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Oral Abstract Session

MOAE02 - Global Monies: International Assistance and Funding Mechanisms

MOAE0206 - Fiscal space for health expenditure in Mozambique: blocking effectiveness of international funds through budget support

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Issues: HIV/AIDS compounds the health workforce gap in Mozambique. Mozambique receives much donor aid, including for health. General or sector-specific budget support is currently the only possibility to improve salaries or recruit additional MoH-staff with international funding. However, fiscal ceilings limit funding of these recurrent costs.

Description: Case study on health spending and wage bill caps as obstacle to use international funding for health and health workforce boosting in particular. Interviews were conducted with all major stakeholders in Mozambique. New findings: Mozambique applies the 'ceiling on primary deficit', which reflects the estimated 'capacity of Mozambique to accommodate expenditures financed with aid within the domestic budget constraint in a reasonable period of time'. For IMF and others foreign assistance is at best temporary, thus limiting recurrent expenditure to the domestic budget, excluding donor grants. This de facto acts as an international aid cap for recurrent expenditure. International funding in excess of this ceiling is rather diverted towards international reserves or public savings. During 2004-2006, reserves grew with 315 million US\$, equivalent to 91% of the increase in international funds. In 2006 for each additional aid dollar, 50 cents were programmed to increase international reserves. Most donors are unaware of this.

Lessons learned: All international funding through budget support will be affected by this 'IMF tax'. Specific 'common pool funds' are somewhat ring-fenced and project aid is not covered by the cap, thus could increase. These limitations basically have the same effect on any budget support as explicit ceilings. International aid will be accepted, but diverted to international reserves.

Next steps: These mechanisms de facto cap budget support, while project aid is not affected. Donors should adapt funding channels, in order to spend international aid for health more effectively than through comprehensive budget support grants with the current caps. Greater transparency on these matters is urgently needed.

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