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REFERENCE

Policy options to mitigate a drop in fiscal space for health and HIV following the COVID-19 pandemic

Case studies from the Democratic Republic of the Congo, Jamaica and Lesotho, November 2020

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Key points

To assess the impact of the COVID-19 pandemic on health and HIV expenditure, UNAIDS carried out a modelling study on fiscal space for health and HIV. From a sample of 28 countries, three countries—the Democratic Republic of the Congo, Jamaica, and Lesotho—were selected to capture health and HIV expenditure impacts across countries with especially marked differences in burdens of disease (including HIV prevalence), HIV donor dependency, level of economic development, and geographic location. While the three-country sample is too small to permit findings to be generalized to other countries, these analyses are useful for informing UNAIDS' work to identify some policy positions to minimize the COVID-19 pandemic's impact on the HIV response.

The results of the analyses show that COVID-19 has had a severe impact on GDP per capita in the three countries. Given the enormity of the economic impact, cuts in public health and HIV expenditure that are not related to COVID-19—most of them significant—can be expected compared to pre-COVID-19 spending levels.

While COVID-19 has had a demonstrable effect on fiscal space for health and HIV expenditure in each of the countries studied, the severity of the shock varies among them, with the anticipated time required for spending to recover to pre-COVID-19 levels ranging from one to five years. In the Democratic Republic of the Congo, where COVID-19 has aggravated an already challenging economic situation, health and HIV expenditure is projected to decline substantially. Decreases in health and HIV expenditure are also projected in Lesotho, where the government allocates a significant share of its budget to health and HIV. Were international donors to fail to maintain spending levels in line with historic trends in Lesotho, the risks to future health and HIV expenditure would be magnified. The COVID-19 pandemic's impact on expenditure in Jamaica is less pronounced, as the economy and the public finance system are more resilient, and only a relatively small reprioritization of public expenditure would be required to maintain historic spending levels. The government in Jamaica has already reprioritized public spending to minimize cuts for general health programmes, and it might do the same for HIV.

These diverse country cases suggest that health and HIV spending is at risk generally and can be expected to decline. Impact varies considerably between countries, however, and although the short-term impact of COVID-19 on GDP per capita is severe in all countries, there is ongoing uncertainty regarding the COVID-19 pandemic's effects on national economies over the longer term.

These analyses underscore the need for UNAIDS to closely monitor actual health and HIV expenditure and to advocate for context-appropriate fiscal policy responses. UNAIDS must further intensify its support to governments to increase the proportion of government expenditure allocated to health and HIV in order to minimize recovery time to pre-COVID-19 spending levels. This can be done through an investment case approach that documents the intrinsic value of investing in health and HIV, including that spending on health and HIV has higher returns than alternative government spending. Investment cases should also support advocacy by UNAIDS and other partners for aggressive programmes to improve health and HIV spending efficiency. In the global arena, UNAIDS should: (a) advocate for a focus on official development assistance (ODA) in countries that lack alternative fiscal response options; (b) support meaningful action for debt forgiveness for countries in debt distress; and (c) advocate that fiscal space freed up through debt forgiveness or restructuring be earmarked for social sector spending. Given the immediate economic impacts of COVID-19 in all settings, UNAIDS should back efforts by national governments and the international community to provide poorer households with unconditional cash support to enable them to cover direct and indirect costs associated with accessing health and HIV services. Given the rapid situation changes, the economic data might be different at the time of publication; however, the policy recommendations presented here remain relevant.

Scope

Although COVID-19 has had an obvious impact on national economies and households, and on the uptake of HIV and other health services, greater clarity is needed on the pandemic's effects on health and HIV expenditure over the short and medium term. Improved understanding of these effects can inform innovative, evidence-informed solutions to minimize shortfalls in health and HIV spending and accelerate the recovery of spending to pre-pandemic levels. This brief summarizes the results of a fiscal space analysis for health and HIV, comparing pre-COVID-19 health and HIV spending levels in three countries with anticipated health and HIV spending through 2025.

The Democratic Republic of the Congo, Jamaica and Lesotho were selected as country case studies because the marked variations among these countries (in HIV prevalence, HIV donor dependency, level of economic development and geographic location) help to illustrate the COVID-19 pandemic's likely short- and medium-term impact on HIV and health spending in broadly diverse settings.

Table 1.

Characteristics of case-study countries

	Income class (from the World Bank ¹)	Epidemic class (prevalence among the adult population ²)	Donor dependency class (percentage of total HIV expenditure ³)
Democratic Republic of the Congo	Low income	<=1%	High > 65%
Jamaica	Upper-middle income	>1%, <=15%	Low <= 10%
Lesotho	Lower-middle income	>15%	Medium > 10%, <= 65%

1 World Bank (2021) World Bank Country and Lending Groups. Available at: <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>

2 UNAIDS (2021) Aidsinfo: HIV prevalence – Adults (15+). Available at: <https://aidsinfo.unaids.org/>

3 UNAIDS (2021) HIV Financial Dashboard: Donor dependency. Available at: <https://hivfinancial.unaids.org/hivfinancialdashboards.html>

Methodology

To model the possible impact of the COVID-19 pandemic on available health and HIV public expenditure, we make assumptions about the size and nature of the economic shock.⁴ The pandemic's negative impact on the economic outlook in low- and middle-income countries is undeniable: the International Monetary Fund (IMF) downgraded its previous estimate of a 1% contraction to a 3% contraction in global GDP, and the World Bank predicts a 2.5% contraction (1, 2). Recognizing the uncertainty associated with an unfolding pandemic, we compared pre-COVID-19 and COVID-19 scenarios over the period 2020–2025 and examined the associated drop in projected public health and HIV expenditure.⁵

- ▶ **Pre-COVID-19 baseline scenario:** The baseline scenario draws on country-specific data and projections before the COVID-19 pandemic from the IMF and government sources for each of the three countries.
- ▶ **COVID-19 impact scenario:** The second scenario uses the most recent and publicly available global and country-specific economic forecasts (as of March 2021) from the IMF and World Bank.

In addition, we carried out a sensitivity analysis examining the impact that a decrease of 5%, 10% and 20% of ODA would have on health and HIV expenditure. We also modelled the impact that forgiveness of one third of debt stock would have on health and HIV expenditure, keeping all other policy variables constant (in other words, using a “steady state” hypotheses, which assumes no significant changes to the pre-COVID-19 policy package in the post-COVID-19 period).

Each model is informed by the country-specific economic fundamentals and the global economic forecasts that impact health and HIV funding captured in a financial programming framework. Empirical evidence shows that economic growth is by far the most important determinant of public health spending, followed by changes in total public spending and reprioritization of health spending within government budgets (3). In most countries, fiscal deficits widened in 2020 as reduced economic output led to reductions in fiscal revenue, and because emergency international grants were insufficient to accommodate the increased demands on government expenditures at a time of reduced domestic revenues. Within national budgets, health expenditure is expected to rise in the short term as a result of targeted international funding, including the flexibility offered by the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund) in the use of grants and the creation of international funding streams to facilitate COVID-19 responses. However, as many of these emergency international programmes will likely be time-limited, expectations are that health expenditure will come under substantial pressure in the coming years. With respect to HIV, early evidence suggests that funding for HIV programmes has already been disrupted.

⁴ The precise nature of these assumptions can be found in the country case-studies below.

⁵ The ability of low- and middle-income countries to achieve a genuinely “post-COVID-19” status by 2025 will depend in large measure on the ability to achieve high rates of vaccination coverage, globally and in respective countries.

The extent to which available datasets incorporate the impact of COVID-19 differs across countries. We base our model on the latest available data and information. We use data on the macro-fiscal environment in each country from the IMF October 2020 World Economic Outlook, which incorporates the macroeconomic impact from COVID-19, including 2020 fiscal responses. With respect to global health expenditure, we use the latest data from the World Health Organization (WHO). The Jamaica analysis uses publicly available budget information for the medium term from the Jamaica Ministry of Health, which takes into account the impact of COVID-19. No publicly accessible information on HIV spending for 2020 and beyond was available for the other countries. The Global Fund data for grant commitment remains largely unchanged for the medium term, although immediate changes to grants at the onset of the COVID-19 pandemic were taken into account. Any additional grants from the new Global Fund replenishment—which, at US\$ 14 billion, is US\$ 2 billion higher than the previous round—have not been factored in because detailed spending per country had not been released as of March 2021.

The precise macroeconomic impacts of COVID-19, including how they will vary among countries and over the short and long term, remain uncertain. Accurate data and information on the COVID-19 pandemic's macroeconomic effects are difficult to obtain and quickly out of date. Given the rapidly evolving understanding of these macroeconomic effects, the analyses here do not purport to generate precise results; rather, they should be understood as an opportunity to glimpse the COVID-19 pandemic's likely impact on health and HIV expenditure. To inform timely and corrective action where needed, actual health and HIV expenditure should be monitored on a regular basis.

We entered the most up-to-date country-specific data as of March 2021 into a numeric financial programming framework designed to develop a consistent approach to the different aspects of economic policy. The financial programming framework is based on a comprehensive view of the national economy, comprising four inter-dependent sectors: the real sector, which relates to productive activities of the economy; the fiscal sector, which captures government transactions; the external sector, which includes all transactions between the country in question and other countries; and the monetary sector, which includes the transactions of the banking system and of the central bank. While it is not a sector in its own right, we also provide specific attention to central government debt, as its stocks and flows are reflected in the fiscal, external and monetary sectors. This framework is a tool for ensuring consistency between different sets of assumptions about the future course of the economy. In other words, by starting with a set of assumptions about the economy (e.g., GDP growth), the framework assesses the impact of different policy options on key indicators in the four sectors of the economy in a consistent manner and allows an assessment of downstream fiscal space for health and HIV.

Country findings

Democratic Republic of the Congo

The Democratic Republic of the Congo is a low-income country, with adult HIV prevalence of about 1%. The Democratic Republic of the Congo has little resilience to shocks, faced an Ebola outbreak from 2018 to 2020, and was in a difficult economic and macro-fiscal position prior to the COVID-19 pandemic due to depressed domestic revenues. Emergency COVID-19 expenditure is covered primarily through external support, mostly under the form of credit rather than grants (US\$ 363.7 million through Rapid Credit Facility and a US\$ 47 million International Development Association grant to address COVID-19), which will worsen what was already a moderately at-risk national debt situation (4, 5). With a level of out-of-pocket expenditures at 40% of total health expenditure and low spending from the public budget (13% of total health expenditure), the financing gap for universal health coverage (UHC) was substantial even before the COVID-19 pandemic (6).⁶ The proportion of health in the national budget has ranged between 4% and 5%, far below the commitments made in the 2001 Abuja Declaration.⁷ The budget execution rate has remained low at 50–60% per year, and external funding sources make up 40% of total health expenditure (7, 8).

Donors cover 75% of HIV spending, while government sources cover only 15%, making the Democratic Republic of the Congo highly vulnerable to reductions in ODA flows in the case of economic downturns in donor countries (9). COVID-19 poses substantial risks to the country's economy and is expected to significantly depress investments in the health and HIV sectors. The Democratic Republic of the Congo has a comparatively low debt to GDP ratio (around 20%), although interest payments make up about 4% of general government expenditure (GGE). The assumption of additional debt to fight COVID-19 will increase the country's debt load and associated interest payments. Assuming that extra fiscal space from one third of debt forgiveness was allocated in accordance with historic shares of GGE for health, the Democratic Republic of the Congo would potentially have an additional US\$ 6 million for health, including US\$ 500 000 a year for HIV (equivalent to 0.3% of total HIV expenditures over the medium term). This proportion is low since donors fund the majority of the country's HIV expenditure. The figures below project total health expenditure, excluding COVID-19-related health expenditure, and are therefore comparable with pre-pandemic levels.⁸

⁶ One of the key targets for Sustainable Development Goal 3 is achievement of UHC by 2030. WHO and the World Bank are monitoring country progress towards UHC, including tracking the number and proportion of people in each country who lack access to primary health care and monitoring the gap between health expenditure and amounts needed to achieve UHC.

⁷ In 2001, members of the African Union signed the Abuja Declaration, pledging to spend at least 15% of their annual budgets to strengthen the health sector.

⁸ All projections are based on the author's own calculations.

Figure 1. Projected total health expenditure, Democratic Republic of the Congo, 2020 to 2025

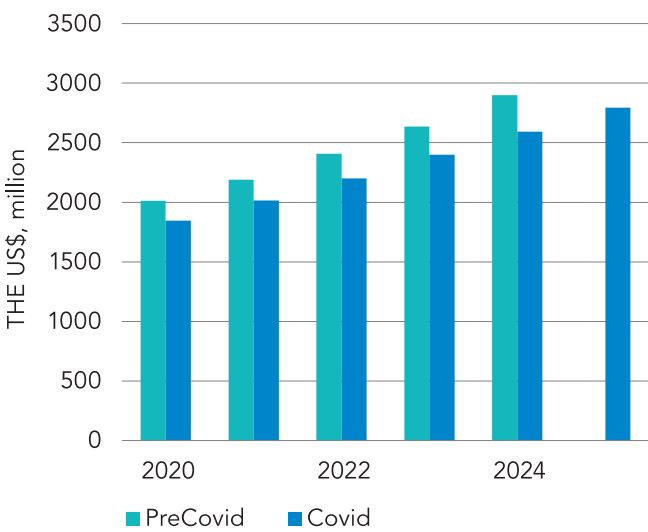


Figure 2. Projected total health expenditure per capita and government health expenditure per capita, Democratic Republic of the Congo, 2020 to 2025

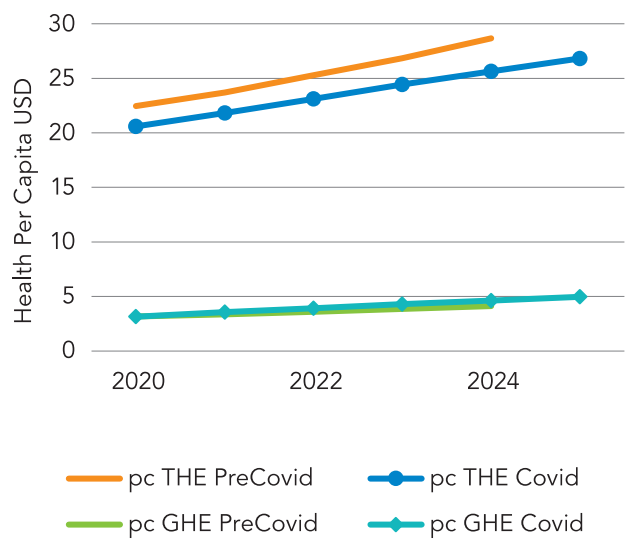


Figure 3. Projected total HIV expenditure, Democratic Republic of the Congo, 2020 to 2025

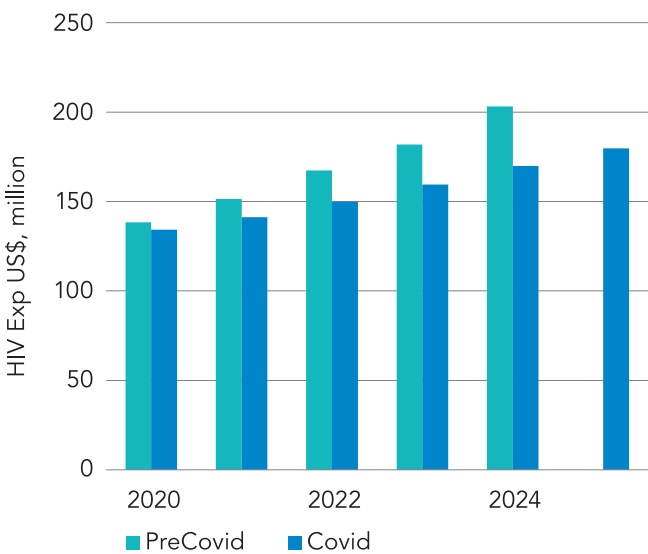
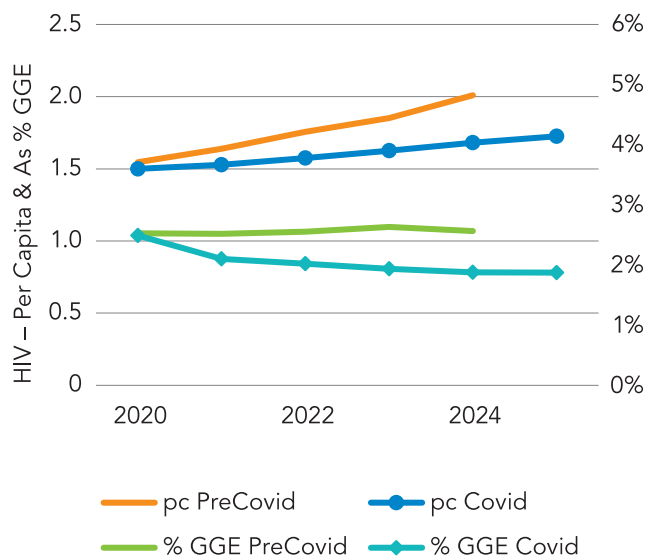


Figure 4. Projected HIV spending per capita, and HIV spending as a percentage of general government expenditure, Democratic Republic of the Congo, 2020 to 2025



Source: UNAIDS, HIV financing estimates and projections, Special Analysis 2021

Jamaica

An upper-middle-income country, Jamaica has an economy with greater built-in resistance to shocks, such as COVID-19, than the other two countries included in this analysis. Jamaica also implemented a package of policy responses to mitigate the pandemic's impact, leading to what we project will be a quick rebound for both health and HIV expenditure in the COVID-19 scenario. Total health expenditure in the COVID-19 scenario is higher in Jamaica than the pre-COVID-19 level in the new, recently published government budget, although further, unanticipated effects of the pandemic on the national economy could cause health and HIV programme financing to decline without additional policy interventions.

The ODA sensitivity analysis indicates that declining ODA will have a limited effect on health and HIV financing, although declining ODA will compound the decrease in foreign exchange reserves due to sharp drops in tourism. The reduction in foreign exchange reserves will place downward pressure on the exchange rate and reduce import capacity, which in turn could affect purchasing power for HIV commodities and have secondary impacts on the available expenditure for health and HIV. These possible indirect effects on the HIV programme are not accounted for in this work, as the possible effects of reduced foreign exchange reserves are somewhat speculative at this moment.

Jamaica has a high debt to GDP ratio—just under 100%—and has established a national goal to reduce this to 60%. Interest payments have on average amounted to 25% of GGE over the past five years. New debt taken on to fight COVID-19 has added to the country's debt burden. If one third of the debt were forgiven, debt repayments would decline and this extra fiscal space could contribute to additional HIV government funding. Assuming the debt forgiveness was allocated as per historic shares of GGE to health, this could mean an additional US\$ 37 million year for health, including an additional US\$ 500 000 a year for HIV (equivalent to 3% of total HIV expenditures over the medium term). The reason why these additional funds would constitute such a small share of total expenditures is that the share of GGE allocated to HIV is less than 0.2% in Jamaica, as half of all HIV spending is donor-funded. The figures below project total health expenditure excluding COVID-19-related health expenditure, and are therefore comparable with pre-pandemic levels.⁹

⁹ All projections are based on the author's own calculations.

Figure 5.
Projected total health expenditure, Jamaica, 2020 to 2025

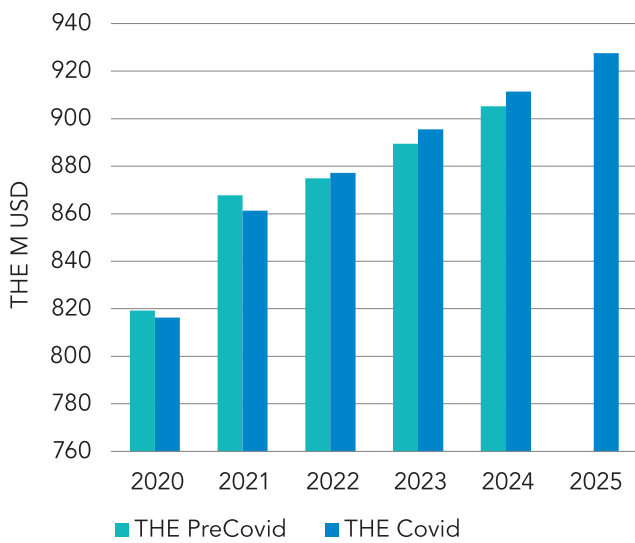


Figure 6.
Projected total health expenditure per capita and government health expenditure per capita, Jamaica, 2020 to 2025

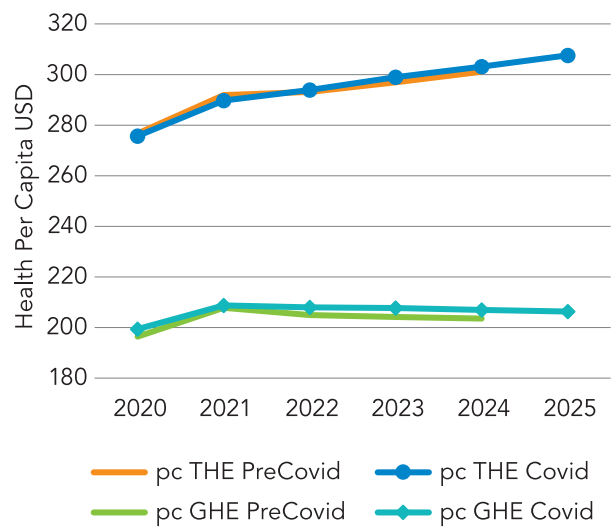


Figure 7.
Projected total HIV expenditure, Jamaica, 2020 to 2025

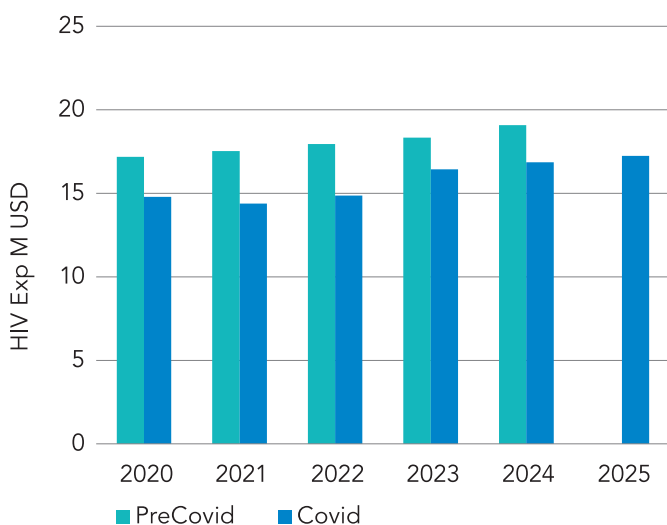
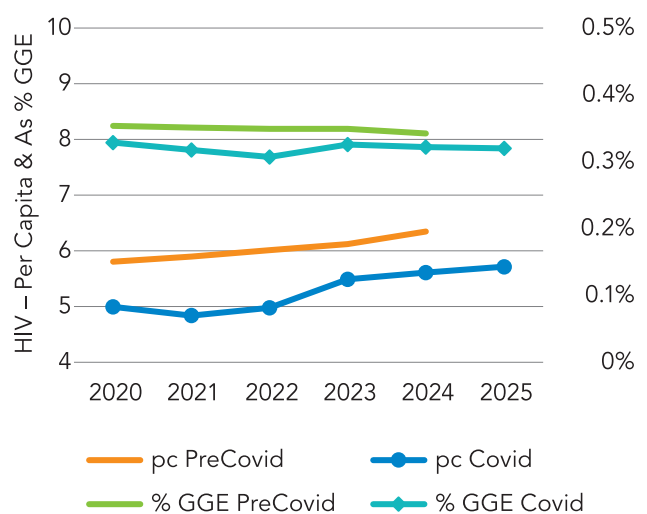


Figure 8.
Projected HIV spending per capita, and HIV spending as a percentage of general government expenditure, Jamaica, 2020 to 2025



Source: UNAIDS, HIV financing estimates and projections, Special Analysis 2021

Lesotho

Lesotho is a lower-middle-income country with a hyperendemic HIV epidemic and a heavy dependency on external donors. Given the comparative openness of Lesotho's economy to international trade, the country's economic health is more dependent on the economic growth of other countries, introducing an additional layer of uncertainty and vulnerability. For example, Lesotho's export dependency on China places Lesotho in the top 10 of sub-Saharan African countries that are vulnerable to decreased demand from China (10). Lesotho's economy is also greatly affected by economic activity in South Africa (with worker remittances from South Africa accounting for more than 20% GDP) and heavily reliant on tourism and exports of diamonds and textiles (11). The South African economic slowdown affects receipts through the Southern African Customs Union (SACU), which are a key proportion of domestic revenues in Lesotho. The public sector wage bill is high (24% of GDP), making it challenging to reduce recurrent expenditures in the short term (12).

The national government has provided substantial funding to the health sector in recent years, averaging 11% of GGE, making up more than 60% of total health expenditure (6). The primary vulnerability for health sector and HIV funding is the possibility of reductions in ODA compared to historic levels, which could create substantial financing gaps, as shown within the ODA sensitivity analysis. A further complication is that large parts of ODA are off-budget, making planning and measurement challenging. In addition, Lesotho is part of a group of countries belonging to the so-called risky middle: countries that are likely to lose substantial donor funding if and when they transition from low-income to lower-middle-income and eventually upper-middle-income countries (13). For Lesotho and other countries in the risky middle, HIV funding needs could remain unmet as critical ODA declines. The experience with COVID-19 underscores the critical need for careful planning to avoid service disruptions that arise when transitions from international to national funding are too abrupt.

Lesotho's debt to GDP ratio rose from around 40% in 2015 to 60% in 2020. Interest payments have averaged 2% of GGE in the past five years and could double over the medium term. If one third of the debt were forgiven, debt repayments would decline, and this extra fiscal space could add to current HIV government funding. Assuming the debt forgiveness were allocated as per historic shares of GGE to health, newly available resources could equal an additional US\$ 3 million per year, including US\$ 400 000 a year for HIV (equivalent to 0.4% of total HIV expenditure over the medium term). figures below project total health expenditure, excluding COVID-19-related health expenditure, and are therefore comparable with pre-pandemic levels.¹⁰

¹⁰All projections are based on the author's own calculations.

Figure 9.
Projected total health expenditure, Lesotho, 2020 to 2025

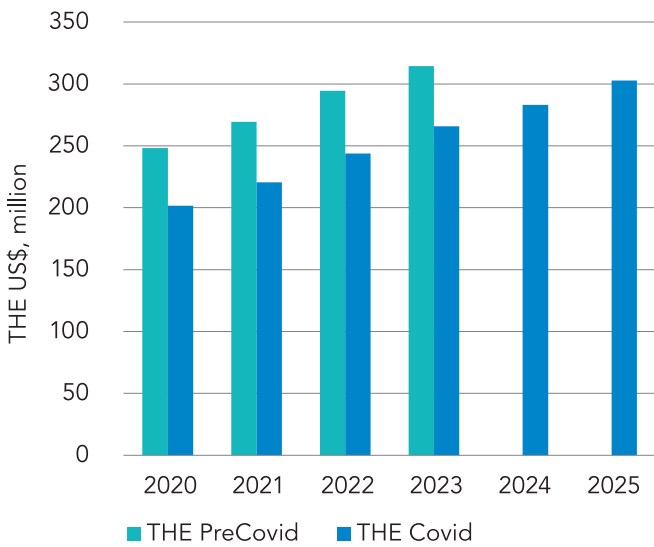


Figure 10.
Projected total health expenditure per capita and government health expenditure per capita, Lesotho, 2020 to 2025

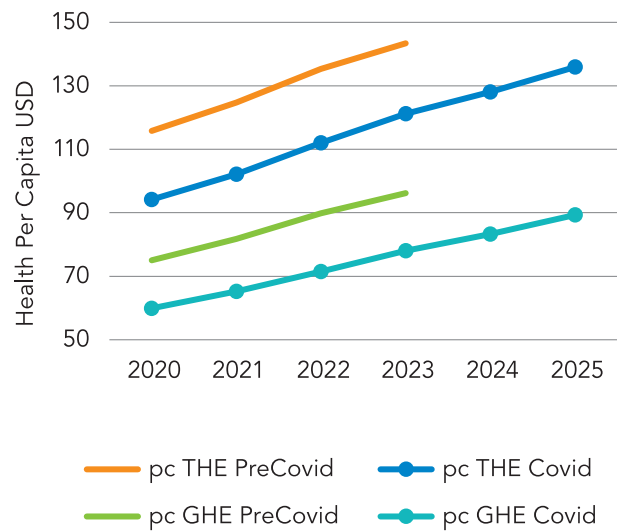


Figure 11.
Projected total HIV expenditure, Lesotho, 2020 to 2025

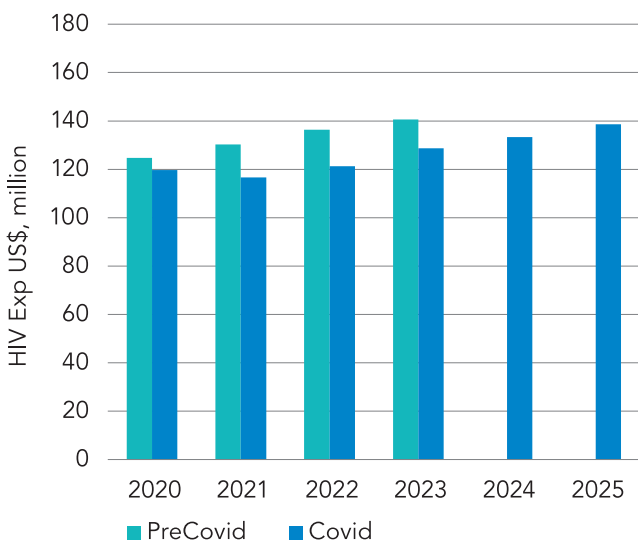
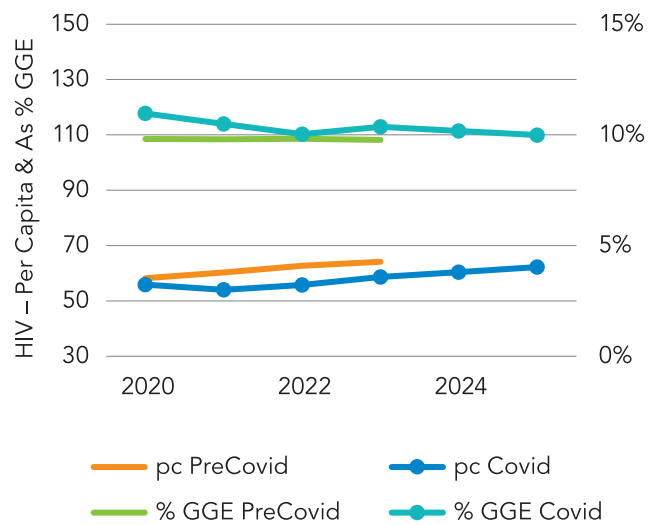


Figure 12.
Projected HIV spending per capita, and HIV spending as a percentage of general government expenditure, Lesotho, 2020 to 2025



Source: UNAIDS, HIV financing estimates and projections, Special Analysis 2021

Policy response strategies for UNAIDS

In 2021, the UNAIDS Programme Coordinating Board endorsed a new five-year strategy—The Global AIDS Strategy 2021–2026: End Inequalities, End AIDS—that aims to reduce inequalities in HIV outcomes and to get the world on track to end the AIDS epidemic as a public health threat. Financing analyses conducted as part of the development of the new Strategy indicate that additional HIV funding will be needed to achieve ambitious new targets towards ending AIDS. This three-country analysis offers important lessons to inform UNAIDS’ efforts to mobilize the new funding that will be needed for implementation of the Global AIDS Strategy 2021–2026, including as a critical first step in minimizing the impact of COVID-19 on HIV and health funding, and accelerating the recovery of such funding to pre-COVID-19 levels.

► **This analysis shows that there are substantial differences in the impacts of COVID-19 on health and HIV expenditure across the three case study countries.**

These variations, combined with the ongoing uncertainties about the effects of COVID-19 on national economies and discretionary fiscal space, underscore the need for UNAIDS to assess and monitor the impact of the pandemic at the country level in order to be in a position to help tailor country-specific fiscal policy responses. The effects of COVID-19 on health and HIV expenditure stem from a number of interlinked factors, including the pandemic’s impact on national economies and the pathways through which the economic shock impacts fiscal revenue. The ability of health and HIV expenditure to withstand and/or rapidly recover from these impacts on fiscal revenue depend on countries’ timely use of the spectrum of policy instruments at their disposal to respond to a drop in fiscal revenue, including their room to contract additional debt and the price at which it is contracted. The way in which the health system is financed also determines health expenditure resilience to COVID-19, with tax, employment and out-of-pocket funding each representing different impact pathways. While each country presents a unique picture, health and HIV expenditure of countries that had a poor economic and macro-fiscal position prior to the shock are overall at greater risk of significant decreases in HIV and health expenditure in the post-COVID-19 period. While overall health spending in many countries received a boost due to domestic and international outlays to address the COVID-19 pandemic, it is unclear how much of this increase in resources is available for non-COVID-19 spending. Overall, the heterogeneity across countries and over time, combined with the ongoing uncertainty of the unfolding impact of the pandemic on economies, implies that UNAIDS, in collaboration with partners such as the World Bank and the IMF, must assess the situation in each country separately to determine which policy response to advocate for. It also must track health and HIV expenditures over time to assess if and how this fiscal policy response should be adapted.

- ▶ **COVID-19 represents a setback with respect to the mobilization of essential resources for non-COVID-19-related health and HIV, with recovery to pre-COVID-19 spending levels projected to take one to five years, depending on the country.** To shorten the recovery period and accelerate progress towards HIV and UHC targets, organizations like UNAIDS should continue to proactively engage with governments to increase the proportion of government expenditure allocation to health and HIV. The pandemic's shock to the economy translates into a shock to health and HIV financing and expenditure, although this knock-on effect manifests itself differently in different countries, with recovery of pre-COVID-19 levels for nominal and per capita health and HIV expenditure ranging from 12 months to five years. Differences in recovery times are explained primarily by differences in the structure and resilience of national economies. Independent of the structure of the economy, countries with higher levels of economic development are generally more resilient and able to recover more quickly. Despite this, even when recovery is faster, the loss of health and HIV expenditure remains staggering, underscoring the importance of higher budget allocations to health and HIV to speed up recovery in countries that currently have low budget allocations. For instance, while Lesotho already spends high levels of its budget on health and HIV and appears poised to further increase such allocations, the Democratic Republic of the Congo should allocate substantially more of its budget to health and HIV if it hopes to shorten what could be a long recovery in health and HIV expenditure. Although its comparatively stronger economy and public finance system offers Jamaica a greater degree of resilience to COVID-19 than the other countries studied, it currently spends far less of its budget on HIV than would be justified based on its disease burden. The likelihood of further reductions in donor assistance to Jamaica as a result of its upper-middle-income status offers a compelling avenue for UNAIDS advocacy to encourage increased domestic investments in HIV.
- ▶ **UNAIDS and other stakeholders hold a strategic position to continue advocating for and support countries to put in place aggressive reform programmes to ensure that health and HIV investments are spent efficiently and effectively.** There is scope to achieve the same health and HIV outcomes with smaller budgets over the medium term (14). UNAIDS can advocate for and support countries in achieving better spending efficiency. Experience indicates that efficiency gains can be made rapidly in countries with comparatively stronger governance and higher state capabilities, such as Jamaica and Lesotho. For example, preliminary analysis seems to suggest that Jamaica and Lesotho's HIV responses are less efficient than those of their peers. If confirmed by more detailed analysis, this suggests that a sustained focus on efficiency savings would ultimately allow these countries to achieve the same results with less money.

- ▶ **In the global arena, ODA for health and HIV should be maintained at current levels or increased in order to target ODA for countries that have the least capacity to mobilize resources from other sources, and to support policies that will speed up economic recovery globally, such as the People’s Vaccine Initiative.** For some countries, ODA is the only lifeline for protecting health and HIV expenditure levels. This is the case for the Democratic Republic of the Congo: while it should increase the share of its budget allocated to health and HIV, the extremely challenging economic environment in which the Democratic Republic of the Congo operates means that ODA is likely to be the only way to mobilize the magnitude of resources needed to close health and HIV financing gaps. If economic growth remains suppressed for a period longer than currently anticipated, ODA would also be the only remaining strategy to maintain current health and HIV expenditure levels for countries such as Lesotho. This implies that there is a role for UNAIDS to monitor the impact of COVID-19 on the economy and public finance system of each of these countries over time. A heavy reliance on ODA as the primary means of maintaining health and HIV expenditure means that drops in ODA are rapidly translated into declines in health and HIV expenditure. Carrying out a sensitivity analysis across the three countries, we find that a 5% drop in ODA is associated with a maximum drop of 2% in total health expenditure and of 4% in total HIV expenditure; a 20% drop in ODA is associated with a maximum decrease of 7% in total health expenditure and a 15% reduction in total HIV expenditure.
- ▶ **The growing calls for debt forgiveness or debt restructuring for countries in debt distress should be supported; UNAIDS can continue to back this initiative as it could help countries protect health and HIV expenditure levels.** Much of the immediate financial assistance for COVID-19 this year from the IMF and World Bank has been in the form of credit rather than grants. Repayments will start in the next couple of years and will reduce fiscal space for health and HIV investments. These trade-offs have given rise to rapidly growing calls for a debt forgiveness initiative. Historical initiatives such as the Multilateral Debt Relief Initiative (MDRI), which complemented the Heavily Indebted Poor Countries Initiative (HIPC), provided US\$ 99 billion in debt relief, reducing debts on average by around two thirds and freeing up US\$ 1 billion a year for strategic investments in poverty reduction. Carrying out a similar simulation for the three country case studies, we find that forgiveness of one third of debt, keeping all other variables constant, generates between US\$ 500 000 and US\$ 45 million per year in health expenditure, and between US\$ 1 million and US\$ 5 million in HIV expenditure, assuming that freed-up fiscal space is allocated across all government departments according to historic patterns. Debt forgiveness would have different effects across

countries: for instance, debt forgiveness would effectively enable Lesotho to close the health and HIV funding gaps by 2023 and 2024, respectively, while the effect on health and HIV expenditure in the Democratic Republic of the Congo would be much smaller. Our simulations keep all other variables constant, whereas optimal strategic and development-friendly debt forgiveness should be associated with a request to protect human development spending; as a result, our estimates likely underestimate the effect that debt forgiveness would have on health and HIV expenditure. Moreover, as none of our case study countries are in debt distress, one should assume that debt forgiveness would have an even greater effect in expanding fiscal space for health and HIV investments in countries that are experiencing debt crises.

- ▶ **The poor and vulnerable households must retain access to health and HIV services.** COVID-19 is expected to significantly increase poverty in low- and middle-income countries. As governments move to decrease public expenditure in order to rebalance the public budget, there is a real risk that health and HIV service costs that are currently borne by governments will be off-loaded to households, that subsidies will be reduced and that new services will not be included in health benefit packages. The greatest burden of austerity policies will inevitably be shouldered by poorer households, increasing inequalities in health and HIV service access and outcomes. Such policies would not only affect households who were poor before the pandemic, but also those who will have fallen into poverty because of COVID-19. In addition to advocating for increased allocations to health and HIV to avoid such punishing cutbacks, UNAIDS should support cash transfer programmes for poor households to help cover indirect and direct costs associated health and HIV services.

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