



**The Long Term Financing Implications of the HIV/AIDS Pandemic:  
Building the International Effort to Deliver Resources**

# **FINANCING THE RESPONSE TO HIV/AIDS: FUTURE OPTIONS AND INNOVATIONS**

prepared by

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## 1. Introduction

There is a great paradox at the heart of the discussion about funding programmes for HIV/AIDS. On the one hand, international aid policy has converged around a set of ideas broadly described as 'harmonisation and alignment', in which country policies and procedures dominate and in which the best aid is provided in the form of budget support to governments, at least in those countries with minimum financial management standards. On the other hand, instruments such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, which are topic-specific and vertical, disbursed independently of other aid and in project format, break nearly all the rules. But – and here is the paradox – the Global Fund seems to work. It was set up quickly. It has been successful in raising money, nearly \$US 5 billion so far. It has made disbursements to 93 countries. And its programmes have been evaluated as successful. What does this tell us? That the conventional wisdom about aid is wrong? That the Global Fund does not 'work' as well as its supporters claim? That there is room for two models to coexist?

The answers matter because there can be no excuse for not managing aid as well as possible – and that means aid for HIV/AIDS programmes as well as for everything else. They also matter because we are looking at possible large increases in aid over the coming years. The key general question facing aid planners is this: do we have a system which is suitable for global aid to rise from around \$US 50bn a year at the beginning of the century to perhaps \$US 120bn by the end of its first decade? And where does funding for HIV/AIDS interventions fit in this new construction?

We need to start with the overall aid picture, and 2005 as our 'year of destiny' in international development. We do this in Section 2. We then need to examine the logic of the new paradigm of harmonisation and alignment (Section 3) and the way in which HIV/AIDS funding does or does not fit in (Section 4). Having cleared the decks, we can then look at how to achieve greater harmonization between HIV/AIDS and other funding. We propose six principles for future action.

## **2. The international political context in 2005: the year of destiny?**

During the first six months of 2005, the international agenda has seen repeated calls to address the problem of global poverty, and to take concrete actions to tackle the specific problems of the African continent. In particular, the UK Government has put Africa at the top of the agenda for the July G8 Summit in Gleneagles, and has been very active in promoting a 'new Marshall Plan for Africa', which includes large increases in Official Development Assistance (ODA), additional debt relief and increased access to rich-country markets for products from Least Developed Countries, of which the majority are on the African continent.

These initiatives stem from a wider international push to deliver on the Millennium Development Goals agreed by the UN General Assembly in 2000, and which according to recent data released by the UN will not be met in a large number of countries if present efforts are not considerably expanded. A number of high-profile reports, from the UN Millennium Project to the Commission for Africa, have provided the backdrop and the intellectual underpinning for current efforts and debates on the need to substantially increase poverty reduction efforts.

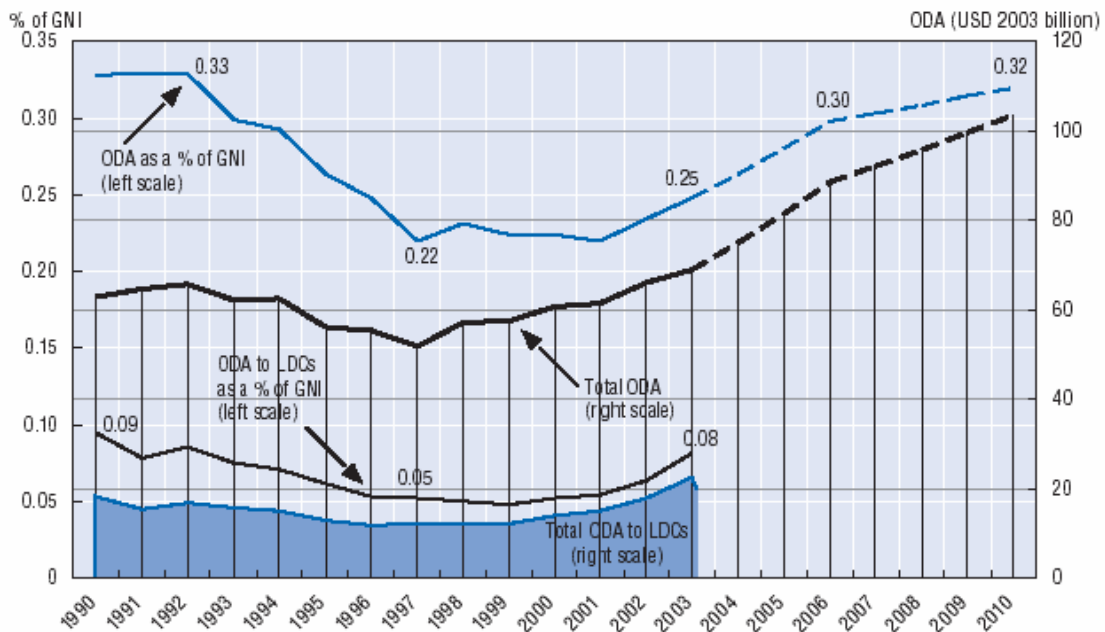
More in particular, the Millennium Project report (UNMP 2005), under the guidance of Prof. Jeffrey Sachs, argued that substantial additional investment, to be mostly financed through international assistance, is required in order to assist poor countries and their governments to break out of the 'poverty trap' in which they find themselves, due to lack of basic infrastructure, human capital and efficient administration. A predominantly subsistence-focused economy generates low savings, which lead to low tax revenues and lack of adequate public investment. Lack of infrastructure and political instability keep foreign investors away, and drive the best qualified individuals to seek better opportunities abroad. Rapid population growth puts pressure on agricultural land, leading to environmental degradation. These are some of the vicious circles described in the Sachs Report. To break these traps, argues the Report, what is needed is a big push to end the downward spiral: 'basic investments between now and 2015 in public administration, human capital (nutrition, health, education) and key infrastructure (roads, electricity, ports, water and sanitation, accessible land for affordable housing, environmental management)'. Well-governed countries should receive 'fast-track' status, and a series of 'quick wins' are identified to bring about short-term impact, such as the provision of impregnated mosquito nets to all people, in particular children, living in malaria-infested areas. HIV/AIDS features prominently in the Report, focusing on the need to build improved health systems that can deliver expanded anti-retroviral treatment. The 3-by-5 initiative to bring anti-retrovirals to 3 million people by 2005 is included in the list of 'quick wins'.

The report drafted by the Commission for Africa (Commission for Africa 2005), and published last March, argues along somewhat similar lines, outlining a new compact with Africa whereby additional resources will be made available by development partners while African countries commit to improving their governance standards and focus their efforts on poverty reduction. Again, the idea is to address the interlocking problems that the African continent faces by promoting a big push on many fronts, but with a deeper focus on governance and capacity building, on infrastructure and on building human capital. Of the annual additional \$25 billion in ODA that the Commission calls for before 2010, half should be spent on health, education and HIV/AIDS, while spending on infrastructure should be doubled. Given its African focus, the emphasis on the gravity of the HIV/AIDS crisis is very strong in the Report. The social, economic and political impact of the pandemic are covered in detail. The response, says the Report, lies in a more coordinated effort, whereby 'the international community must reach a global agreement in 2005 to harmonise the current disparate response to HIV and AIDS'. In particular, beyond the 'Three-Ones' approach promoted by UNAIDS at country level (one coordinating agency, one strategy and one monitoring framework), the Report suggests that a single pooled fund should be created in each country. We will come back to this suggestion later on.

Finally, another important document that has seen the light recently is the UN Secretary General's statement in preparation for the September Summit to review progress since the Millennium Declaration, 'In larger freedom' (UN 2005). Outlining the steps towards an international system that can guarantee freedom from want, freedom from fear and freedom to live in dignity for all, Kofi Annan calls for many of the recommendations made in the Millennium Project Report to be implemented, for the full funding of the Global Fund to fight AIDS, Tuberculosis and Malaria, and for an expanded comprehensive strategy for the prevention and treatment of HIV/AIDS.

The G8 meeting in July and the UN Summit in September are the two key events where the recommendations of the three reports will have to be considered in detail, and where their plausibility and feasibility will be put to the test. Only then will it become clear whether 2005 will indeed be the 'year of destiny', to be remembered as the time when promises were kept, and when the international community delivered on ambitious plans to tackle global poverty and the scourge of HIV/AIDS. Indications so far, however, only allow for limited optimism. As shown in the figure below, the declining trend of the 1990s has been reversed, and aid flows have started increasing again.

Figure 4.1. DAC members' ODA: 1990-2003 and simulations to 2006 and 2010



Note: LDCs represent the 50 countries classified by the UN as Least Developed Countries.

Source: OECD (2005)

Some pledges to double ODA, and reach the 0.7% of national income that was agreed many years ago as the benchmark, have been forthcoming. EU Ministers at the end of May have set a timetable that will allow the EU as a whole to increase its aid to 0.51% by 2010, and to 0.7% by 2015. However, a number of countries (including Germany, Italy and Portugal) have already indicated that domestic budget pressures may prevent them from delivering on this commitment. Japan made a limited commitment to doubling aid to Africa. The United States have been reluctant to commit to anything beyond their current aid levels, emphasising the increasing role that the Millennium Challenge Account will play in providing additional financing to countries that satisfy a number of minimum criteria related to political and economic governance standards, and the substantial financing already committed for HIV/AIDS under PEPFAR. The UK proposal to establish an International Finance Facility (IFF) to front-load aid funds by borrowing them on the capital markets and guarantee them

against future commitments has received lukewarm support from a limited number of countries. Other proposals are being discussed but without much concrete follow-up (see Box 1).

### **Box 1. Sources of Additional Development Financing**

Apart from ODA provided by donor countries, recent years have seen a number of other proposals being formulated to find alternative sources of financing for development interventions targeted at reaching the MDGs. Two of the most prominent ones are described below.

#### *The International Finance Facility (IFF)*

The UK Government has proposed a mechanism that would allow for the front-loading of aid resources. The IFF would issue bonds on the international financial markets, backed by pledges by participating governments. Its fundamental aim is to provide increased, predictable and stable flows of resources that would not be dependent on the time schedule of donors' budgetary contributions. Its main drawback is its time-bound nature, and the fact that after 2015 much ODA would have to be devoted to IFF repayments. It has been estimated that the IFF could achieve a flow of US\$ 50 billion during the years between 2010-2015, which are crucial for the MDGs. While some other G8 countries have supported the initiative, it is unlikely to be implemented full scale in the near future. However, a smaller initiative related to immunisation is being designed, which could showcase the feasibility of this approach. The IFF for Immunisation (IFFIm) will bring forward donor government commitments to provide urgently needed funding for vaccine and immunisation, in collaboration with the Global Alliance for Vaccines and Immunisation (GAVI). To date, the UK, France and Sweden have committed to participate in the IFFIm, with support from Germany and Italy as well.

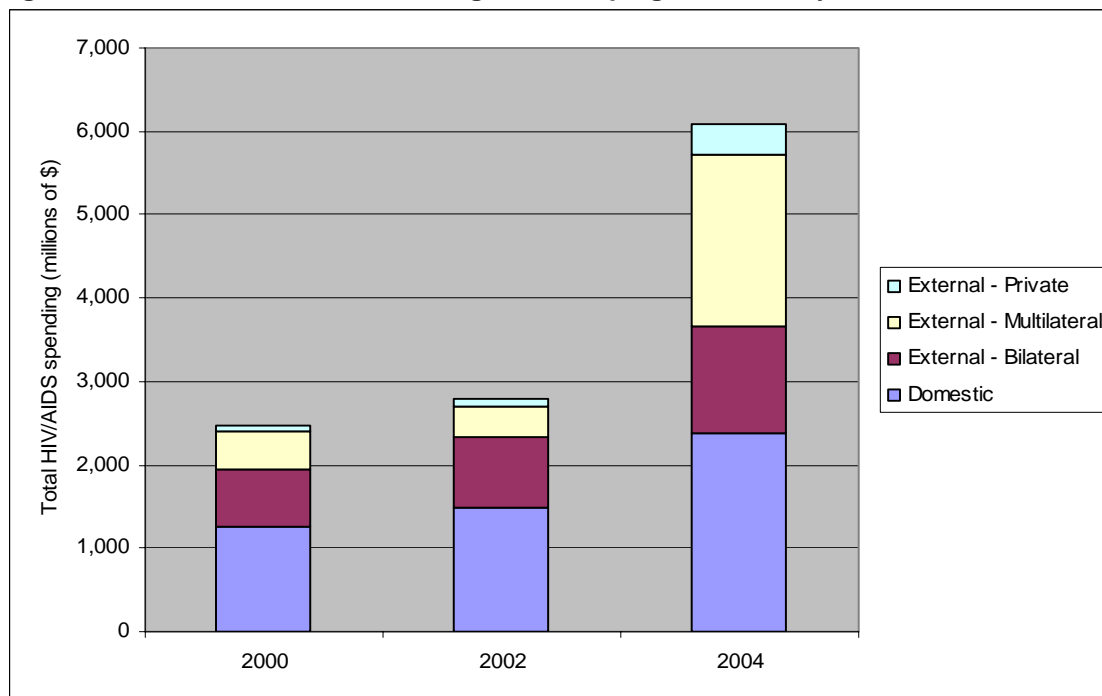
#### *International Taxation Measures*

In 2004, the Presidents of France, Brazil, Chile and Spain launched an initiative to look at innovative ways of financing development, including international taxation. This initiative built on the so-called Landau Report, drafted by a group of experts set up by President Chirac of France. The proposals include taxation on international currency transactions (also known as 'Tobin Tax'), on environmental pollutants and international travel, and on arms trade, along with measures such as the issuing of new Special Drawing Rights, or the stimulation of private flows such as remittances and philanthropy. Some of these proposals would require major and comprehensive international agreements, but have the potential of creating sizable and reliable sources of long-term financing. Some others can be piloted on a voluntary basis. The Governments of France and Germany have recently launched a proposal to implement a voluntary levy on air tickets, which could raise as much as US\$ 10 billion a year.

ODA is therefore likely to increase, albeit more slowly than foreseen. Moreover, a look at recent ODA trends highlights a few interesting points. ODA to developing countries has increased to \$78.6 billion in 2004, its highest level ever, representing a 4.6% rise in real terms from 2003, and following a 4.3% increase from 2002 to 2003. The total, however, only represents 0.25% of the combined national income of DAC member countries, the same level as in 2003. Of these recent increases, the components of ODA that have taken the largest share have been technical cooperation, debt relief and aid to Afghanistan and Iraq. In all three cases, it can be argued that their contribution to poverty reduction is fairly limited. For technical cooperation, because it mostly pays for expensive expatriate technical assistants. For debt relief, because it mostly represents a one-off write off of old, unrepayable debts, which does not necessarily make new resources available to the benefiting country. Aid to Afghanistan and Iraq is clearly motivated by the 'war on terror', and has little to do with poverty reduction and achievement of the MDGs. For 2005, the DAC already warned that aid statistics are likely to be heavily skewed by debt relief to Iraq, which could amount to as much as \$30 billion, or almost half of existing aid flows. It is important, therefore, to keep looking beyond numbers in the coming years, making sure that increased aid volumes are concentrated in the areas where they are most needed, and where they are likely to make most difference to poor people's lives.

This is true for HIV/AIDS funding as well, which has been increasing substantially over the past years, as shown in the figure below. Some of the dilemmas that planners will increasingly face relate to choices about how best to spend increasing resources. Should more resources be spent on prevention or on treatment? Should the right to treatment seen as a form of humanitarian assistance override the priorities set by sovereign governments? Should tying funding to specific supply sources, such as in PEPFAR, be permitted? These are some of the hard questions that the HIV/AIDS community will have to find answers for over the coming years.

**Figure 1. Trends in HIV/AIDS financing to developing countries by source**



Source: Lewis (2005)

The issue of front-loading also raises important questions in relation to HIV/AIDS financing. In the proposal for an IFFIm for vaccines for childhood diseases, frontloading comes from two structural effects: bringing down vaccine unit prices immediately by developing a much larger contingent market for the manufacturers; and achieving vaccination coverage levels that become self-sustaining in terms of the affected population. Absent such cost structure changes and externalities of a 'big push', there is no good case for IFF frontloading, unless saving a life today is inherently considered of higher value than saving one tomorrow. If the same kind of reasoning is applied to HIV/AIDS, expenditure for prevention would clearly take precedence. The case for applying IFF-type mechanisms for treatment is less clear, as the cost burden is very long-term and cumulative. However, it could be argued that even if the front-loading argument is not ideally suited to treatment, the long-term, predictable nature of IFF funding is, especially when compared to the short-term and volatile nature of regular aid commitments by donors, which poses a moral as well as financial dilemma for HIV/AIDS financing.

### 3. An emerging new aid paradigm: principles and characteristics

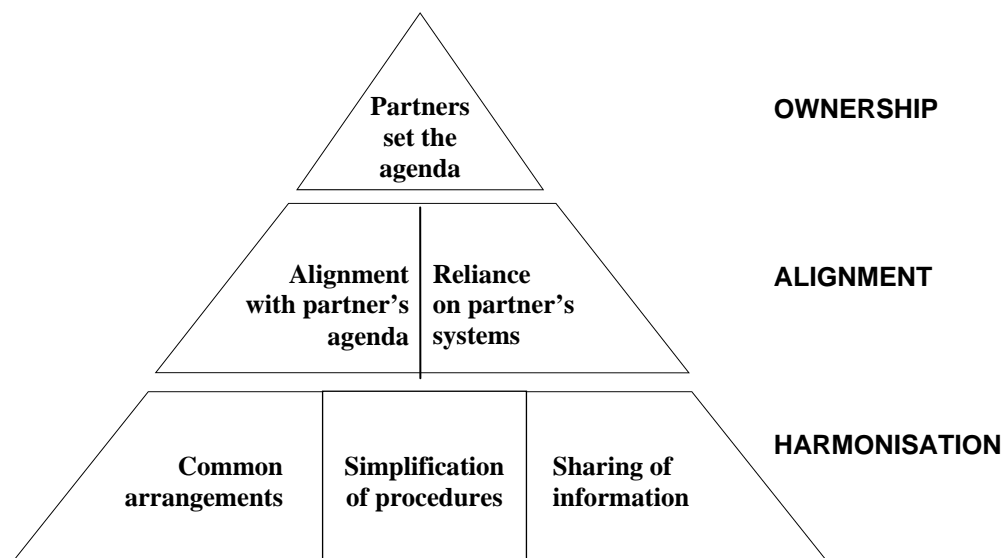
The past few years have seen significant changes in thinking and policy regarding aid effectiveness and aid modalities. The 1980s and the first half of the 1990s were characterised by structural adjustment policies aimed at reducing the role of the state and creating a market-friendly environment where investment could generate growth. Bilateral support was mainly delivered through project assistance. The failure of structural adjustment interventions in generating growth and well-functioning markets, the reconsideration of the role of the state in promoting development, and the perception of the fragmentation, lack of sustainability and ownership of aid-financed interventions brought about new ways of thinking. The new 'seven habits of effective aid' (Rogerson and de Renzio 2005) can be summarised as follows:

- a) Aligning financing on partner country priorities, in the form of national development strategies or Poverty Reduction Strategy Papers (PRSPs);
- b) Improving aid predictability, by programming aid over a multi-year framework, aligned with national budgeting and programming cycles;
- c) Relying on country systems, especially in the areas of public financial management, procurement and monitoring and evaluation, where such systems are deemed acceptable;
- d) Increasing donor complementarity, avoiding overlap and fragmentation, minimising the transaction costs of aid to recipients;
- e) Intensifying and incentivising joint action, through sharing information, simplifying procedures and carrying out joint analysis;
- f) Ensuring mutual accountability between donors and partner countries, finding mechanisms for keeping donors accountable for their performance and increasing downward accountability to citizens;
- g) Strengthening systemic capacity by providing coordinated support to institutional development, with the national government in the lead.

These new principles have emerged in recent years mostly in the context of the OECD/DAC, which has summarised them in the pyramid in Figure 1 below. The combined concepts of *harmonisation*, *alignment* and *ownership* have been enshrined in the Paris Declaration on Aid Effectiveness, which was endorsed by all DAC member countries plus a selection of partner governments in March 2005, and which will form the backbone of a series of indicators and targets to be agreed before the UN Summit in September, with a view to inducing changes in the functioning of the aid system which could bring about enhanced aid effectiveness.



**Figure 2. The 'new aid paradigm' pyramid**



Source: OECD/DAC (2005)

The new aid paradigm stresses the need to move to aid modalities that promote harmonisation, alignment and ownership. The response has been a gradual shift away from project assistance towards so called programme-based approaches, which include sector and general budget support. Programme-Based Approaches (PBAs) have been defined as 'a way of engaging in development cooperation based on the principle of coordinated support for a locally owned programme of development, such as a national poverty reduction strategy, a sector programme, a thematic programme or a programme of a specific organisation' (Lavergne and Alba, 2003). Their main features are:

- a) Leadership by the host country or organisation;
- b) A single comprehensive programme and budget framework;
- c) A formalised process for donor coordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement;
- d) Efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation.

In some countries, especially in Sub-Saharan Africa, the drive to shift towards programme approaches has been very strong, and has led to substantial changes in the local aid landscape. However, in other countries where government leadership has been weak, or where the quality of government systems are deemed insufficient, such as in failed states or conflict-ridden countries, such shift is still far from evident. Moreover, some donors, most notably the US and Japan, have been reluctant to engage with the harmonisation and alignment agenda, excluding a large share of aid resources at country level.

## 4. Some existing contradictions in the aid system (with a specific focus on HIV/AIDS)

### 4.1 Wider architecture issues: fragmentation and multiple objectives

The world of international development assistance is a highly fragmented one. Since it came into existence about sixty years ago, it has expanded continuously, with a constant stream of new actors appearing on the stage, and very few fading into oblivion. The latest newcomers include the Millennium Challenge Corporation (MCC), the Global Fund, and the still unborn but much talked about International Finance Facility (IFF). This multiplicity of agencies, each striving to demonstrate their unique relevance and impact is compounded by a multiplicity of underlying motives. A poverty reduction agenda as defined by achievement of the Millennium Development Goals is but one of many foreign assistance priorities, which include security concerns linked to the 'war on terror', geo-strategic considerations, self-interested economic and trade linkages, and other headline issues for western public opinion, such as climate change, democracy and gender equality.

The lack of a clear regulatory environment or a market mechanism to force a more rational 'division of labour' among the various agencies involved generates a number of inefficiencies. These range from lack of coordination to very high transactions costs and stark inequalities between 'donor darlings' and 'donor orphans' (see below), often unrelated to the recipient country's performance in poverty reduction terms. A quick glance at the existing division of labour in the aid system summarised in the table below, shows how little specialisation exists. Most agencies, bi- or multi-lateral, grants or loans-based, global or regional in coverage, are engaged in similar areas, with all the inefficiencies that this can provoke.

**Table 1. Existing Division of Roles in the Aid System**

| Type of assistance<br>Donor | Special Purpose Funds |                      |                      |                | Projects & Programmes |                |                |
|-----------------------------|-----------------------|----------------------|----------------------|----------------|-----------------------|----------------|----------------|
|                             | Humanit Assistance    | Emergency & Reconstr | Technical Assistance | Debt Relief    | Project Finance       | Sector Support | Budget Support |
| <b>Multilateral</b>         |                       |                      |                      |                |                       |                |                |
| UN                          | ✓                     | ✓                    | ✓                    | -              | ✓                     | ✓ <sup>2</sup> | -              |
| IDA                         | -                     | ✓                    | ✓                    | - <sup>1</sup> | ✓                     | ✓              | ✓              |
| RDBs                        | -                     | ✓                    | ✓                    | ✓              | ✓                     | ✓              | ✓              |
| EC                          | ✓                     | ✓                    | ✓                    | ✓              | ✓                     | ✓              | ✓              |
| <b>Bilateral</b>            |                       |                      |                      |                |                       |                |                |
| DAC members                 | ✓                     | ✓                    | ✓                    | ✓              | ✓                     | ✓              | ✓              |

<sup>1</sup> No direct funding, but assistance in organization; <sup>2</sup> Limited support  
Source: Rogerson and de Renzio (2005)

The problem of fragmentation is very evident in support for HIV/AIDS as well. Both at the global and at the country level a plethora of actors are active (UNAIDS 2005). Amongst them, bilateral donors compete with multilateral organisations (e.g. the World Bank's MAP and regional programmes), global funds and initiatives (such as GFATM and PEPFAR), NGOs, private foundations and domestically-financed activities. Are so many actors needed? Can a more rational structure not be designed, where the interventions of different actors are complementary rather than overlapping?

### 4.2 Lack of downward accountability

Despite the emerging rhetoric of ownership and partnership, the aid system is not based on genuine mutual accountability. Recipient governments are responsible to donors for the funds they receive, but in return donors are not held accountable for the way in which they behave. Recipient governments are seldom involved in high-level decisions about resource allocation and programme design. There are few mechanisms at national and international level for dialogue on reciprocal commitments, for monitoring

donor behaviour, and for independent arbitration. This has serious consequences, such as the unpredictability of aid flows, whereby donors can fail to deliver on their pledges and commitments without facing any sanctions, while seriously affecting programme implementation at country level. It also distorts incentive systems away from a focus on sustainability and local relevance.

These contradictions hold for the case of aid for HIV/AIDS programmes as well. In most cases, recipient governments do not have much of a voice in high-level decisions about funding and resource allocation. The only exception is the Global Fund, whose board structure includes representatives from donor and recipient governments, northern and southern civil society organisations, the private sector and communities affected by the disease. Otherwise ministries of health, which are often responsible for HIV/AIDS-related activities, often find themselves incapable of ensuring that local priorities and perceptions are taken into account, and that different donors stick to their promises.

### **4.3 Vertical vs. horizontal approaches**

The new aid paradigm focuses on the importance of promoting approaches which follow country policies and use country systems. The main argument is that this is the only way both to ensure ownership and sustainability through long-term capacity and institution building, and to avoid wastage through duplication of efforts and creation of parallel systems for implementation. As a result of this, many donors have been making concrete efforts at the country level to align their programmes and projects to local planning and budgeting cycles, relying where feasible on local systems and procedures, mostly with regard to financial management. The creation of special-purpose mechanisms such as the Global Fund has been quite disruptive of this process, replacing horizontal, comprehensive programming with vertical priorities focused on very specific issues (such as HIV/AIDS) designed to follow standardised global rules and procedures, therefore by-passing local processes. This undermines current efforts to promote a more integrated approach. Moreover, in many cases the large scale of funding made available for the financing of HIV/AIDS programmes dwarves overall health budgets and creates 'islands of prosperity' which are divorced from the health system in general. In the words of Maureen Lewis (2005), 'vertical programmes, while easier for donors to manage and monitor, are at odds with efforts to build sound institutions, the cornerstones of development'.

### **4.4 Donor 'darlings' and 'orphans'**

Another contradictory consequence of the new aid paradigm stems from the focus on what has been termed the 'selectivity' argument. In the late 1990s, the perceived failure of traditional conditionalities attached to structural adjustment programmes led the World Bank to re-assess the way in which it allocated resources across recipient countries. Research findings showed that aid was more effective in countries characterised by good governance and better-quality institutions. Performance-based allocation criteria were therefore introduced, in the attempt to re-direct scarce aid resources to those countries that could utilise them more effectively to reduce poverty. While there is little doubt about the soundness of such criteria, one of the unexpected consequences has been that of focusing donor attention to those few countries that are deemed as 'trustworthy' by the international community, creating a group of 'donor darlings' where virtually all donors are present (magnifying the fragmentation problems highlighted above). On the other hand, conflict-ridden and badly governed countries (otherwise known as 'fragile states' or 'difficult partners') have become 'donor orphans' where donors are not willing to engage much beyond humanitarian assistance and NGO support.

Funding for HIV/AIDS follows similar patterns, even though for different reasons. The alignment of allocations and HIV prevalence rates have resulted in 72% of the available funding being concentrated on only 25 countries, mostly those highly affected by the pandemic in Sub-Saharan Africa and the Caribbean (Lewis 2005). In the better performing of these countries, concentration of funds is beginning to overwhelm health budgets, as discussed in the section below. In difficult environments with incapable

governments, scarce international assistance makes it even more difficult to reach the HIV/AIDS-affected population, and more difficult for local agents to gain access to global funding opportunities.

#### **4.5 Absorptive capacity constraints**

In those countries receiving substantial amounts of HIV/AIDS funding, there are additional questions regarding their capacity to effectively absorb additional resources. Recent debates on scaling up aid have focused on some of the potential problems that could be caused by a sudden and large increase in foreign flows to poor countries. On the macroeconomic side, aid inflows in the form of foreign currency can provoke a 'Dutch disease' effect, causing an appreciation of the exchange rate and therefore harming the export sector. They can also cause labour market pressures, by increasing demand for skilled labour and driving up wages. Institutional capacity and governance problems represent another constraint to the effective absorption of substantial additional funds, increasing the likelihood of wastage and leakage. High (and increasing) levels of aid dependency can also provide negative incentives for much needed reforms, and shift government accountability from domestic to international actors. Finally, implementation of successful HIV/AIDS programmes depends crucially on a resource which is scarce and heavily affected by AIDS mortality itself. In many countries, teachers and health workers are dying as a consequence of AIDS in numbers that outstrip the capacity to train new ones. Moreover, lack of adequate infrastructure and equipment prevents access to goods and services and a more efficient transformation of public spending into improvements in the standard of living. Large increases in aid can address some of these constraints, but potential falls in the productivity of public expenditure should not be overlooked, as unit costs of inputs and staff may rise, technical efficiency may fall and intended beneficiaries may be difficult to reach.

It is important to stress, however, that there are some areas where increased funding could be of much benefit without necessarily running into absorptive capacity constraints. One example would be increasing global funding (also through front-loading, such as with the IFF for Immunisation) for the development and production of vaccines and treatment drugs. Guaranteed additional financing could provide important incentives for the private sector to engage in the research and development necessary for developing new and more effective drugs and vaccines for some of the diseases, including HIV/AIDS, which still provoke numerous deaths. The availability of guaranteed long-term financing could also contribute to bringing down the cost of existing drugs. Moreover, donor support for importing drugs in poor countries would circumvent the Dutch disease problem, as foreign currency would not be spent in the country, and therefore would not enter the economy.

## **5. Basic propositions for improving the system for financing and implementation of HIV/AIDS programmes**

### **5.1 Share the cake: Balancing need and resource availability**

While much of the focus in recent years has been on the gap between existing and necessary funding for addressing the plight of HIV/AIDS in poor countries, and therefore on much-needed fund-raising efforts, the issue of prioritising and sequencing activities to be financed has not received the attention it deserves. HIV/AIDS is one of the many emergencies that African and non-African countries face at the same time. Malnutrition, vulnerability to shocks, inequality and social exclusion, environmental degradation are only some of the other priorities that poor country governments and the donors that support them have to face at any given time. Each one of these priorities has its own constituency and support groups, and all compete for attention and funding sources in the limited world of international development assistance. While the drive to raise the profile of the fight against HIV/AIDS has been enormously useful, more attention should now be given to how the limited resources available are allocated and spent. How should countries and donors choose priority areas for intervention? Should prevention get most of the share, focusing on the need to guarantee that future generations are able to avoid the effects of the pandemic? Or should treatment be the main focus, in order to limit the short- and medium-term impact that current prevalence rates are likely to have on the active population? And, given limited resources, what should be done first in each context? Building the necessary infrastructure or training the needed personnel? Making condoms available or provide adequate counselling facilities? These are difficult questions which have been often set aside in the effort to increase the overall volume of resources available.

### **5.2 Look for friends: Building better networks and alliances**

The recognition of the urgency of many other development issues in poor countries, and of the competition this generates for attention and funding at the international level, calls for improving the understanding of the inter-linkages that exist between the HIV/AIDS agenda and competing agendas, in order to generate better and more coordinated efforts. Ideally, five years down the line groups that today rally for increased HIV/AIDS financing will have built much stronger networks and alliances with a number of other players tackling different agendas, looking at potential commonalities of concern and action. Such efforts can only work to improve the effectiveness and impact of limited aid resources.

### **5.3 Trust your partners: Give recipients more voice**

At the moment, as highlighted in previous sections, recipient countries have little influence and leverage on international forums where many of the decisions regarding priorities and resource allocation are taken. The governance arrangements in the International Financial Institutions have long been criticised for not giving recipient countries enough voice. In all donor countries, domestic political pressures often determine the policy directions in terms of how development assistance is allocated and spent. Better mechanisms need to be put in place to make sure relevant actors on the ground have more voice in global arenas. The structure of the Global Fund board has taken this principle seriously, even though many civil society actors still feel that they are not being properly included. Donors should be willing to recognise that they can also be part of the problem, rather than only part of the solution, and allow for independent monitoring and assessment of their own performance against criteria for 'aid quality', such as the availability of long-term funding and the timeliness of disbursements, the simplification and local adaptability of their systems and procedures, the nature of their dialogue around priorities with recipient countries, and so on. Recipients should be

given 'voice' in all forums where issues are discussed and decisions are taken which regard funding, programmes and interventions in their countries.

#### **5.4 The fourth 'one': Support local priorities and systems**

The existing contradictions highlighted above between horizontal approaches which stress local coordination and building systemic capacity and sustainable institutions, and vertical approaches that by-pass local processes with the aim of directly addressing a specific problem of issue need to be resolved. The basic principle should be that of not undermining wider health system development at country level, but instead working locally to develop comprehensive strategies that receive coordinated support and address existing capacity constraints in a long-term perspective. A recent report by a global task team working on these issues highlights a number of interesting issues in this respect (UNAIDS 2005). In this sense, both the 'Three Ones' principle supported by UNAIDS, and the Commission for Africa suggestion of adding a single pooled fund, are worth of international support. More difficult issues relate to the potential 'breach of sovereignty' which vertical mechanisms may promote when earmarking funding for special areas of interventions which may not reflect local perceptions of need. The tying of funding mechanisms such as PEPFAR not only to the specific HIV/AIDS field, but to particular policies and approaches within that field, is particularly problematic when compared to the rhetoric of 'ownership'.

#### **5.5 Think long-term: Address absorptive capacity constraints**

The potential negative impacts of large and sudden increases in financial flows need to be addressed in a comprehensive manner. Macroeconomic management needs to monitor the amounts of foreign exchange entering the country and the composition of spending that they support. Spending on imported goods limits such negative impacts. For this reason, channelling additional resources towards the purchase of drugs and other goods not available locally may be a sensible strategy. Country level strategies need to focus on building sustainable capacity and improved systems and institutions, addressing the combined constraints posed by lack of adequate infrastructure and trained human resources, and more generally supporting gradual approaches that do not by-pass local systems. An interesting idea in this respect would be that of creating trust funds where resources are kept for a country to utilise as its capacity to absorb additional resources increases (Lewis 2005), following the example of natural resource-rich countries which established so called 'stabilisation funds' to ensure that the potential 'Dutch disease' problems were addressed at their source. Donors could channel their aid to such funds, from which disbursements would be authorised by a commission including a range of stakeholders (such as National AIDS Commissions), taking into account the country's progress in creating the conditions for increased absorption. Such mechanism would inevitably imply a reduction in donors' direct control over the allocated funds, but could greatly increase the reliability of funding and the incentive for governments and other actors to ensure funds are effectively spent.

#### **5.6 Governments don't have to do everything: Use resources wisely**

Finally, there is a general point to be made about choosing delivery mechanisms at the country level for improving the quality of the services provided. Enhancing the effectiveness and impact of available resources means thinking through the potential alternatives that exist for service delivery, such as exploiting private sector and non governmental capacity where appropriate. The overall lack of qualified human resources in many countries means that alternative service providers inevitably rely on the same limited pool of expertise, with the risk of zero-sum competition. Nevertheless, an eye to quality and effectiveness implies looking at different options available, and building in quality-

enhancing mechanisms that ensure responsiveness of services to local needs and priorities. Results-oriented targets, increased voice for service users, and the introduction of choice mechanisms that allow users to select from different providers are all possible mechanisms that should be taken into consideration.

## **6. Conclusions**

As we have seen, 2005 presents both incredible opportunities and important challenges to international development assistance more in general, and to funding for HIV/AIDS programmes more specifically. The good news is that aid is increasing, and could increase even more. So are resources for the fight against the AIDS pandemic. The not-so-good news is that the aid system, and funding for HIV/AIDS is no exception, may not be very well geared for such large-scale increases. There is a contradiction between what we know works better in improving aid effectiveness (along the broad lines of the 'harmonisation and alignment' agenda), and some of the new mechanisms that are being utilised to plan and implement HIV/AIDS programmes. Also, fragmentation is rapidly increasing in the HIV/AIDS arena. Actors are multiplying, with potentially deleterious effects on countries' capacity to deal effectively with the pandemic. The main challenge for the international community is that of ensuring effective management of increasing resources through systems that give recipient countries more voice and control. The inter-linkages between the competing and complementary priorities of development and poverty reduction need to be recognised, along with the need to design interventions which build sustainable systems and capacities at country level rather than undermine them.

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