEO forecasts were not consistent. Zimbabwe's financing needs are estimated at $400 million a year in 2024 rising to around $700 million by 2030.

region is to end AIDS as a public health threat successfully in all countries. Sharp increases are needed in Angola, Ethiopia, Madagascar and Malawi compared to current spending levels. Greater efficiencies in how HIV prevention and treatment programmes are managed and delivered could help to reduce these costs slightly, particularly given the high overhead costs associated with internationally managed programmes versus those delivered by domestic public health-care systems. At the same time, domestic public health-care systems also often have their own inefficiencies (e.g. in public procurement systems). As such, achieving greater efficiencies in HIV programme delivery will likely take time and may not substantially reduce costs in the shorter term.

The baseline scenario: Debt service eats up rising tax revenue, AIDS spending falls

How could these spending needs be financed? This section presents the current baseline or a business as usual scenario, based on IMF forecasts in the current country programme and surveillance documents, indicating that the spending needs will *not* be financed successfully.

First, it is important to note that ***tax revenues are not projected to increase sharply over this period***. On average, revenues are projected to rise marginally from about 15.9% of GDP across the region to about 16.8% by 2030.[62] This means that, by 2030, the region will still lag significantly behind other world regions which have already achieved higher revenue ratios, including Asia–Pacific (20% of GDP), Latin America and the Caribbean (21.7%).[63] The same factors as those discussed in Chapter 2 regarding recent revenue performance constrain future revenue increases, especially on income taxes: lower per capita income of the region's citizens, a high share of GDP from agriculture, and high informal or non-contractual (family) employment. There is, nevertheless, more scope for these countries to reform and enhance corporate and personal income tax collection, as discussed in Section 3.3.

Second, ***debt service will remain above 8% of GDP between 2024 and 2030***. The forecast shows that debt service will rise to 9.2% of GDP in 2027 before falling back slightly thereafter. Even though debt service is projected to decline slightly between 2028 and 2030, it is important to remember that in 2017, debt service was only 5% of GDP. Of particular concern is Malawi: although tax revenue will increase from 12% of GDP in 2024 to 16.5% by 2030, debt service will rise steadily from 15.3% of GDP to over 20% of GDP over the same period, meaning that gains from tax increases are being entirely consumed by debt service.[64] Eswatini, Kenya, Lesotho, Malawi, Mozambique, Namibia, Rwanda, United Republic of Tanzania and Zambia will all have debt service to GDP ratios above 5% in 2030.

Debt service is also projected to consume, on average, over 54% of tax revenues across the region and represent over 50% of public expenditure by 2030.[65] In 2026, the latest year with data available for all countries from the IMF, seven countries will spend more than 40% of their tax revenues on debt service; a further four will spend more than 30%.[66]

Third, partly because of this forecasted reduction in fiscal space, ***expenditure on the HIV response is projected to fall*** from 1.38% of GDP in 2024 to only 0.84% by 2030 in the eastern and southern Africa region.[67] Four countries are expected to see HIV expenditure fall by 1% of GDP or more: Lesotho, Malawi, Mozambique, and South Sudan. Botswana is also projected to decrease from just over 1.5% of GDP in 2024 to 0.81% by 2030.[68] No country within the region is currently projected to *increase* spending on the HIV response over this period as a percentage of GDP. This is even though the previous section showed the need for a sharp increase in spending as a percentage of GDP by 2030 compared to 2019 (Figures 23–27).

62 These revenue forecasts are taken from the IMF programme and Article 4 documents.

63 DFI data contained in the CRI Tax Database.

64 DFI forecasts based on official data.

65 Calculations based on: DFI Global Tax Database and Commitment to Reducing Inequality Database.

66 DFI forecasts based on official data.

67 Calculations based on DFI Global Tax Database and Commitment to Reducing Inequality Database, with data supplied by UNAIDS. Tax data for other world regions supplied by the OECD.

68 DFI forecasts based on data supplied by UNAIDS.

Figure 23.
Projected tax revenues versus debt service and expenditure on the HIV response (percentage of GDP, 2024–2030)

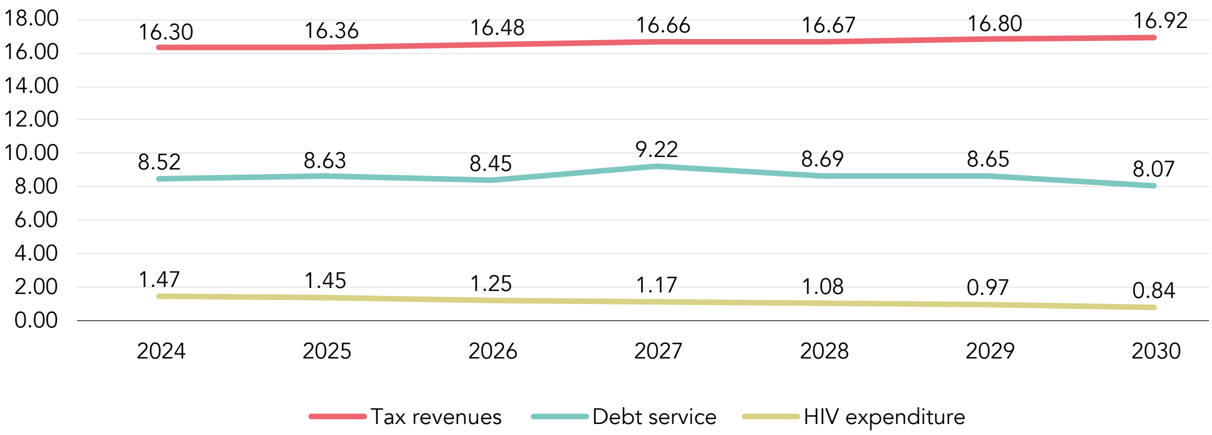


Figure 24.
Malawi: Projected tax revenues versus debt service percentage of GDP, 2024–2030)

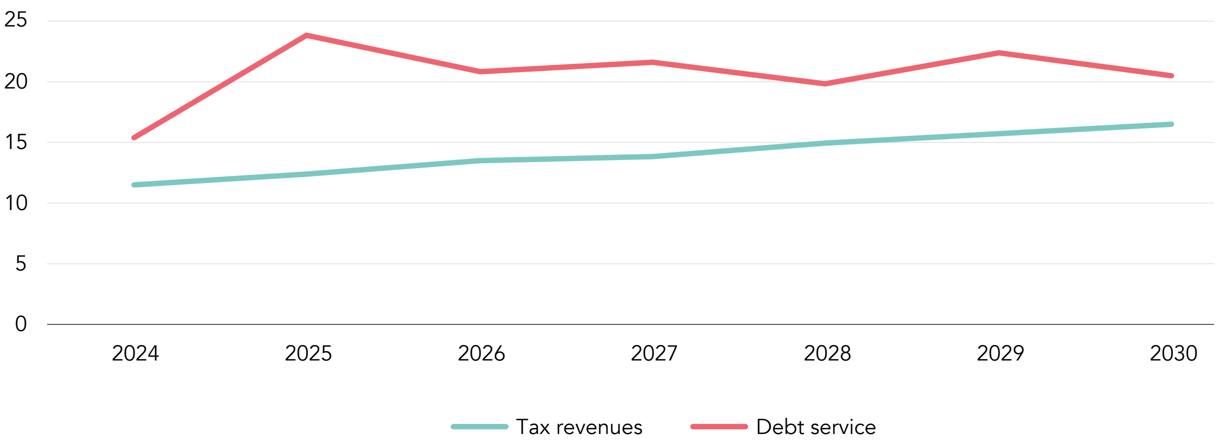


Figure 25.
Projected falls in expenditure on the HIV response: selected countries (percentage of GDP, 2024–2030)

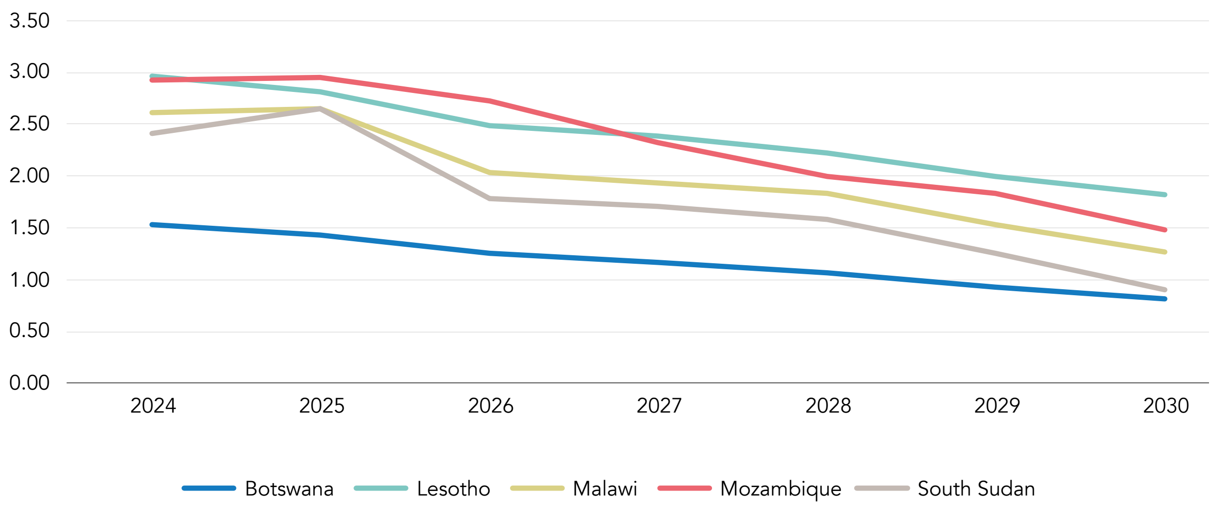


Figure 26.
Debt service as a percent of revenues and public expenditure (2024–2030) (business as usual scenario)

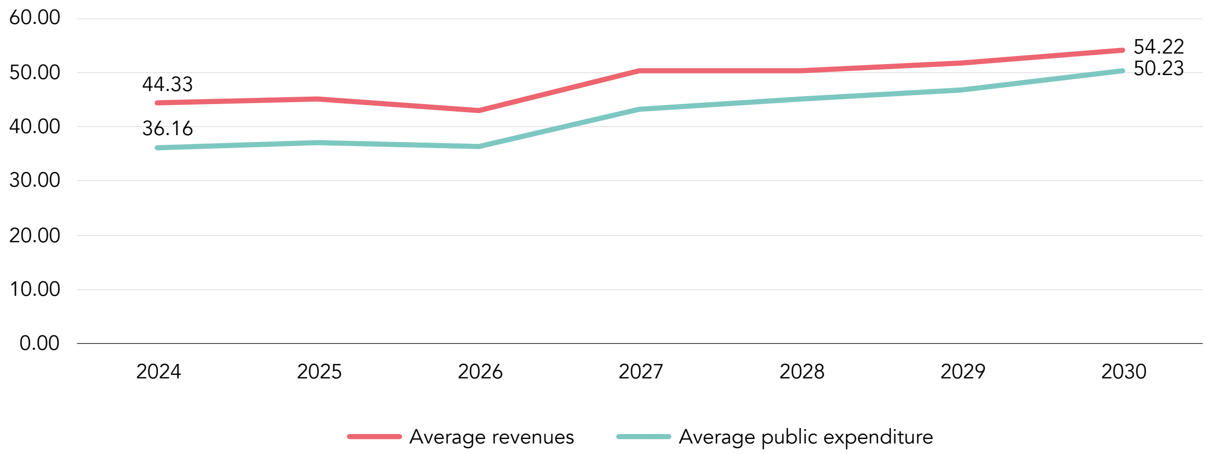
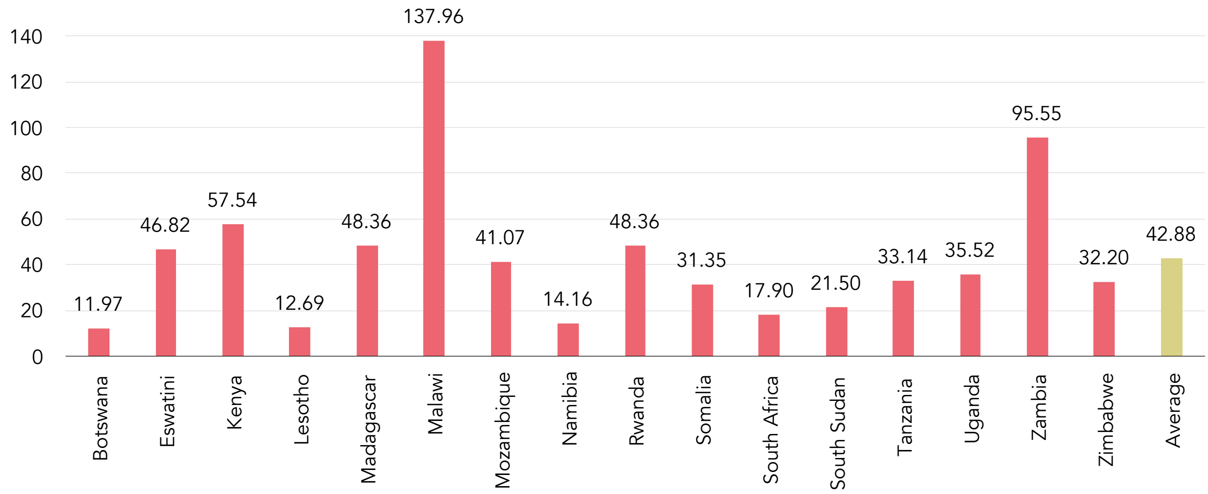
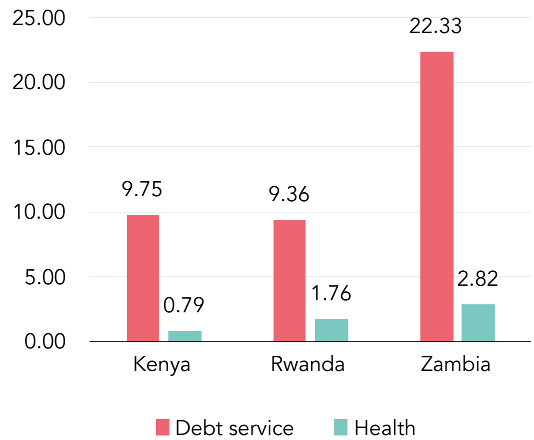


Figure 27.
Debt service as a percentage of revenues, 2026



Several countries will also spend extraordinary amounts on debt service compared to their overall health budgets. At the extreme end, in 2026, Zambia will spend 22.3% of GDP on debt service but just 2.82% on health. In Kenya and Rwanda, debt service will exceed 9% of GDP in 2026, but health spending will amount to just 0.79% and 1.76% of GDP, respectively (Figure 28).[69]

Figure 28.
Debt service versus health expenditure (percentage of GDP, 2026)



69 DFI forecasts based on data supplied by UNAIDS and official data.

Alternative scenario 1: Stagnant or declining development assistance

These forecasts assume a business-as-usual scenario, i.e. no major shocks or crises will strike between now and 2030. However, eastern and southern Africa remain extremely vulnerable to a wide variety of downside pressures and risks. These include another pandemic or health-related shocks, conflicts, macroeconomic shocks, and multiple climate-related shocks. The need to respond to these shocks at speed and scale could not only put further pressure on expenditures in health and the HIV response, but could further exacerbate extremely high indebtedness within the region as countries take on even more debt to cope with the shock (as has most recently been seen during the COVID-19 pandemic), leading in turn to an even higher debt service burden in the future.

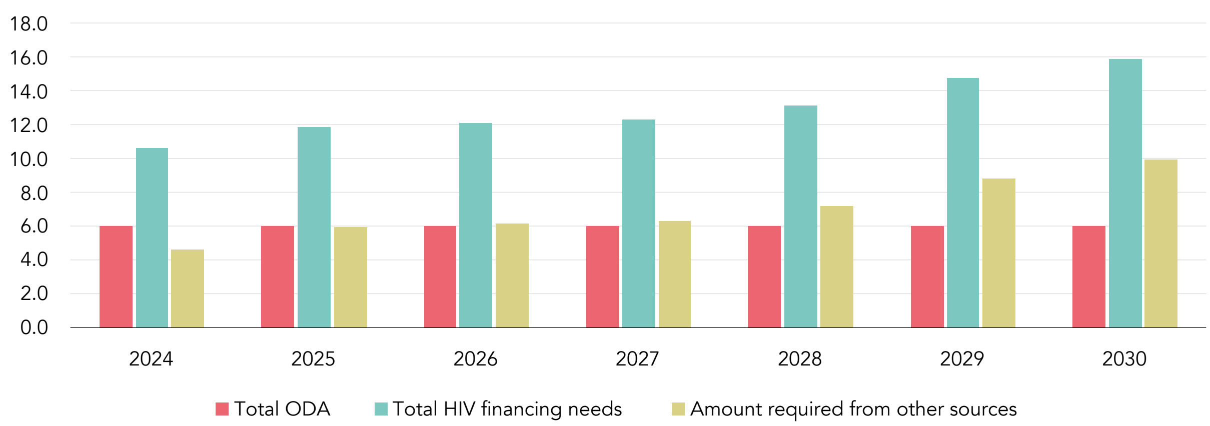
The region remains highly vulnerable to an aid-related shock. Already significant increases in development assistance are unlikely, as donor countries struggle with their economic challenges and face continued pressures to allocate resources to other high priorities like climate change and the need to inject finance at scale into the reconstruction of Ukraine, which is currently estimated to exceed $100 billion.[70]

In a scenario in which development assistance levels remain stagnant in US dollar terms between 2024 and 2030 relative to the levels seen in 2022, the amount of financing needed to be mobilized via other public and private sources would increase steadily year-on-year, accounting for inflation. By 2030, the region would need to mobilize US$ 9.8 billion from public and private sources to cover its HIV financing needs fully (Figure 29).[71]

Many countries within the region have made commitments to reduce dependency on development. However, the scale of the increases required to fund the HIV response fully will be out of reach for many countries without debt relief or enhanced concessional flows. For example, in a scenario in which development assistance stagnates between 2024 and 2030 relative to its 2022 levels, countries would need to increase domestic financing by 17% a year (Figure 30).[72]

Even greater concerns arise in a scenario in which international donor funds for the HIV response *decline* between 2024 and 2030. Even relatively small cuts could have a substantial negative impact. For example, if development assistance declines by 5% annually relative to 2022, domestic revenue funding would need to increase by more than 20% annually to fund target spending of $15.8 billion.[73] These results show how difficult it will be for eastern and southern Africa to mobilize adequate financing for the HIV response between the current time and 2030 if donors do not step up and increase concessional flows.

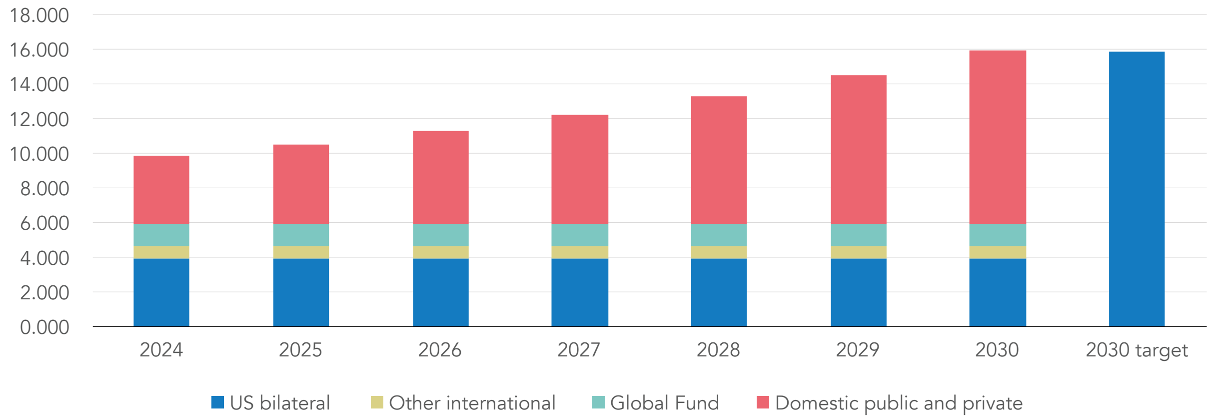
Figure 29.
Annual financing needs from other sources where development assistance stagnates (billions of US dollars, 2024–2030)



70 Prizzon A. What prospects for aid in 2022 (and beyond)? London: ODI 2022. https://odi.org/en/insights/what-prospects-for-aid-in-2022-and-beyond/

71 DFI forecasts based on official data.
72 DFI forecasts based on official data.
73 DFI forecasts based on official data.

Figure 30.
Domestic expenditure increases by 17% annually and development assistance stagnates (billions of US dollars, 2024–2030)

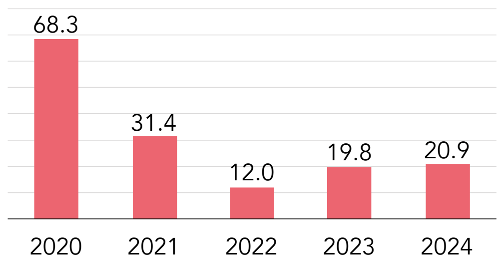


Alternative scenario 2: Another pandemic

The other alternative scenario tested in this report is a renewed global pandemic shock on the scale experienced during the COVID-19 pandemic. Most recent studies conclude that the annual likelihood of such a pandemic is between 2% and 3.3%, rising with time—implying that during 2023–2030, the likelihood of another pandemic will increase to between 14% and 23%.[74]

To calculate the potential impact of such a pandemic on HIV financing availability, we have examined the impact of the COVID-19 pandemic on revenue levels since 2020 by comparing the IMF World Economic Outlook database forecasts from October 2019 (pre-pandemic) and October 2023. Compared to revenue levels forecast before the pandemic, revenues fell short across the region as a whole by $68.3 billion in 2020 and $31.4 billion in 2021—an average shortfall of $50 billion a year (or 9.9% of the revenues forecast for 2020–2021 in 2019) during the pandemic. Despite a notable recovery since then, they continue to fall short by around $20 billion a year, or 3.3% of the revenues forecast in 2019. A renewed COVID-19 pandemic would, therefore (as the current one has done), massively disrupt progress on all the SDGs, including SDGs 3 and 3.4 (Figure 31).

Figure 31.
Eastern and southern African revenue shortfalls due to Covid-19 (in billions of US dollars)



This section does not analyse potential economic or climate shocks which countries will face because the impact on countries of these potential shocks is so variable as to make forecasting their impact across the region a highly complex and time-consuming exercise and one beyond the scope of the current work. For example, on the economic side, Angola and Mozambique could be hit by a hydrocarbons price shock; Namibia and Zambia by minerals price shocks; Burundi and Uganda by soft commodity price shocks such as coffee; Kenya by a tourism shock; or Eswatini and Lesotho by adverse developments in the South African economy. On the climate side, some countries (Madagascar and Mozambique) are more likely to be hit by sudden climate events such as cyclones; others (Ethiopia/Horn of Africa and Malawi) will see repeated droughts; and still others (Kenya, Uganda, United Republic of Tanzania and many other countries in the region) will see gradual damage to agricultural production and water availability as a result of creeping climate change.

74 https://www.cgdev.org/event/whats-next-predicting-frequency-and-scale-future-pandemics and https://www.gavi.org/vaccineswork/new-study-suggests-risk-extreme-pandemics-covid-19-could-increase-threefold-coming#:~:text=Researchers%20estimate%20we%20currently%20face,change%20is%20increasing%20this%20risk.

How to fill the financing gaps: The crucial role of tax revenue rises and debt relief

In the light of the substantial forecast HIV response financing gaps described in the previous sections, exacerbated by the risk of stagnating or declining development assistance, it will be vital for the region to search for other financing sources. Many sources of potential financing, such as non-concessional borrowing, public–private partnerships (PPPs) or other 'blended' public and private finance, would be massively expensive and would not solve the financing gap issue at all, as over time, their costs would dramatically increase the already high burden of debt service or divert revenue flows to repay PPPs. Innovative financing mechanisms, like debt for health swaps and social impact bonds, may have a small role in some countries but can be lengthy to negotiate and complex to structure, and generally mobilize only minimal amounts of funding over a particular period (e.g. five years). As such, they should be viewed as *complementary* rather than *core* sources of finance. To achieve scale, the two key additional sources going forward will need to be tax revenue and debt relief.

Revenue Increases

It is clear from the section above on tax revenues and their composition that most eastern and southern African countries could do a lot better in collecting taxes. Analysis of the 2022 Commitment to Reducing Inequality (CRI) ranking and other sources allows the identification of the most important measures which could be taken, divided into: (a) measures to increase tax collection by filling policy gaps—especially making the structure of the tax system more equitable (by ensuring that the wealthiest citizens and corporations pay their fair share); and (b) measures to collect a higher amount of taxes.

(a) Filling policy gaps

In terms of filling policy gaps by changing the structure of the tax system to collect more tax from the richest, the two figures below show the current standard rate of corporate income tax (CIT) and the top rate of personal income tax (PIT) for eastern and southern African countries. They indicate that:

- Seven countries (Angola, Botswana, Lesotho, Madagascar, Mauritius, South Sudan and Zimbabwe) could **increase their standard CIT rates to match the sub-Saharan average of 28%**. The East African Community countries have a common CIT rate of 30%; the Southern African Development Community region could introduce a similar 30% common tax rate (Figure 32).

- Twelve countries (Angola, Botswana, Burundi, Kenya, Lesotho, Madagascar, Mauritius, Mozambique, Rwanda, Seychelles, South Sudan and United Republic of Tanzania) **could raise top PIT rates to match the sub-Saharan African average of 33%** (Figure 33)**.**

Figure 32.
Standard corporate income tax rates (per cent, 2023)

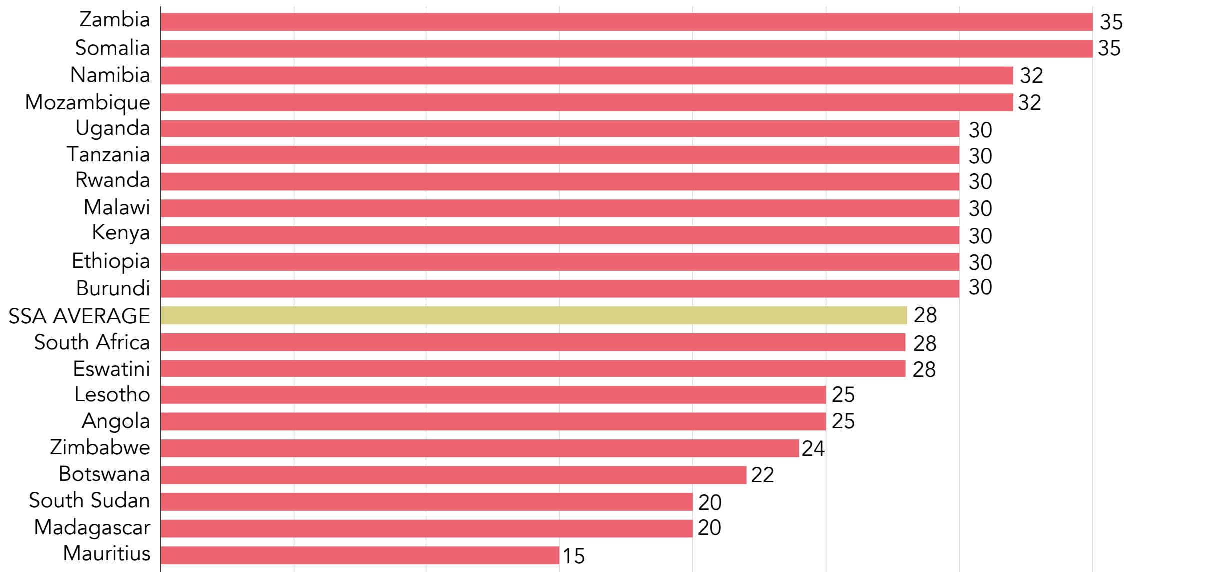
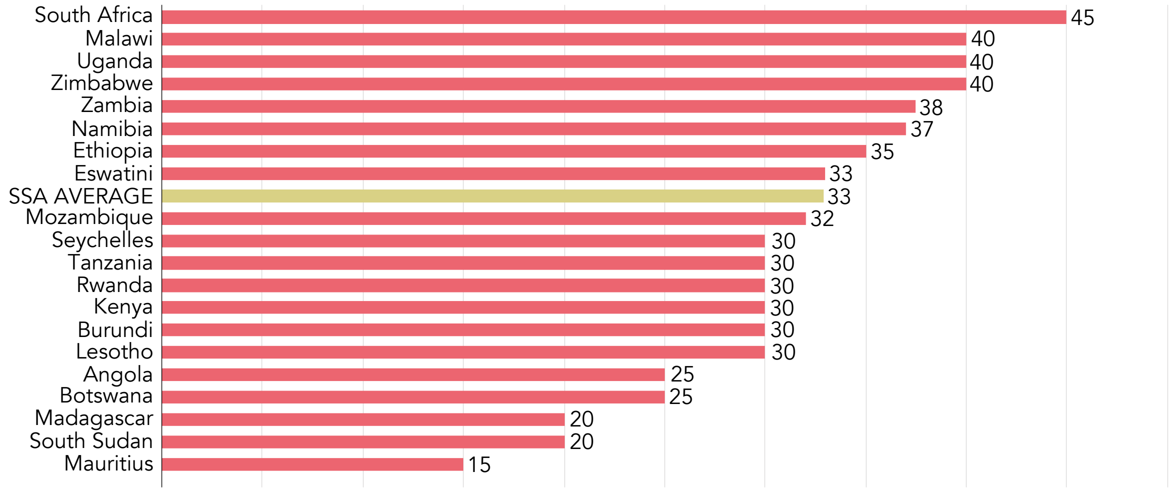


Figure 33.
Top personal income tax rates (%)



In addition to these income tax policy shortfalls, many countries in the region fall short on other taxes on financial earnings and wealth in several ways: (1) capital gains tax rates are often much lower than income taxes; (2) taxes on financial income such as dividends and interest earnings are much lower than income taxes; (3) property taxes are insufficiently progressive; and (4) taxes on the stock of wealth are absent. Many eastern and southern African countries could make stronger efforts in these areas.[75] For example, a progressive wealth tax on the top 1% of South African citizens could raise revenue of between 1.5% and 3.5% of South African GDP: the higher figure would allow South Africa to increase its health and social protection budgets by 50%.[76]

(b) Tax exemptions/deductions

The table below shows the scale of tax 'expenditures' (exemptions, deductions, etc.) for the ten eastern and southern African countries for which information is available. The amounts listed are relatively large compared to GDP and current tax revenue, especially for Burundi, Kenya, Madagascar, Rwanda, and South Africa, so reducing them would seem to provide major scope for revenue increases. However, it should not be forgotten

Table 3.
Scale of tax exemptions in eastern and southern African countries (2021-2022)

Country	Percentage of GDP	Percentage of tax revenue	US dollar equivalent (millions)
Burundi	3.39	19.1	113
Eswatini	0,94	3.8	45
Kenya	2.61	17.85	2980
Lesotho	1.27	4.32	30
Madagascar	2.91	27.23	423
Mozambique	2.61	12.7	553
Rwanda	3.21	21.68	356
South Africa	4.83	21.43	16300
United Republic of Tanzania	0.99	9,23	695
Uganda	1.44	12.18	674

Source: GTED Database (https://gted.taxexpenditures.org/); see https://www.at.gov.mz/por/Media/Files/Anuario-Estatisco-2022 for Mozambique.
No data are available for Botswana, Namibia, Somalia, South Sudan, Zambia and Zimbabwe.

75 For more details on these taxes in the region and what could be done to improve them, see the Commitment to Reducing Inequality reports for East and Southern Africa 2021, https://www.oxfam.org/en/research/inequality-crisis-east-africa and https://policy-practice.oxfam.org/resources/the-crisis-of-extreme-inequality-in-sadc-fighting-austerity-and-the-pandemic-621370/ respectively

76 For the wealth tax calculation, see World Inequality Database. (2021): https://wid.world/ A Wealth Tax for South Africa. The potential impact on health and social protection budgets is based on CRI database figures for health and social protection spending in 2019.

that some of these exemptions (notably VAT reduction or exemption on foodstuffs consumed by people experiencing poverty, tax exemption on private pension and health contributions) might be politically very difficult to eliminate or reduce (and eliminating the former would be undesirable from an equity point of view), and therefore might happen very gradually or not at all.

(c) Tax evasion and avoidance[77]

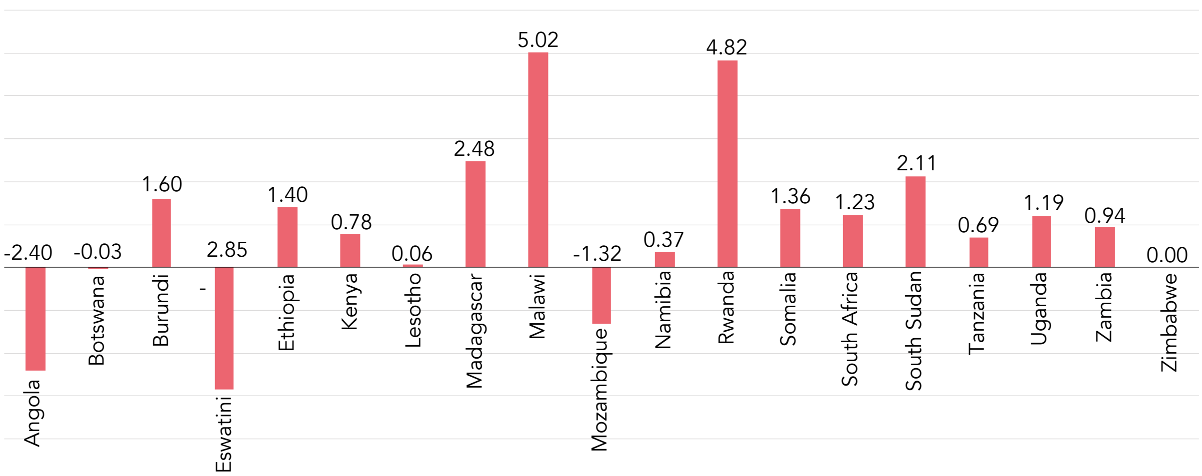
All eastern and southern African countries suffer from widespread tax evasion and avoidance, estimated at an average of 6.8% of their tax revenues. In recent years, major efforts have been made to reduce tax evasion by corporations via the Base Erosion and Profit Shifting (BEPS) initiatives led by the OECD, which have recently culminated in the agreement on a minimum global corporate tax rate of 15% and by individuals through information-sharing among tax authorities. However, the consensus across organizations, ranging from the IMF and OECD to the Independent Commission for the Reform of International Corporate Taxation (ICRICT) and the Tax Justice Network, is that lower-income countries stand to gain very little from the current global initiatives. A more productive route to combating tax evasion and avoidance has been country-specific capacity building and technical assistance to reinforce auditing of large taxpayers, including via the OECD–UNDP Tax Inspectors Without Borders programme.

(d) Tax administration shortfalls

Finally, countries suffer from shortfalls in the administrative capacity to collect taxes. On the whole, these shortfalls would be expected to be taken into account, and remedies built into projections of tax revenue increases in all countries with IMF programmes (Angola, Burundi, Kenya, Madagascar, Malawi, Mozambique, Somalia, United Republic of Tanzania, Uganda and Zambia). As a result, there might be scope for more action on these administrative aspects only in Botswana, Eswatini, Ethiopia, Lesotho, Namibia, Rwanda, South Africa, South Sudan and Zimbabwe.

Overall, it is important to be realistic about what these extra measures can achieve to increase tax revenues. Many countries are already making substantial efforts to increase tax collection. As Figure 34 shows, the increases in tax collection for each eastern and southern African country, which are already being projected by the IMF and, therefore, included in the baseline scenario for this report. In the cases of Burundi, Eswatini, Malawi and Rwanda, these planned increases would raise tax collection above "potential" levels; Uganda and Zambia will also be making significant extra tax-raising efforts, which limit their further "potential" to 1% of GDP or less; and Somalia and South Sudan are already forecast to increase revenue sharply. However, considerably more could be done in Angola, Botswana, Ethiopia, Kenya, Lesotho, Madagascar, Mozambique, Namibia, South

Figure 34.
IMF forecasts of changes in revenue (percentage of GDP, 2024–2030)



77 Data in this section are taken from: Tax Justice Network: https://taxjustice.net/reports/the-state-of-tax-justice-2023/

Africa and Zimbabwe. Therefore, we assumed that enhanced efforts by the other eastern and southern African countries would raise only around another 1.05% of GDP by 2030, bringing average revenue to 2% between 2024 and 2030 and average revenue to 17.9% of GDP. This would be enough to close the HIV and AIDS financing gap in eastern and southern Africa and protect against a development assistance shock, but it would fall well short of the extra financing needed to protect against a further pandemic shock. In addition, it would provide virtually no additional funds to enhance education, health and social protection systems, which are vital in the fight against AIDS.

Comprehensive debt relief and measures to reduce borrowing costs

Comprehensive debt relief will need to be one key solution in helping to close HIV and AIDS financing gaps between the current time and 2030. If properly designed and involving participation by all creditors, debt relief is an especially efficient fiscal boost since it directly and immediately frees up resources, which would have otherwise been spent on debt service, for spending on other sustainable development priorities, including health. It also provides a long-term, predictable stream of savings from debt service which can be used to boost long-term spending efforts.

Experience from the HIPC Initiative shows that debt reduction led to large increases in spending on poverty reduction. For example, the IMF found that before the HIPC Initiative, eligible countries spent slightly more on debt service than on health and education combined. Following the initiative, however, they were spending about five times more on health, education, and other social services than on debt service.[78] This increase was because the HIPC Initiative targeted debt service to revenue levels below 15% and eventually achieved an average debt service to a revenue level of 11% across all HIPCs.

Many of the region's countries are already at a high 'risk of debt distress' (Kenya, South Sudan and possibly Eswatini), or are already in debt distress, or are restructuring or defaulting on their debts (Angola, Malawi, Mozambique, Somalia, Zambia and Zimbabwe).[79] Madagascar, United Republic of Tanzania and Uganda could be added to these[80], given that all have debt service levels of 33–50% of their budget revenue or three to five times as high as their health spending. They require comprehensive debt relief, which, as shown in Chapter 2, will be essential for all creditors (external and domestic) to participate, including, for example, multilateral organizations, which are vital in Madagascar, Malawi, United Republic Tanzania and Uganda.

Bringing all these countries' debt service down to HIPC comparable levels (15% of budget revenue) would save considerable amounts across the region—as much as 6.5% of GDP on average in the next few years. These amounts would allow countries to dramatically increase education, health and social protection spending, thereby accelerating progress on ending AIDS as a public health threat.

Not all countries in the region will want or should receive debt relief. Those that continue to depend on bond markets for their everyday budget financing (Botswana, Lesotho, Namibia, South Africa and possibly Eswatini and Rwanda) may not want debt relief in the foreseeable future for fear that it could compromise their access to bond markets. Instead, steps could be taken to reduce their borrowing costs. The important role that measures such as these could play in supporting countries to scale up investments in the SDGs is recognized in the Bridgetown Initiative and has been reiterated by the United Nations Economic Commission for Africa, African Finance Ministers via the African Union, and the Sustainable Debt Coalition of Northern and Southern Governments formed at the recent Paris Summit.[81]

In practical terms, these proposals would involve:

- A rapid expansion of concessional and non-concessional lending by MDBs, with concessional funds available for middle-income countries for key non-commercial social sectors, including health, and non-concessional funds being much cheaper than bonds.

78 IMF. Debt relief under the heavily indebted poor countries initiative. Washington, DC: IMF; 2023. https://www.imf.org/en/About/Factsheets/Sheets/2023/Debt-relief-under-the-heavily-indebted-poor-countries-initiative-HIPC#:~:text=Before%20the%20HIPC%20Initiative%2C%20on,services%20than%20on%20debt%20service.

79 Somalia has received recent relief under the HIPC Initiative, and its debt service ratios are therefore low.

80 And possibly Rwanda, which also has very high debt service levels, though it is anxious to maintain its access to global financial markets and therefore would want relief only if it improved such access.

81 Bridgetown Initiative: https://www.un.org/sustainabledevelopment/blog/2023/04/press-release-with-clock-ticking-for-the-sdgs-un-chief-and-barbados-prime-minister-call-for-urgent-action-to-transform-broken-global-financial-system/

- Regular issues of around $500 billion of IMF Special Drawing Rights, the majority of which would be reallocated and channeled to developing countries.

- The use of guarantees by the MDBs and other development financing institutions to remove default risk from developing country bonds and push international and domestic bond markets to bring interest costs on bonds down dramatically.

According to UNDP, these proposals would allow middle-income countries worldwide to reduce their borrowing costs by around 50%.[82] Such a reduction in costs would reduce annual debt service by amounts ranging from 0.25% of GDP in Botswana to 2.1% in Namibia and South Africa. In the case of South Africa alone, this would provide $9 billion of additional spending room each year. These amounts would go a long way to filling broader social sector financing gaps for countries that do not want debt relief in the eastern and southern African regions.

Access to adequate concessional finance

Neither of the previous measures discussed removes the need for OECD and non-OECD development partners to make more grant resources available for health and HIV response between the present time and 2030 (in part because relief on bilateral and multilateral debt is likely to have to be funded from development cooperation budgets).

However, even a highly optimistic scenario in which development cooperation for HIV and AIDS increases by 5% annually from 2022 levels would mobilize only $2.2 billion more by 2030, leaving the region needing to mobilize $7.6 billion by 2030 from other sources.

It is difficult to disagree with the conclusions of the June 2020 Paris Development Financing Summit that there needs to be a step change in the global provision of concessional resources on a scale which was last seen during the 2000s, when development assistance rose by 0.1% of gross national income across OECD-DAC donors, leading to much faster progress towards the Millennium Development Goals. Since then, it has stagnated as a share of gross national income: the Paris Summit suggested that the only way to fund significant sustainable increases in development assistance and development cooperation would be through much stronger measures such as global taxes on financial transactions, carbon emissions, transport fuels and corporate/personal wealth. According to those suggesting these taxes, they could potentially provide annual revenues well into the trillions.

These different financing scenarios are eminently feasible but will require strong global political leadership and commitment to providing affordable public financing to save the SDGs. As a result, they are all likely to advance slowly and patchily (if at all), making solid efforts to pursue higher tax revenue, debt relief, lower borrowing costs, and more concessional finance, all necessary at the same time. Only with urgent action on all three can we hope to rescue SDGs 3 and 3.4 and the credibility of broader SDG financing and ensure that eastern and southern Africa successfully ends AIDS as a public health threat by 2030.

82 UNDP. Building blocks out of the crisis. New York: UNDP; 2023. https://www.undp.org/publications/dfs-building-blocks-out-crisis-uns-sdg-stimulus-plan

CHAPTER 4

Conclusion and Key Recommendations

Key messages

There are three actionable strategies that can be taken in parallel to close financing gaps for the HIV response:

- **Tax measures.** Increasing tax revenues is crucial to reduce long-term dependence on development assistance. Countries could make tax systems more equitable and productive through measures such as raising top personal income tax rates and standard corporate income tax rates. They could also make taxes on capital gains, property, and financial earnings more progressive. They could also collect more tax by dramatically reducing tax exemptions enhancing efforts to combat tax-dodging.
- **Debt reduction.** For countries which do not have regular access to international markets, and are in debt distress or have high service, comprehensive debt reduction is needed in which all creditors participate. Its aim should be to reduce debt service to no more than 15% of budget revenues. This would potentially free up an average of 6.5% of GDP or $41 billion a year. For countries that regularly access financial markets to finance budgets, the international community should pursue all options to refinance their debts at lower borrowing costs, including the use of guarantees. If such refinancing halved their interest costs, it would expand their fiscal space for HIV and AIDS and other essential social spending.
- **Access to adequate concessional resources.** OECD and non-OECD development partners must make more grant resources available for health and HIV response between now and 2030. This effort can be strengthened by implementing robust measures such as global taxes on financial transactions, carbon emissions, transport fuels and corporate/personal wealth, mobilizing revenues well into the trillions.

This chapter synthesizes the findings from the report and outlines actionable recommendations for stakeholders. It prioritizes strategies for increasing domestic tax revenue, optimizing debt relief, and securing adequate development assistance. It aims to provide a clear path forward to ensure sustainable financing for health and HIV responses in the context of broader sustainable development goals.

Actionable strategies to close financing gaps for the HIV response

Financing gaps between 2024 and 2030 for the HIV response in eastern and southern Africa are forecast to be high under all potential scenarios. However, a combination of maximum extra tax revenue effort by countries within the region, with debt relief and measures to reduce borrowing costs, and enhanced access to concessional finance could easily close the HIV and AIDS and broader health financing gaps in the region. The sooner these actions can be taken, the sooner much-needed additional revenues for the HIV response can be mobilized. They are all actionable in the short term.

Based on the analysis contained in this report, the following recommendations can be made:

1. **Tax revenues**. One key source is increasing revenues, which is crucial to reducing long-term dependence on development assistance and making health systems more sustainable. As discussed above, many countries in the region are already planning considerable increases. Others could do more by:

    a. Making tax systems more equitable and productive by raising top personal income tax rates (Angola, Botswana, Burundi, Kenya, Lesotho, Madagascar, Mauritius, Mozambique, Rwanda, Seychelles, South Sudan and United Republic of Tanzania) and standard corporate income tax rates (Angola, Botswana, Lesotho, Madagascar, Mauritius, South Sudan and Zimbabwe). They could also make taxes on capital gains, property, and financial earnings more progressive and (especially in South Africa) introduce a tax on the stock of wealth.

    b. Collecting more tax by dramatically reducing tax exemptions (especially in Burundi, Kenya, Madagascar, Rwanda and South Africa), which currently cost countries an average of 2.6% of GDP in lost revenue across the region, and enhancing efforts to combat tax evasion by improving auditing of large taxpayers and making maximum use of exchange of information with other tax authorities on offshore profits and wealth holdings.

Even with these extra efforts, it is unlikely countries could exceed the average 2% revenue/GDP rise during 2024–2030. Considering existing efforts, by 2030 this could raise an extra $15 billion a year (1.05% of GDP). This would be enough to close the HIV and AIDS financing gap in eastern and southern Africa and protect against a development aid shock, but it would fall well short of the extra financing needed to protect against a further pandemic shock. In addition, it would provide virtually no additional funds to enhance education, health and social protection systems, which are vital in the fight against AIDS.

2. **Debt Reduction.** High debt is a concern across the region, and public debt service levels will remain high, crowding out key social spending between 2024 and 2030. The austerity path currently being followed by many countries in the region, of trying to reduce debt by cutting public spending to reduce budget deficits, has repeatedly been shown in the past to be a disastrous recipe for lower growth and heavier debt burdens. Instead, two types of measures are needed:

    a. For countries which do not have regular access to international markets, and are in debt distress or have high service (Angola, Burundi, Ethiopia, Kenya, Madagascar, Malawi, Mozambique, South Sudan, United Republic of Tanzania, Uganda, Zambia, Zimbabwe and possibly Rwanda), comprehensive debt reduction is needed, in which all creditors participate. Its aim should be to reduce debt service to no more than 15% of budget revenues, as was done under the HIPC Initiative. This would potentially free up an average of 6.5% of GDP or $41 billion a year.

    b. For countries that regularly access financial markets to finance budgets (Botswana, Eswatini, Lesotho, Namibia, and South Africa), debt reduction is not a feasible option. Instead, the international community should pursue all options to refinance their debts at lower borrowing costs, including the use of guarantees by the African Development Bank, World Bank and other development financing institutions; and the issuance of Special Drawing Rights by the IMF and their reallocation to emerging and developing economies. If such refinancing halved their interest costs, it would expand their fiscal space for HIV and AIDS and other essential social spending from 0.25% of GDP (Botswana) to 2.1% (Namibia and South Africa). In the case of South Africa alone, this would provide $9 billion a year of extra spending room.

3. **Access to adequate concessional resources.** OECD and non-OECD development partners must make more grant resources available for health and HIV response between now and 2030. However, under even the most optimistic scenario, in which development cooperation for HIV and AIDS increases by 5% annually, this would mobilize only $2.2 billion more by 2030. For there to be a step change in the global provision of concessional resources, the type last seen during 2005–2015, more robust measures such as global taxes on financial transactions, carbon emissions, transport fuels and corporate/personal wealth (as discussed at the June 2020 Paris financing summit) will need to be introduced, mobilizing revenues well into the trillions.

Urgent action is needed on all three of these fronts to rescue SDGs 3 and 3.4, and to ensure that eastern and southern Africa successfully ends AIDS as a public health threat by 2030.

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