

CHAPTER 8: THE CHANGING FINANCIAL ENVIRONMENT OF OFFICIAL DEVELOPMENT ASSISTANCE

8.1 Introduction

The global official development assistance debate is at least 50 years old and development partners face ever-changing paradigms, such as Structural Adjustment, the Washington Consensus and the poverty reduction strategy papers, to name but a few. Over the years, billions of dollars were spent on development in Africa, but the developing world has become poorer, debt has increased, there is an increase in deaths occurring from preventable diseases and there are increases in malnutrition and infant mortality in sub-Saharan Africa. Aid to the developing world is conditional, unpredictable, donor-driven and with very high transaction costs for both the recipient and donor countries.

Many developing countries are to some degree dependent on official development assistance (ODA) to implement their development strategies. With the AIDS epidemic reaching catastrophic proportions, ODA from multilateral, bilateral and philanthropic organisations has reached an unparalleled scale. The unpredictability of aid flows, the setting up of parallel structures, diversity of aid disbursement mechanisms and a predetermined technical assistance component as part of aid have contributed to the rethinking of ODA. This chapter deals with the origins and drivers of ODA, then explores the new aid architecture and the important role-players involved in aid. The various international agreements and commitments that led to the Paris Declaration on Aid Effectiveness are discussed. The Paris Declaration in practice is explored and is discussed in terms of the three main pillars of the declaration: ownership, alignment and harmonisation. The effectiveness of ODA with regard to HIV/AIDS in the sub-Saharan African region is also examined.

8.2 A short history and the drivers of official development assistance

Following World War 2, the whole world started to change politically, especially with regard to colonisation. Many colonies gained their independence and the previous colonisers commenced with aid to their former colonies. The terminology of development started to emerge and the rich, developed countries in the north were called the First World and the poor countries in the south were called the Third World. Later the terminology changed to developed, underdeveloped or developing countries, to be politically correct.

The primary motivation of foreign aid in the 1950s was to stimulate growth in the recipient country with the end result of becoming sustainable. Aid was perceived as a source of capital to generate economic growth through increased investment (Tarp, 2000:23). During the late 1950s, the rationale for aid changed from mainly development-oriented to security-focused. The United States (US) saw aid as a means to deal with the security threat of communism in the developing and underdeveloped world (Tarp, 2000:23).

During the 1960s, bilateral programmes were established, and during the 1970s, the multilaterals were expanded. The World Bank and International Monetary Fund (IMF) started to play an increasingly important role in foreign aid. During this period, poverty alleviation and debt relief have emerged as the aid modalities favoured by bilateral programmes and multilateral funding. From the 1980s until the end of the millennium, the aid system has changed the type of aid many times. The donor community realised that the whole development process needed to be taken into account to facilitate a more multifaceted understanding. The role of finance in relation to other factors such as institutions, governance, human capital, geography and knowledge is crucial in the development process (Bezanson, 2005). Donors have come to understand that financial assistance is necessary, but not enough for development.

Table 8.1: Main developments in foreign aid

Period	Institutions	Donor philosophy	Donor focus	Aid modalities
1940+	<ul style="list-style-type: none"> ▪Marshall Plan ▪UN system ▪Bretton Woods institutions 	Planning	<ul style="list-style-type: none"> ▪Economic growth ▪Reconstruction 	Programme aid
1950+	<ul style="list-style-type: none"> ▪United States ▪Soviet Union in second half of 1950 	<ul style="list-style-type: none"> ▪Role of state gains importance ▪Anti-communist 	Community development	Food aid
1960+	Bilateral programmes established	<ul style="list-style-type: none"> ▪Role of the state important ▪ Productive sector support 	<ul style="list-style-type: none"> ▪Productive sectors ▪Infrastructure development 	Bilaterals provide: <ul style="list-style-type: none"> ▪Technical assistance (TA) ▪Budget support ▪Multilateral-supported projects
1970+	Growth of multi-laterals: <ul style="list-style-type: none"> ▪World Bank ▪IMF ▪Arab-funded agencies 	<ul style="list-style-type: none"> ▪State activities supported ▪Productive sector support ▪Meeting basic needs 	<ul style="list-style-type: none"> ▪Poverty ▪Agriculture ▪Basic needs 	<ul style="list-style-type: none"> ▪Food aid decline ▪Import supports commence
1980+	<ul style="list-style-type: none"> ▪Civil society becomes visible ▪Increase of NGOs 	Market-based adjustment	Macroeconomic reform	<ul style="list-style-type: none"> ▪Debt relief ▪Financial programme aid
1990+	<ul style="list-style-type: none"> ▪Eastern Europe becomes recipients of aid ▪Emergence of corresponding institutions 	Move back to the state	<ul style="list-style-type: none"> ▪Poverty ▪Governance 	Sector support
2000+	<ul style="list-style-type: none"> ▪Bilaterals ▪Multilaterals ▪Recipient countries 	<ul style="list-style-type: none"> ▪Aid effectiveness ▪Harmonisation ▪Co-ordination 	<ul style="list-style-type: none"> ▪Poverty ▪Governance ▪Alignment 	Budget support

Adapted from: Tarp, F. (ed.) 2000. *Foreign aid and development: Lessons learnt and directions for the future*. London: Routledge.

As illustrated in Table 8.1, aid changed dramatically over the past 50 years, not only because the circumstances changed, but because foreign assistance in the framework of international co-operation was in itself a new phenomenon (Pronk, 2001:612). There are many different drivers for aid, such as political and ideological, economic, security, religion, and humanitarian factors. Motivations for providing official development assistance are different from country to country and have also changed over time. Official development assistance as channelled through bilateral agencies is a tool of foreign policy for donor countries and is as a rule aligned with their strategic objectives and interest (Sagasti, 2005:2). It soon became clear that implementable policies and governance are vital to the economic reform of recipient countries (Pronk 2001: 612). Through aid, donors want to influence recipient

countries to think the way they do, thus they added a condition of policy reform to the aid assistance (Ikhide, 2004:128). Conditionality is, however, fraught with problems. The recipient country seldom has the same agenda as the donor and the policy reform often fails because of a lack of ownership. For aid to be effective, specific conditions in the recipient country should be the main determinant of the development strategy, not the donor's priorities.

At the beginning of the 21st century, the official development assistance (ODA) was troubled by many factors. The main obstacles to aid effectiveness have been proliferation of aid and the lack of co-ordination between donors (Ikhide, 2004:129). The increase in the number of donor institutions has created a complex and untidy array of ODA organisations (Bezanson, 2005). There was a fast and uncoordinated growth of private donors and funding flows that led to replication and overlap. It became increasingly clear that donors and recipient countries should rethink ODA to change it into an effective development financing system. Many aid agencies have their own agendas and the current aid system presents them with opportunities to pursue it. The end result is duplication of functions and activities by donor agencies and high transaction costs for the recipient countries.

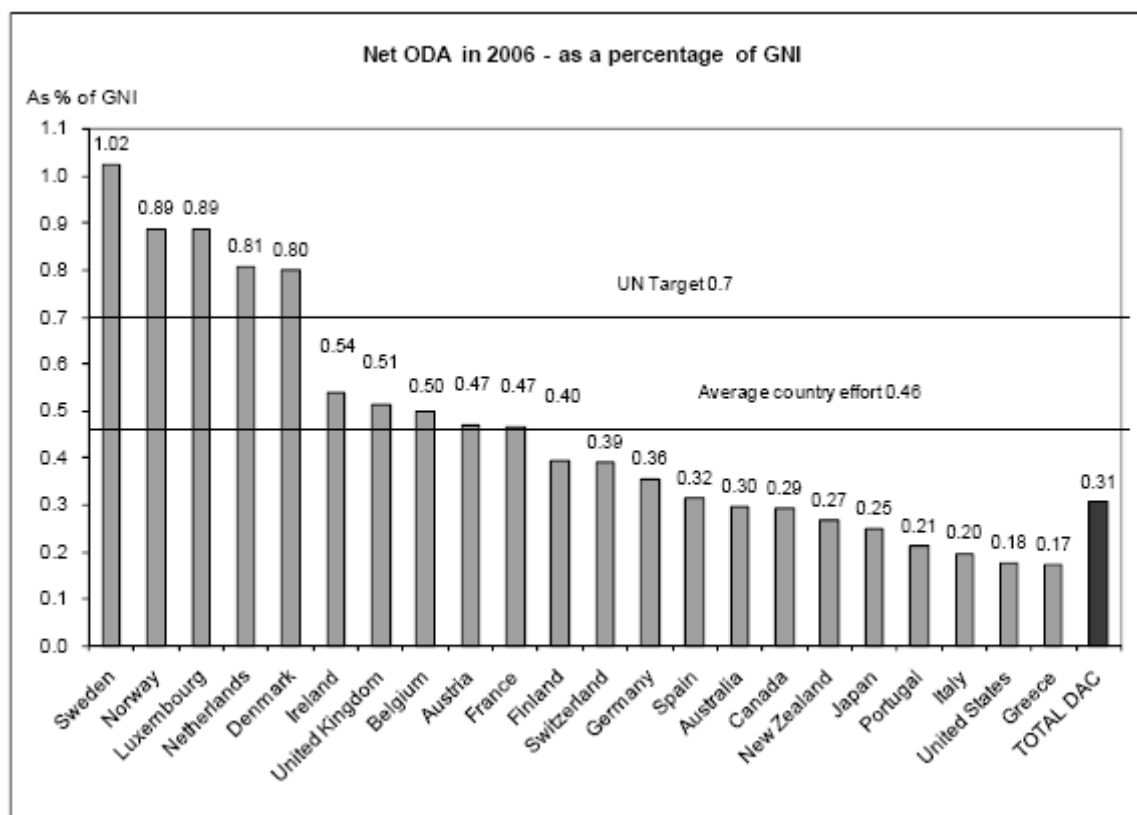
8.3 The new aid architecture

The role that aid plays in human development is not always positive. This is due to failures from some recipient countries, as well as the imposing of agendas by donor countries and agencies. Over the past 50 years, billions of dollars have gone to developing countries all over the world. In Africa, and specifically sub-Saharan Africa, in spite of ODA, more people are poor than ever before. The international donor community realised that something needed to be done to make aid more effective. With the Millennium Declaration and the subsequent setting of the Millennium Development Goals, it became imperative that both donors and recipient countries should evaluate the way in which aid was allocated in the past to make aid more effective in the quest for sustainable development.

8.4 Rethinking international aid

During the last decade, more and more critics around the world have called for radical reform in ODA. Part of the reform process was the percentage of GDP that donors donated towards aid. There is a huge gap (Figure 8.1) between the internationally agreed ODA targets of 0,7% of GDP and the donors' payment record (Martens, 2001:2).

Figure 8.1: Net ODA in 2006 as a percentage of GNI



Source: Organisation for Economic Co-operation and Development (OECD). 2005a. *Final ODA data for 2005*. [Online] Available at: <http://www.oecd.org/dataoecd/52/18/37790990.pdf> [Accessed: 21 May 2007].

There are also concerns about the definition and measurement of ODA. The original OECD criteria of ODA is not acceptable to all donors and even the logic of the 0,7% target has been questioned. Another concern is the quality of aid assistance. Aid effectiveness has come under the spotlight with the publication of the World Bank's study, *Assessing Aid* (1998). In this study, the World Bank argues that a good policy environment is a precondition for effective development assistance which led to the

contentious proposal that aid should be selective. In practice, this means that ODA will only be allocated to very poor countries whose economic policies have been approved by the World Bank (Martens, 2001:2). This publication sparked wide and heated discussions about aid effectiveness.

8.4.1 Millennium Declaration and the Millennium Development Goals

During the Millennium Summit in 2000, the progress of development was reviewed and a new vision for development assistance was conceived. The Millennium Declaration of the United Nations proclaimed that no effort will be spared to make an end to the poverty of more than a billion people worldwide. The Declaration gave voice to the Millennium Development Goals and the deadline of 2015 was set for certain targets to be met (UN General Assembly, 2000). The donor countries who have signed the Millennium Declaration gave an undertaking to align their development assistance programmes with the MDG in order to achieve the set targets.

8.4.2 Monterrey Consensus – Financing for development

The outcome of the United Nations International Conference on Financing for Development in 2002, is called the Monterrey Consensus. The Monterrey Consensus was adopted by heads of state, government representatives, the International Monetary Fund, the World Bank, the World Trade Organization, prominent business leaders and civil society leaders (United Nations, Financing for Development Office, 2002). The consensus reflects a landmark agreement between developed and developing countries in which both parties recognised their responsibilities in key areas such as debt relief, aid, trade and institution building. The Monterrey Consensus has become the major source of information for international development assistance and it includes the following topics:

- Mobilising countries' national financial resources for development;
- Mobilising international resources for development, including foreign direct investment and other private capital flows;

- International trade should form the basis and driver for development;
- Increasing international financial and technical assistance support;
- Poor countries' external debt; and
- Resolving systemic issues in financing for development.

The Monterrey Consensus was a turning point for the way in which development is financed. The consensus emphasised the gap between reality and empty talk, especially in terms of the 0,7% target of GNI (Figure 8.1). It has been acknowledged that aid should be increased significantly if the targets of the MDG were to be achieved. Many donors have pledged more aid for development and the impact of increase in aid has been seen in real terms every year since 2002 (United Nations Development Programme, 2005a).

8.4.3 Barcelona Commitments: Translating the Monterrey Consensus into practice

During the Barcelona European Council in March 2002, the Barcelona Commitments, consisting of eight political commitments (Table 8.2), were agreed upon by the European Union. The European Union's contribution to the Monterrey Consensus were mainly in two areas:

- commitment on official development assistance, volume and sources; and
- commitments on aid effectiveness.

Table 8.2: The eight commitments of the European Union

Barcelona Commitments
<ul style="list-style-type: none">✚ Increase average official development assistance (ODA) from the European Union from 0.33% of GNI in 2002 to 0.39% by 2006 as a step towards the 0.7% target set by the United Nations.✚ Improve aid effectiveness through a process of coordination and harmonisation and take concrete measures in this direction before 2004.✚ Take measures to untie aid for least-developed countries (LDC).✚ Increase trade-related assistance.✚ Support the identification of the relevant global public goods.✚ Continue to examine innovative sources of financing.✚ Support reform of international financial systems.✚ Pursue efforts to restore debt sustainability in the context of the enhanced heavily indebted poor countries (HIPC) initiative.

Source: Europa. 2004. *Summaries of legislation*. [Online] Available at: <http://europa.eu/scadplus/leg/en/lvb/r12527.htm#BARCELONA> [Accessed: 21 May 2007].

The Barcelona Commitments are seen as significant, since the European Union is not only the world's biggest donor, but also the largest provider of foreign direct investment to developing countries. The EU member states further committed themselves to the untying of ODA to the least-developed countries. This action will also enhance aid effectiveness and ultimately relief poverty (Europa, 2004).





8.4.4 Rome Declaration on Harmonisation

During the high-level forum on harmonisation in Rome in February 2003, the Rome Declaration on Harmonisation was adopted (United Nations, 2003). The forum focussed on harmonisation of policies, procedures and practices of donors and recipient country systems to improve the effectiveness of aid. The declaration gave the commitment of the participants to improve development effectiveness and adherence to good practice standards in development aid. The donors and partner countries committed themselves to a list of 12 targets, including the indicators that go with them, to be realised by 2010. Strong emphasis was placed on the assumption of a leading role by partner countries, the inclusion of civil society and the necessary reform of systems to adhere to good international financial practices. The declaration also made provision for the review of the implementation of the Monterrey Consensus by 2005 (United Nations, 2003).

8.4.5 Marrakech Roundtable: Managing for development results

The donor community convened in Marrakech, Morocco to review their practice of managing the development results. *Results* have been defined as 'sustainable improvements in country outcomes' and *managing for results* as 'a management strategy focussing on performance and the achievement of outputs, outcomes and impact' (Organisation for Economic Co-operation and Development, 2004). A renewed commitment to the Monterrey Consensus to adopt policies that will achieve results was made (Table 8.3).

Table 8.3: Marrakech Roundtable: Managing for development results

Marrakech Roundtable	
	Endorse core principles of Monterrey.
	Focus national strategies and systems on country results.
	Align co-operation programmes with country results.
	Harmonise results reporting.
	Improve statistical systems.
	Access development agency performance.
	Disseminate good practice.

Source: Organisation for Economic Co-operation and Development (OECD). 2004. Second International Roundtable, *Managing for development results* in Marrakech, Morocco, 4-5 February 2004. [Online] Available at: <http://www.oecd.org/dataoecd/40/16/31526893.pdf> [Accessed: 21 May 2007].

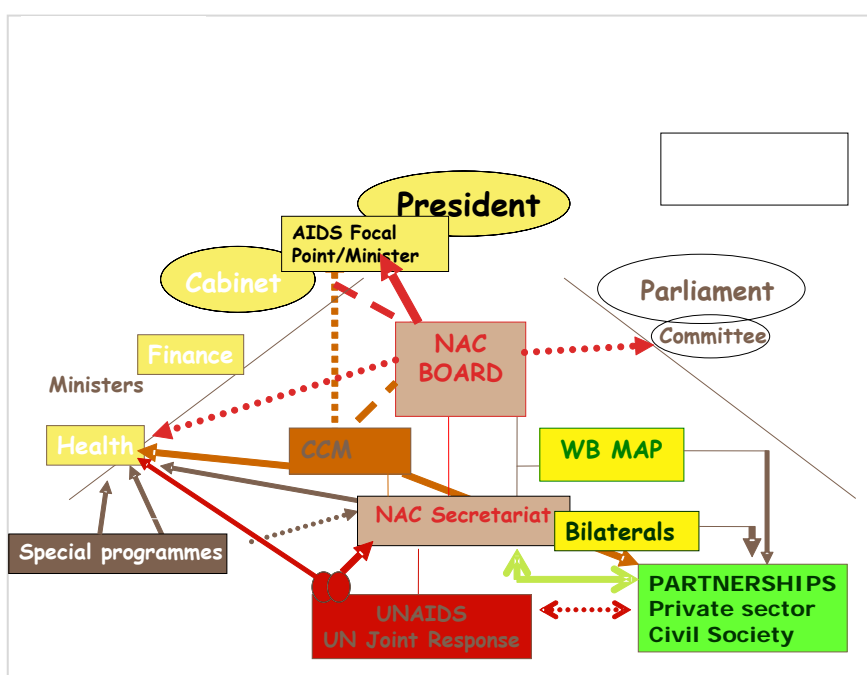
Recipient countries need more capacity for strategic planning, management, statistics, monitoring and evaluation, while donor agencies are required to align their development programmes with the recipient countries' results in mind.

8.4.6 Paris Declaration on Aid Effectiveness

The Paris High-Level Forum took place in Paris during March 2005 with development officials and ministers from 91 countries, 26 donor organisations and partner countries, representatives of civil society organisations and the private sector attending. The main aims were to assess the progress made since the Rome Declaration and to identify the areas in which further work is needed. The outcome of the high-level forum, the Paris Declaration on Aid Effectiveness in April 2005, is a statement of intent on the ownership, harmonisation, alignment, results and mutual accountability of donors and recipient countries (World Bank and International Monetary Fund, 2005). This declaration calls for budget support, alignment of

donors' agendas to those of the partner countries, the harmonising of donor activities and the mutual accountability of donors and partners for development goals (Table 8.4). As mentioned previously, it is of the utmost importance to ensure that HIV/AIDS is resolved otherwise the MDG will not be reached. Most countries have difficulties to come to grips with the structures, financing and placement of the national AIDS programmes. It is at most a jumble of many organisations, government departments and agencies (see figure 8.2). This graphical representation of the planning, implementation and funding of a country's AIDS programme is an example of the disjointedness of actors participating in the response to the epidemic.





Figure 8.2: A graphic presentation of the AIDS scene in an African country



Source: Djupvik, M. 2005. *Development Planning and Challenges related to HIV/AIDS. Under which conditions are we conducting a dialogue?* Presentation at UNAIDS, UNDP, Sida/Norad Joint Training, Johannesburg, 16 November. (Available on CD Rom).

The international community's commitment to achieve the MDG compelled the donor community to rethink their practices on aid. The provision of more effective aid and increasing its impact on development became important concerns. Issues such as alignment to recipient countries' strategies and programmes, harmonisation of donor practices to reduce transaction cost, mutual accountability and managing aid with a focus on development results pose massive challenges to both the donor community and recipient countries.

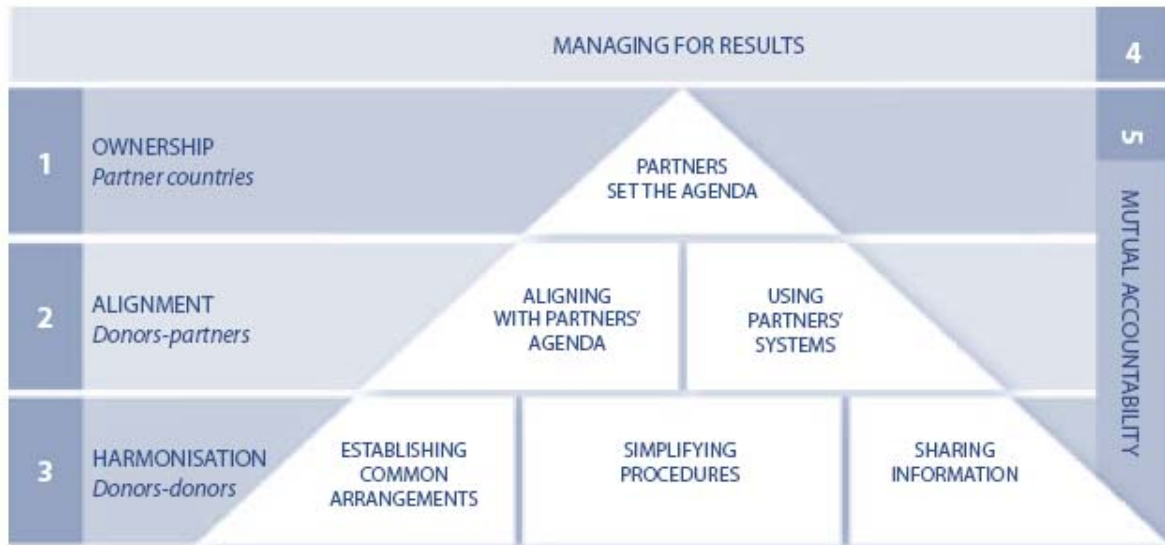
Table 8.4: *Commitments from the Paris Declaration on Aid Effectiveness*

Commitments from the Paris Declaration on Aid Effectiveness	
	Developing countries will exercise effective leadership over their development policies, strategies, and co-ordinate development activities.
	Donors will base their overall support on recipient countries' national development strategies, institutions, and procedures.
	Donor countries will co-ordinate their work to be more harmonised, transparent and collectively effective.
	All countries will manage resources and improve decision-making for results.
	Donor and developing countries pledge that they will be mutually accountable for development results.

Source: Aid Harmonisation & Alignment. 2005. Paris High-Level Forum. [Online] Available at: <http://www.aidharmonization.org/ah-overview/secondary-pages/editable?key=205> [Accessed: 21 May 2007].

The Paris Declaration on Aid Effectiveness is built on a platform of ownership, harmonisation, alignment and mutual accountability in the quest to make aid more effective (Table 8.4). More than 100 donor agencies and developing countries endorsed the Paris Declaration. This means that the signatories committed themselves to specific measurable commitments to aid effectiveness. The Paris Declaration can be seen as a blueprint for donors and partners to work together in a spirit of mutual accountability to do aid better. The work of bilateral and multilateral aid agencies had been changed significantly by the Paris Declaration, presenting them with both challenges and opportunities in a changing aid environment.

Figure 8.3: The aid effectiveness pyramid



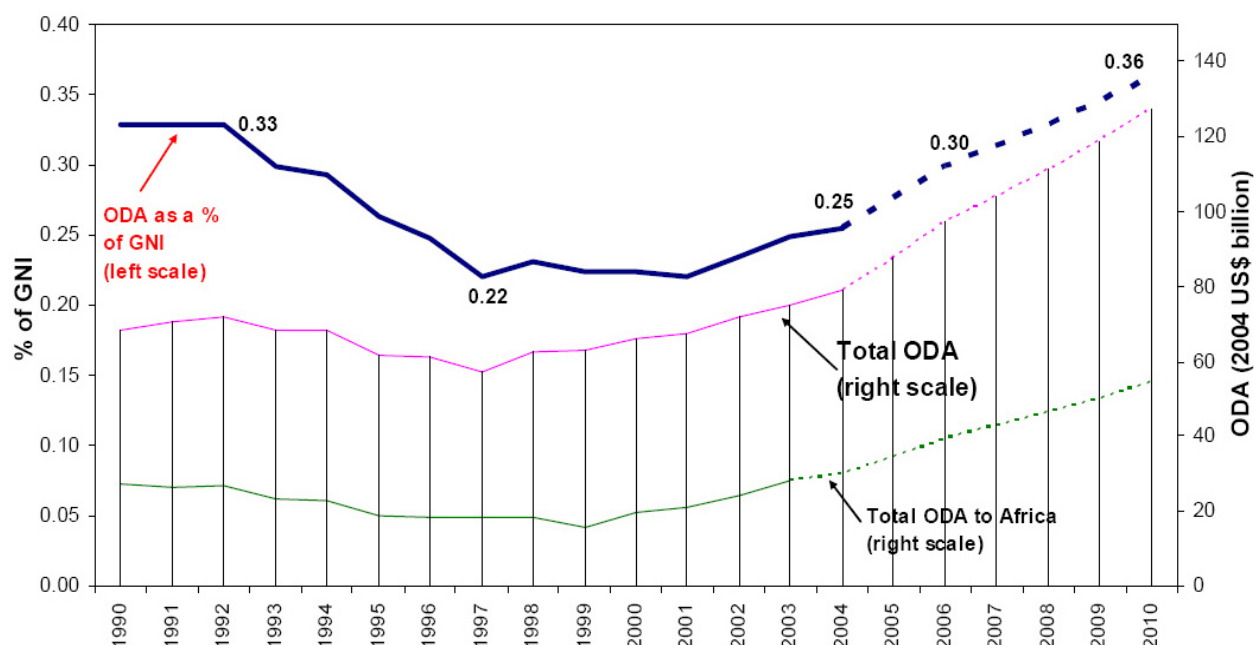
Source: OECD. 2007. *2006 Survey on monitoring the Paris Declaration*. Paris: OECD Publishing.

The four broad areas of the Rome Declaration and the Marrakech Roundtable, namely ownership, alignment, harmonisation and managing for results, translated into the Paris Declaration of implementation and monitoring the results of harmonisation and alignment. The pyramid (Figure 8.3) can be read either top-down or bottom-up. In the top-down approach partner countries can begin the process by setting the agenda for achieving development results. Donors respond to this by aligning with the partner countries' agenda and relying on their systems (Organisation for Economic Co-operation and Development (OECD) & the World Bank, 2005:18). At the base of the pyramid, donors work together through establishing common arrangements, simplifying procedures and sharing information. Through all the levels of the pyramid, institutional development and capacity strengthening with a focus on results are important. The bottom-up approach demonstrates the maturity of the aid relationships between donors and recipient countries and donors among themselves.

8.4.7 Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC)

The OECD established the Development Assistance Committee (DAC) as a forum for the major bilateral donors of the OECD (Organisation for Economic Co-operation and Development (OECD), 2005c). It consists of 22 donor countries, in partnership with international and regional financial and multilateral institutions that set criteria for ODA by consensus. The main aim of DAC members is to enhance the effectiveness of their collective efforts to support sustainable development in developing countries. The contribution of international ODA to developing countries should ultimately translate into poverty eradication and the participation of the developing world in the global economy. The DAC further created the Working Party on Aid Effectiveness and Donor Practices (WP-EFF) with the objective to promote, support and monitor progress on harmonisation and alignment of donor activities. The members of DAC adhere to the OECD's criteria of ODA and monitors its members accordingly.

Figure 8.4: DAC members' net ODA 1990-2004 in relation to GNI and simulations of ODA until 2010



Source: OECD. 2007. Development Co-operation – 2006 Report –Efforts and policies of the members of the Development Assistance Committee. *OECD Journal on Development*, 8(1).

DAC members' ODA to developing countries have started to rise steadily from 1997 with an average of 0,33% of GNI (Figure 8.4) with only a few countries reaching the 0,7% target. In 2005, DAC ODA totalled US \$106.8 billion compared with approximately US \$1.5 billion from non-DAC members (OECD/DAC, 2006:15). For developing countries to achieve the MDG, ODA will have to be increased considerably in the next five years.

8.4.8 United Nations Summit 2005 and United Nations reform

The goals of the 2005 Summit were to review and revive international development goals and to launch a process of reform of the way the United Nations (UN) deals with the new international challenges to development, peace and security, human rights and democracy (United Nations 2005c). The outcome of the summit in terms of development was to reiterate commitment to the Paris Declaration and the achievement of the MDG. Countries committed themselves to adopt and implement national development strategies in order to achieve international development goals (Martens, 2005:2). The member states affirmed their commitment to take concrete, effective and timely actions in implementing the agreed commitments. They also agreed to consider to cancel 100% of the debt of HIPC countries and to increase grant based-financing to ensure long-term sustainable development (United Nations, 2005c).

Before and during the summit, the debate on UN reform somewhat overshadowed discussions on development. Since the review of the UN in 1997, it has been clear that there was a need for reform (Smith, Browne & Dube, 2006:28). The outcome document on the 2005 Summit agreed to take action on management reform, and also to reform the economics and social area of the UN.

The UN as a donor channelled about US \$10 billion to developing countries in 2006 (Maxwell, 2006). The UN donor system is hampered by many challenges, such as unpredictability of funding, unclear procedures, a lack of coherence and high transaction costs. Potentially, the UN as an international body can play a very important role in the new aid architecture by taking a leading role in ODA. Within a

world of rapidly increasing aid volumes and global development challenges, the UN can build a role for itself at both country and international level.

8.4.9 Reform of international financial institutions

Broadly speaking, the World Bank and International Monetary Fund's (IMF) goal is to strive for stability of the international financing system and increasing trade and financial integration. After a few crises (such as the Mexican peso devaluation of 1995/05) during the 1990s, the World Bank and IMF realised that they should start initiatives to strengthen the international financial architecture (World Bank. 2005b:5). The five areas that were targeted are transparency, developing and assessing internationally accepted standards, financial sector strengthening, involving the private sector and modifying IMF financial and other systemic issues. The way the international financial institutions reform is not always met with approval, especially from African countries. The new design of financial architecture does not take the peculiar difficulties of Africa's fragmented markets in attracting private capital into consideration (Economic Commission for Africa, 2000).

8.4.10 New institutional arrangements

There are some new institutional arrangements in the international aid architecture, such as the US Millennium Challenge Account (MCA), the Global Fund to Fight AIDS, TB and Malaria (GFATM) and the International Financing Facility proposal. These institutional arrangements were established to provide aid to more or less respond to global development crises in an effective and prompt manner. The establishment of thematic funds like the GFATM was a response to the perceived failures of previous large donors, to enable them to mobilise quickly against global threats (Rogerson, Hewitt & Waldenberg, 2004:20).

8.5 The Paris Declaration in practice

The significance of the Paris-declaration lies therein that it is an important step forward in establishing clear and quantifiable targets and progress indicators to monitor change in donor, recipient and joint behaviour. It also aims to address the complexities of the existing aid architecture. The Paris Declaration is based on the key principles of ownership, alignment, harmonisation, managing for results and mutual accountability (United Nations, 2005d). The five key principles are clarified in 12 quantifiable targets to be achieved by 2010. Partner or recipient countries are made aware of the importance of operational development strategies and dependable public financial management and procurement systems. Donor countries are required to align aid flows to partner countries' national priorities, assist with strengthening the partner countries' capacity, increasing predictability of aid, increasing the proportion of untied aid, using common procedures and sharing analytical work (International Development Association Resource Mobilisation, 2007:24). Mutual accountability should be assessed through mutual reviews by 2010.

In short, the Paris Declaration is based on five practical principles that will advance development (Organisation for Economic Co-operation and Development, 2007:9):

- Developing countries take leadership over their development plans and policies (ownership).
- Donors base their support on the development strategies and systems of partner countries (alignment).
- Donors harmonise their aid activities and reduce transaction costs of aid (harmonisation).
- Developing countries and donors adjust their activities to achieve results (managing for results).
- Developing countries and donors are accountable to each other for improvement in managing better aid and in reaching the development outcomes (mutual accountability).

The Paris Declaration will be analysed in terms of the reports on aid harmonisation, alignment and results of the OECD and the World Bank survey conducted for this study as well as a desk review of recent reports from the OECD on Aid Effectiveness (Organisation for Economic Co-operation and Development, 2007) and a South African report on the High-Level Forum on the Harmonisation for Aid Effectiveness in South Africa (Smith, Browne & Dube, 2006).

8.5.1 Ownership

The principle of ownership in the Paris Declaration has most probably arisen in response to the many failures of aid, donor conditionalities, tied aid and donor-driven development agendas. Although donors and partner countries may have the same development objectives, they report to different institutions: the donors report to their governments and are accountable to their citizens, while partner countries report to their own governments and parliament and are also ultimately accountable to their citizens. Ownership means that the partner country should take the leadership in developing and implementing national development strategies, whether they rely partially or entirely on external resources, through inclusive and broad consultative processes. The Paris Declaration further notes that the principle of ownership is not only for partners to develop their own development strategies and plans, but for the process to be practical and results-oriented with broad consultation of all the stakeholders, including civil society.

Ownership also means that the partner country should take the lead in aid co-ordination at all levels (United Nations, 2005d). For partner countries, this means developing policies, policy tools and processes, as well as the following (Organisation for Economic Co-operation and Development (OECD), 2005b):

- a transparent development policy and strategy;
- an MTEF and operational budget;
- a system to monitor progress on policy achievement; and
- a government-led co-ordination mechanism for aid harmonisation and alignment.

A government's commitment can be measured through the degree in which it takes the lead in co-ordination of aid-funded activities and the extent to which it has clear, operationalised and attainable development strategies (Organisation for Economic Co-operation and Development (OECD) 2007:16). The development strategy should also further be expressed in the medium-term expenditure framework (MTEF) and annual budget. According to the World Bank's CPIA ratings, 31% of countries surveyed (Figure 8.5), had moderately strong public financial ratings (Organisation for Economic Co-operation and Development, 2007:20).

Figure 8.5: Quality of country public financial management systems (2005)

NO. OF COUNTRIES		SCORE	CATEGORY
0	LOWER SCORE ▲	0%	1.0 Very weak (PFM systems)
0		0%	1.5
1		3%	2.0 Weak
3		10%	2.5
5		17%	3.0 Moderately weak
11		38%	3.5
8		28%	4.0 Moderately strong
1		3%	4.5
0		0%	5.0 Strong
0		0%	5.5
0	HIGHER SCORE ▼	0%	6.0 Very strong

Source: World Bank Country Policy and Institutional Assessment 2005 as quoted by OECD. 2007. *2006 Survey on monitoring the Paris Declaration*. Paris: OECD Publishing.

The donors, on the other hand, should respect the partner country's leadership and assist with capacity to exercise leadership. Donors should align their programmes on partner countries' policies and systems and also support partners to build their own capacity to implement their development policies. The OECD 2006 survey reported that only 17% of partner countries reviewed had operational development strategies that met the agreed quality threshold (Organisation for Economic Co-operation and Development, 2007:18), which means that partner countries have to put serious work into this activity to reach the target of 75% by 2010.

8.5.2 Alignment

The principle of alignment in the Paris Declaration states that donors will base their overall support on recipient countries' national development strategies, institutions, and procedures (United Nations 2005d: para. 16). This means that donors should align their strategies with partners' strategies, using the partners' country systems where necessary and possibly strengthen development capacity. Donors should put institutional strengthening of partners on their agenda, specifically the support and strengthening of public financial management and national procurement systems. In the process of alignment, aid will be untied and hopefully both donors and partners will get better value for money. Alignment is a mutual commitment and therefore calls for joint action by donors and partner countries.

Alignment of aid practices will mostly hinge on the decisive leadership of partner countries. Countries should focus on building strong reliable country systems with good financial management and procurement practices in order for donors to align to country systems. The assessment of public financial systems is based on a component of the World Bank's CPIA (Country Policy and Institutional Assessment) and includes the following (Organisation for Economic Co-operation and Development, 2007:19):

- a comprehensive and credible budget;
- effective financial management systems;
- fiscal reporting that is timely and accurate; and
- all levels of government participation in public financial management.

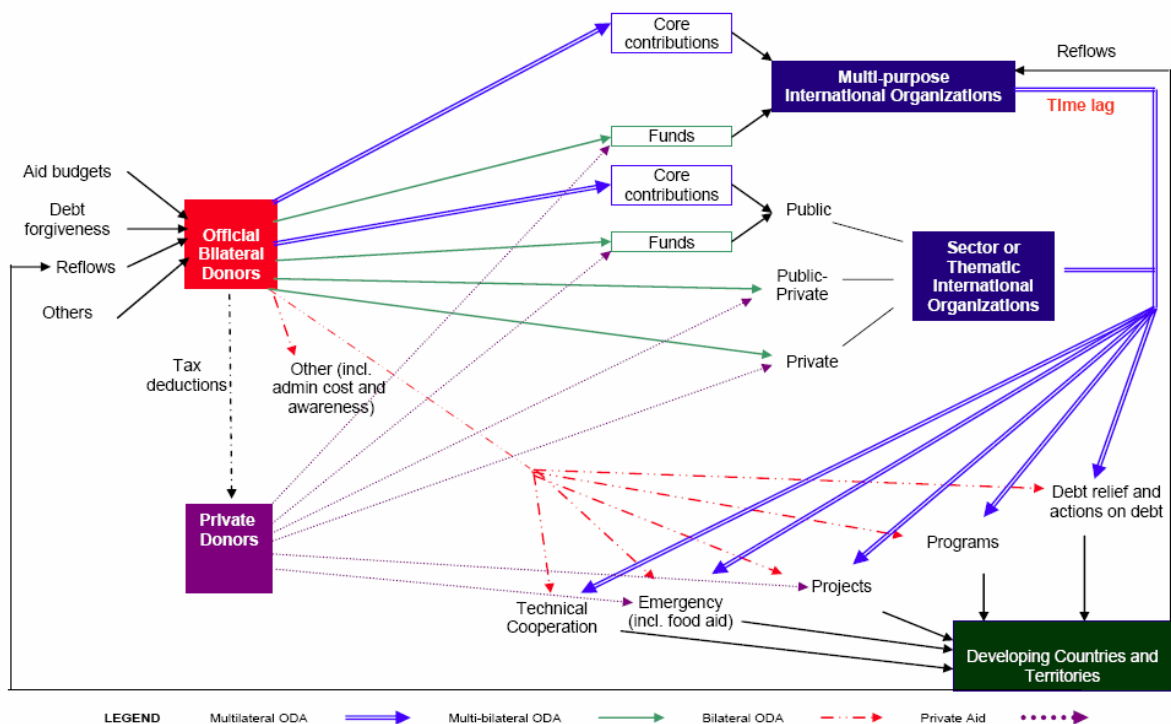
Although the World Bank survey (Organisation for Economic Co-operation and Development, 2007:20) reported 31% of countries surveyed to have moderately strong financial systems in place, the agreed target of 50% by 2010 will take some effort from both donors and partners to reach. This element of the Paris Declaration is complex and involves many different structures of government and agencies from both the donor and partner countries. The degree to which the donor community makes use of partner countries' systems will demonstrate donor seriousness to meet this commitment of the Paris Declaration. Alignment of aid practices and management will also assist to avoid duplication of project implementation units.

The OECD report found that for the 34 countries surveyed there were 1 832 parallel project implementation units which is a great concern and an indication of the commitment of donors to alignment of donor practices and processes (Organisation for Economic Co-operation and Development, 2007:28).

8.5.3 Harmonisation

According to the Paris Declaration, donors should aim to co-ordinate their work to be more harmonised, transparent and collectively effective (United Nations 2005d: Para. 32). The principle of harmonisation means that donors should ensure that their activities for financial arrangements, reporting methods and monitoring and evaluation are common to reduce duplication on the part of the partners. The principle also means that both donors and partners should work together when doing country analytical work. The alignment and harmonisation of country-based analytical work assist with building ownership, providing shared diagnostic frameworks and reducing duplication or conflicting targets.

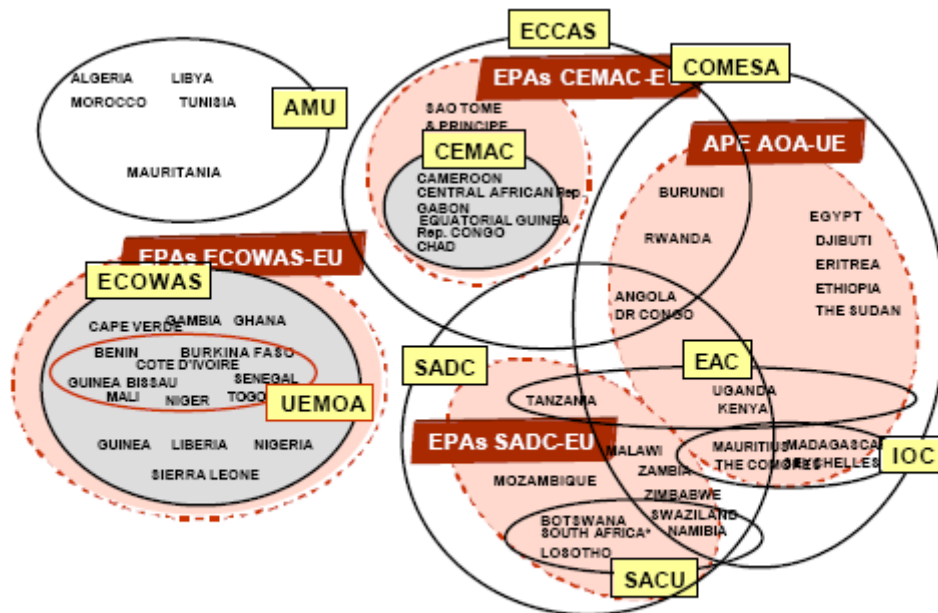
Figure 8.6: Recipient countries' view of aid channels



Source: International Development Association Resource Mobilisation. 2007. *Aid architecture: An overview of the main trends in official development assistance flows.* [Online] Available at: <http://siteresources.worldbank.org/IDA/Resources/Seminar%20PDFs/73449-1172525976405/3492866-1172527584498/Aidarchitecture.pdf> [Accessed: 18 May 2007].

Figure 8.6 is an illustration of how complicated and interwoven ODA can be in a developing country. Official bilateral donors' funding may come from aid budgets, debt forgiveness, reflows of funding and other sources of funding. Private donors such as family foundations and other charity organisations provide a substantial portion to the funding basket in developing countries. Funding modalities differ from donor to donor and can be directed towards public and/or private recipients. Funding can also be directed to debt relief, programmes, projects, sectors, emergencies and technical assistance. In developing countries, there are on average 20 bilateral and 15 private donors, each with its own modalities and sometimes own agendas. As Figure 8.6 shows there is a dire need for donor harmonisation and co-ordination. This donor scenario is further complicated by what the African Union calls regional cacophony (Figure 8.7). Most African countries are part of regional organisations, some more than one. The regional organisations may have different goals and targets and receive donor funding as a region, while also receiving donor aid as an individual country. To illustrate the discord in the donor field with regard to AIDS the images of Figures 8.6 and 8.7 should be superimposed upon each other to show how complex it can be.

Figure 8.7: Regional cacophony according to the African Union



Source: African Union. 2004. *Strategic plan of the Commission of the African Union*. [Online] Available at: <http://www.africa-union.org/AU%20summit%202004/volume%202%20final%20-%20English%20-%20June%202004.pdf> [Accessed: 16 January 2008].

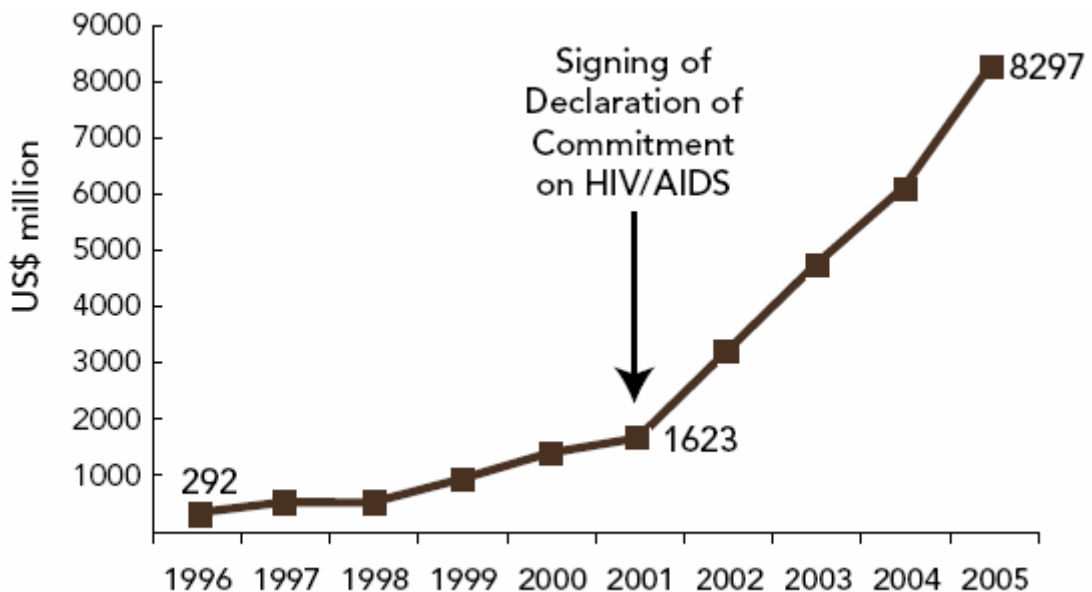
Harmonisation in a practical context means that donors and partner countries should use common arrangements and procedures under country leadership. It also means that donor missions should be joined and donors share country analyses. The new catchphrase in the development and ODA world is 'managing for results'. The idea with harmonisation is that donors and partner countries should improve their aid practices so that they reinforce each other. Criteria such as the quality of development, access to development information, monitoring and evaluation are used to measure harmonisation. Evidence on results should be channelled into processes of policy improvement and budget planning. The OECD report shows that most of the partner countries have not developed performance assessment frameworks and therefore reporting on development results was not adequate (Organisation for Economic Co-operation and Development, 2007:34). The Paris Declaration introduced a unique element of mutual accountability; the idea is that aid will be more effective if both donor and recipients are accountable to their respective publics for the use of resources made available for development. Only 44% of the countries surveyed, have a mechanism in place to measure mutual accountability, which is a shortfall of over half of the target of 100% by 2010 (Organisation for Economic Co-operation and Development, 2007:36).

8.6 Effectiveness of official development assistance with regard to HIV/AIDS

For approximately 10 years after the onset of the AIDS epidemic, governments in sub-Saharan Africa either denied that AIDS is a problem and chose to wait and see what will happen (Denis & Becker, 2006:31). While governments in the region were in the denial phase, the epidemic raged on unabated. The denial took on many forms, from outright denial that the new syndrome exists to accusations of a western plot to annihilate Africa. The WHO acknowledged that it was slow to recognise the AIDS epidemic as a global threat, but established the Global Programme for the Fight against HIV/AIDS as a vertical programme in 1987 (Denis & Becker, 2006:33). In this climate of denialism and accusations, governments were slow to respond, and if they responded to the AIDS epidemic, it was too little too late.

The level of a state's commitment to combat HIV/AIDS can often be measured in the budget it allocates for AIDS programmes. The factors that should have an influence on a government are the size of the epidemic, the country's policy priorities, the country's constitutional commitments and the international principles personified in the many conventions and treaties (Guthrie & Hickey, 2004:2). The United Nations established UNAIDS, the Joint United Nations Programme on HIV/AIDS, in 1995 and its goal is to bring together the efforts and resources of co-sponsors UNHCR, UNICEF, WFP, UNDP, UNFPA, UNODC, ILO, UNESCO, WHO and the World Bank. The member states of the UN committed themselves to the international goals set by UNGASS and the Millennium Development Goals. Despite these declarations of commitment, it was a struggle from the onset of the epidemic to secure sufficient resources from governments and donors to respond effectively to AIDS. The impact that AIDS will make and is making on both the individual and society has been denied by many politicians, policy-makers, academics and community leaders (Barnett & Whiteside, 2002:5). Although aid to AIDS has been scaled up significantly since 1996, the epidemic is still out of control in sub-Saharan Africa. The signing of the Declaration of Commitment on HIV/AIDS in 2001 can be seen as the watershed in the response to the global AIDS epidemic (Figure 8.8).

Figure 8.8: Estimated total annual resources available for AIDS, 1996-2005



Source: UNAIDS. 2006. *Report on the global AIDS epidemic. A UNAIDS 10th anniversary special edition*. Geneva: UNAIDS.

During the International Conference on AIDS and STIs in Africa in 2003, role-players such as national co-ordinating bodies on AIDS, ministries of African governments, multilateral and bilateral agencies, private sector, civil society and major funding mechanisms developed key principles for national-level co-ordination of the HIV/AIDS response (UNAIDS, 2004:1). Three key principles were adopted to use as the pillars of the overall response to AIDS. These principles are known as the Three Ones:

- one agreed AIDS framework that forms the basis for co-ordinating the work of all partners;
- one national AIDS co-coordinating body with a broad-based multi-sector mandate; and
- one agreed monitoring and evaluation framework for national monitoring and evaluation.

The principles of the Three Ones fit perfectly in with the Paris Agenda's new aid architecture of ownership, alignment and harmonisation. In theory, all relevant role-players would participate in the development of national strategic HIV/AIDS plans, one multi-sector and representative body would have the mandate to oversee the AIDS programme and there would be an agreed national monitoring and evaluation framework to replace the existing multiple systems. The national AIDS authority of a country often plays the central role of co-ordination of donor funding, but other role-players such as the government, politicians, multilaterals and civil society all have an interest in a country's AIDS programme. The roles and responsibilities of all the various role-players and stake-holders are mostly unclear and vague with the result of a disjointed AIDS programme at country level.

8.7 Conclusion

Despite the known consequences of the AIDS epidemic and the numerous warnings by scholars, the development community and governments were, and in some instances still are, slow to respond. Many sub-Saharan African governments are dependent on donor funding for their HIV/AIDS programmes but they are also

struggling with corruption, governance issues and unstable political climates. Through the years, the donor community applied different styles of support to underdeveloped countries, from sector-wide support to project support, and overall, these support modalities have failed. With the Millennium Development Goals' results to be achieved by 2015, the rich, developed countries and the developing countries came to realise that something extraordinary should be done. The year 2005 will be known for the year in which donor and aid efficiency was tackled by the whole development community and which culminated in the Paris Declaration on aid effectiveness.

The reports that are available on the monitoring of the Paris Declaration are cautiously optimistic about the implementation of the declaration. Although the Paris Declaration is only two years old, the long process that preceded it can be seen as a preparation for action. There are still serious concerns about high transaction costs, ownership, quality of country systems and lack of capacity. The scaling up of funding for HIV/AIDS has forced donors and partner countries to critically look at their donor practices with the ultimate goal that the money that is available for development reaches the target.

Chapter 9 will deal with public financial management and financing HIV/AIDS as a global epidemic. The disparities between AIDS funding and other relief efforts will show that the epidemic does not receive the funding it warrants. The global call for funding for the AIDS epidemic will be discussed and attention will be given to the challenges of scaling up funding to developing countries. Two existing aid modalities will be assessed and considered for suitability to South Africa. Finally, a financing and programming model based on the UN's Three Ones, the Paris Declaration and the sector wide approach will be put forward for consideration.