Global Funds: Allocation Strategies and Aid Effectiveness

Final Report

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List of acronyms

AAA	Accra Agenda for Action
AfDB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
ART	Antiretroviral Therapy
ARV	Antiretroviral
BLCF	Business Linkage Challenge Fund (DFID)
CBFF	Congo Basin Forest Fund
CGD	Center for Global Development
CGIAR	Consultative Group on International Agricultural Research
COD	Cash on Delivery
CSO	Civil Society Organisation
CTF	Clean Technology Fund (World Bank)
DAC	Development Assistance Committee (OECD)
DFID	Department for International Development (UK)
DTP	Diphtheria, Tetanus and Pertussis
EC	European Commission
EDF	European Development Fund
EFA	Education For All
EPDF	Education Programme Development Fund (FTI)
EPOC	Environmental Policy Committee (OECD)
FDCF	Financial Deepening Challenge Fund (DFID)
FTI	Fast Track Initiative (EFA)
GAVI	Global Alliance for Vaccines and Immunisation
GEF	Global Environmental Facility
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GFP	Global Fund and Partnership
GHP	Global Health Partnership
GPOBA	Global Partnership on Output-Based Aid
GTZ	German Technical Cooperation
H8	Health Eight
HIV	Human Immunodeficiency Virus
HSS	Health System Strengthening (HSS)
IATI	International Aid Transparency Initiative
IDA	International Development Association
IFFIm	International Financing Facility for Immunisation
IHP+	International Health Partnership and related initiatives
IMF	International Monetary Fund
INS	Injection Safety Support (GAVI)
ISET	International Systems Effectiveness Team (DFID)
ISS	Immunisation Services Support
LDC	Least Developed Country
LDCF	Least Developed Countries Fund
MCC	Millennium Challenge Corporation
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
NAPA	National Adaptation Programme of Action
ODA	Official Development Assistance

OECD	Organisation for Economic Co-operation and Development
PBF	Performance-Based Funding
PD	Paris Declaration
PEPFAR	US President's Emergency Plan for AIDS Relief
PPCR	Pilot Program for Climate Resilience (World Bank)
RDB	Regional Development Bank
SA	Study Area (GFATM)
SWAp	Sector-Wide Approach
TRP	Technical Review Panel (GFATM)
TT HATS	Task Team on Health as a Tracer Sector (OECD)
UK	United Kingdom
UN	United Nations
UNAIDS	UN Joint Programme on HIV/AIDS
UNFCCC	UN Framework Convention on Climate Change
UNFPA	UN Population Fund
UNICEF	UN Children’s Fund
US	United States
WHO	World Health Organization

Executive summary

E1. Global funds are an increasingly significant part of the global aid architecture,[1] with funding until recently concentrated in health and education. These funds have important advantages – including a focus on results and a specificity that resonates with publics and politicians. Yet, they have been criticised at the country and global levels for tensions between their specific mandates, or verticality, and the widely agreed principles of aid effectiveness contained in the Paris Declaration (PD) and the Accra Agenda for Action (AAA) – country ownership, donor alignment behind country strategies and systems, donor harmonisation to increase alignment and reduce transaction costs, managing for results and mutual accountability between donors and partner countries.[2]

E2. Critics have raised questions as to whether their funding could be made more consistent with aid effectiveness principles, whether their funds could be more effectively used through other funding channels, and the extent to which the political support they receive translates into higher overall aid levels. Focusing on the first of these issues, the AAA states that 'global funds and programmes make an important contribution to development [...] We call upon all global funds to support country ownership, to align and harmonise their assistance proactively, and to make good use of mutual accountability frameworks, while continuing their emphasis on achieving results'. It also pointedly calls on donors to 'ensure consistency between their overall commitment to the principles of aid effectiveness and the line that their representatives take on the Boards of global programme funds'.

E3. This report starts with a brief overview of the Paris/Accra approach to aid effectiveness and a definition of global funds and partnerships and their role in the overall aid architecture. It goes on to summarise strategies for allocation of funds across countries, including challenge funds and results-based aid, as well as specific model examples used by selected global funds and partnerships (section 2). Section 3 sets out recent progress, and remaining challenges, in efforts by global funds to adapt to the agreed principles of aid effectiveness of Paris/Accra, with a focus on predictability, sustainability and capacity development. The report then draws key recommendations for further reforms articulated around the need to increase the impact of global fund allocations and to better integrate global funds at country level as well as specific recommendations for climate funds (section 4). The report concludes by identifying key entry points and potential challenges that should be kept in mind for the implementation of the specific recommendations (section 5).

E4. Global funds, like donors in general, seek to maximise the impact of their assistance and use a variety of allocation mechanisms to ration their funds. These extend from challenge funds through results-based approaches to support of overall country specific envelopes. Challenge funds allocate available financing to the highest-ranked proposals submitted in each round of funding, with the remainder receiving nothing. Results-based approaches themselves cover a very wide range of models, including disbursements according to outcomes, outputs, inputs, and policies.

E5. Overall country sub-sectoral support can vary in modality (including sectoral budget support) and may make use of *ex ante* indicative country allocations based on need and performance. The difference between the approaches of global funds and of Paris/Accra 'horizontal' aid is not whether they seek to achieve results. The AAA is clear on the fact that 'achieving development results - and openly accounting for them - must be at the heart of all we do.' Instead, the differences lie in how the

[1] The term global funds and partnerships, or GFPs, is often used interchangeably with global funds. But, while all global funds are GFPs, not all GFPs have global funds, and certainly not global funds with significant grants at the country level.
[2] The PD refers to 'insufficient integration of global programmes and initiatives into partner countries' broader development agendas'.

fund allocation strategies designed and implemented to achieve these results are to be achieved. A key issue for all approaches to linking finance to results is the relative emphasis between short- and medium- to longer-term results and between results *per se* and intermediate steps that bring them about. In this context, this report also emphasises three issues related to achieving medium- to long-term results: predictability, sustainability and capacity.

E6. The report notes the major efforts now ongoing to integrate global funds with country-based programmes. Change is taking place in global funds in response to a growing body of empirical evidence, including from external evaluations of their programmes, and of external pressure from partner countries and donors. Their individual efforts are complemented by collective efforts within health (including the International Health Partnership and related initiatives (IHP+)) and among global funds across sectors (Global Programs Learning Group). There is broad agreement that a good deal of change has taken place but also that progress has been uneven and far more remains to be done as brought out sharply in recent detailed evaluations of global funds.

E7. The following are the major recommendations and related findings that emerge from the interviews and from the analysis generated by this report.

i. **Allocation mechanisms of global funds should be adapted to the objectives they seek to achieve.** Global funds should draw on the growing experience of different business models for allocating funds in use, including challenge funds, results-based funding and support for overall sub-sectoral programmes. Donors should build in good practice on allocation models, as on aid effectiveness in general, when establishing new global funds. They should also provide encouragement and flexibility to existing global funds to do so.
    - **Challenge funds have shown themselves to be well suited to encouraging innovation and piloting and should be used for that purpose. But this approach should be avoided in new funds and modified in existing ones when the objective is longer-term support for scaling up country programmes.** They are particularly poorly suited to activities that lead to large, let alone growing, recurrent costs, and high turn-down rates increase their overall transaction costs. But challenge fund windows can help encourage innovation and piloting, including in middle-income countries that are rightly excluded from consideration for large-scale grants for ongoing services.
    - In keeping with Paris/Accra principles, the most aligned and harmonised support for country programmes is programmatic, aligned behind country priorities and programmes as a whole rather than only behind specific objectives within those programmes. **Global funds in general should make increased use of financing modalities that finance overall sub-sectoral programmes**, including budget support. In the case of GFATM, the need for more overall sub-sectoral financing applies at the level of individual diseases (its new ‘single stream’ approach), the three diseases in its specific mandate, as well as health systems.
    - Results-based financing holds real promise as an allocation mechanism. However, it is not a panacea. It needs to be implemented in a manner that balances its incentive effect with the need for programmatic support and for predictability (discussed below). And it needs to address long-run results and sustainability rather than just short-term easily-measurable ones.
    - **Global funds should take a portfolio approach in allocations between programmatic and results-based financing.** Both are aimed at achieving development results: the differences between them are primarily of means and of time frame. Programmatic and results-based financing can also readily be combined in the same grant, as in European Commission (EC) ‘MDG Contracts’. **Donors should take a similar portfolio approach in deciding allocations between global funds and horizontal country programmes.**

- **Global funds should give serious attention to setting *ex ante* country allocation envelopes, based on agreed criteria, to help on predictability as well as to increase the impact and equity of their assistance.** These country envelopes are guidelines rather than straitjackets: they can allow for adjustment, for example, for results achieved. The allocation envelopes help move the focus from 'beauty contests' for proposals that appeal to external panels with limited country knowledge to sound implementable programmes.

ii. **Major global funds require continuing and strengthened efforts to implement agreed principles of aid effectiveness.**

- **Global funds, and, even more importantly, the funders who determine what commitments they can make, should give more attention to predictability across and within years – and at least as importantly to longer term sustainability.** The periods of financing by global funds and of funds available to them need to be better reconciled with longer term commitments for countries facing longer-term recurrent costs that are beyond their domestic financing capacity. **Instruments to do so include innovative sustainable financing and longer term commitment authority, including through preferred access to continuing financing for adequately performing countries.** Sustainability is also an important reason for adapting support of global funds to country priorities, including through support of overall sub-sectoral and sectoral programmes.
- **Global Funds should also give more attention to capacity development – particularly for the longer term and for sector-wide needs. Parallel systems and structures set up by donors should be cut back and adapted to longer-run country needs, as called for in the Paris Declaration. Capacity development, even sector-wide, should not be limited to building new capacity in the public sector** but may also include, for example, buying specialised services from universities or the private sector or strengthening and using capacity of civil society. This needs to be done in a way that adds to total capacity available for development priorities, rather than drain capacity from other parts of the national system.
- At the level of specific funds, the FTI has been well aligned in concept with Paris/Accra but it should give more emphasis to its initial role, unique among global funds, of coordination and mutual accountability for aid to basic education in general. GFATM should accelerate its efforts, including support of country strategies, 'single stream' financing for each disease, and health systems, to soften its challenge fund model. This is still consistent with a strong focus on results, long as well as short term. Both GFATM and GAVI should strengthen their support to health systems, even in the face of slower growth in funding.

iii. **Donors and other stakeholders should use incentives at their disposal, including membership in Boards and committees and participation in replenishments, to encourage intensified efforts to implement fully the agreed Paris/Accra principles of aid effectiveness.** This should include, but not be limited to, the issues emphasised in this report. Principles of aid effectiveness should be taken into account from the start in deciding whether additional global funds should be established ('think twice') and in their initial design. This applies particularly in climate change and food security, areas where new global funds are under discussion or in early stages.

iv. Climate funds merit a special focus**. Although climate funds are making efforts to take account of aid effectiveness principles, donors should make stronger efforts to assure that the 'architecture' of climate funds addresses three big drawbacks from a Paris/Accra point of view.** First, they are highly fragmented. Experience in the health sector and the strong emphasis in the AAA on reducing fragmentation suggests it would be better to consolidate climate funds rather than creating new ones, although it is encouraging that, as called for in the AAA, existing institutions are being used for new funds. Second, they have a strong project bias. As in other sectors, they would have more impact if they provided broader programmatic support as a primary modality. In addition, programmatic support should focus on adapting development efforts overall to the effects and risks of climate change, maximising development impact and putting a strong focus on the poor rather than just ‘climate proofing’ projects and sectors. Third, given tightened fiscal circumstances of most donors, growth in aid for climate change is likely to be, to a substantial extent, at the expense of aid for other purposes. As a recent DAC report on multilateral aid (OECD, 2010) puts it, "Arguments for creating parallel new funds simply because existing funds have not yet delivered sufficient resources, or because the financial gaps for climate change mitigation and adaptation are so large, are not sufficient.”

1. Introduction

1. **Global funds are an increasingly significant part of the global aid architecture.[3] The way they operate has many advantages, including the fact that they encourage a focus on results. However, there is also an inherent tension between the gl**obal fund approach and aspects of the aid effectiveness agenda. This report, commissioned by the UK Department for International Development's (DFID) International Director's Office (IDO)), looks at two closely related sets of aid effectiveness issues: how global funds allocate their funds among proposals and countries and the impact this has on Paris/Accra principles of aid effectiveness; and how they deal with predictability, sustainability and capacity aspects of alignment. [4]

2. The analysis of allocations covers a fairly wide variety of global funds. It goes into more depth on three major global funds providing large-scale services across a broad range of countries: the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), the Global Alliance for Vaccines and Immunisation (GAVI) and the Fast Track Initiative (FTI).

3. This report starts with a brief overview of the Paris/Accra approach to aid effectiveness and a definition of global funds and partnerships and their role in the overall aid architecture. It goes on presenting the existing allocation models: challenge funds, results-based aid as well as specific model examples used by selected global funds and partnerships (section 2). Section 3 sets out recent efforts made, and analyses remaining challenges, to increase their alignment with aid effectiveness principles, with a focus on predictability, sustainability and capacity development. Section 4 presents key recommendations for further reforms to increase aid effectiveness, focusing on improved allocations and better integration at country level, with specific recommendations for climate funds. The report concludes by identifying key entry points and challenges for increasing the aid effectiveness of global funds (Section 5).

1.1 The agreed Principles of Paris/Accra for aid effectiveness

4. In 1996, efforts began to revise the previously dominant view of development, whereby donors thought they knew what partner countries should do and tried, through projects or conditions, to get them to do it (OECD, 1996). The principles for improving aid effectiveness that gradually emerged over the next decade were codified, and widely agreed, in the Paris Declaration (PD) (2005) and the Accra Agenda for Action (AAA) (2008). The approach is based on the recognition that, particularly in the long term, it is primarily countries and not donors that impact on development (Isenman and Shakow, 2010). To this end, it calls for the strengthening of recipient ownership and capacity, improved management for results, harmonisation and alignment of donor activities and increased transparency and accountability on both sides. The PD and the AAA are commonly, and correctly, viewed as a set of guiding principles applicable to any kind of aid. At the same time, they also present a 'horizontal', country-based aid effectiveness model which, in key respects, sits in stark contrast with the 'vertical' model of global funds.

5. Evaluations and reviews have shown that the entire Paris/Accra agenda is important for global funds. The differing strategies for allocating funds chosen by the founders of each global fund have important implications for three specific aspects of alignment identified in the terms or reference for this report - sustainability, predictability and capacity. A summary of the commitments

[3] For technical terms, please refer to the glossary annexed to this report
[4] The research undertaken for this study included review of relevant secondary literature, including evaluations and Board minutes, as well as other independent analyses of the aid effectiveness of global funds. In addition, the report team carried out a range of interviews of representatives of global funds, bilateral and multilateral donor agencies, recipient countries, civil society organisations (CSOs) and think-tanks.

in the PD and the AAA bearing on these aspects of alignment, as well as of alignment overall, is as follows:

- **Alignment:** Donors should base their support on partner countries' national development strategies. They should also make greater use of help strengthen recipient systems and procedures.
- **Sustainability:** the PD calls for sustainability of capacity, reforms, financing and results. The AAA refers to "lasting development results" and to "results over the medium term".
- **Predictability:** As a key aspect of alignment, donors should strive to make their aid more predictable so that partner countries know what resources are likely to be available as they plan their programmes and budgets. The PD target for predictability is to halve the proportion of aid not disbursed within the fiscal year for which it was scheduled. The AAA encourages donors to provide developing countries with regular and timely information on their three- to five-year forward expenditure/implementation plans – with at least indicative resource allocations.
- **Capacity:** Donors should help strengthen the capacity of all development actors to actively participate in the development process. They should provide demand-driven capacity development and, to the extent possible, avoid creating parallel structures for the day-to-day management of aid-financed projects and programmes. More technical cooperation flows should be implemented through coordinated programmes.

6. The Paris Declaration principle of 'managing for results', in the sense of a consistent focus by donors and partner countries on results throughout the development process, has been a central theme for global funds. The challenge here for global funds, as explicitly requested in the AAA is to continue their emphasis on achieving results but in a way that increases support for the other Paris principles. The different strategies used by global funds to allocate funds, presented in section 2 below, although all aimed at producing results, have differing strengths and weaknesses in doing so.

Box 1: Other Paris/Accra principles

In addition to the issues highlighted above, the following donor behaviours, central to aid effectiveness, are all also highly relevant to global funds. Progress and challenges of global funds in addressing these principles are discussed in Box 4.

- **Ownership:** Donors should respect country leadership in development policies and help strengthen the capacity to exercise it.
- **Harmonisation:** Donors should work together and make use of their respective comparative advantage to reduce transaction costs for partner countries and to support alignment.
- **Mutual accountability and transparency:** Donors and partner countries are mutually accountable for results and should ensure that mutual assessment reviews are in place. Mutual accountability should support domestic accountability. Meanwhile, donors should increase the transparency of their aid.

7. The principles agreed in the PD and the AAA remain at the forefront of the current aid effectiveness discourse and decision making. They provide clear guidelines on how to improve aid effectiveness and encourage a network model approach to development assistance, through the development of shared objectives and mutual accountability for results. Indeed, the PD is considered 'a watershed in formalising and refocusing efforts to develop an international plan of action with unprecedented breadth of support' (Wood et al., 2008). However, the declarations deal essentially only with the process side of aid effectiveness, not with the substance of what actually needs to be done. Meanwhile, donors sometimes fail to adapt the PD & AAA to the needs of each developing country.

1.2 Global funds

8. In the past decade, both the number and the size of global funds have rapidly increased. Global funds can be defined as institutions that channel funding for specific development objectives, usually at the sub-sectoral level, across countries. They have been particularly important in health, education and the environment. Among the largest are the Global Alliance for Vaccines and Immunisation (GAVI), established in 1999; the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2002; the Education For All Fast Track Initiative's (EFA-FTI) Catalytic Fund, 2003; and the Global Environment Facility (GEF), established a decade earlier (1991). New global funds for climate change and food security are at the early stages of development. Global funds employ a diversity of approaches, including in the way they allocate their funds, as discussed in the following section.

9. Global funds were in part created with the aim of breaking out from development orthodoxy. Existing international institutions were seen as too bureaucratic and slow, too powerful and unwilling to give civil society a seat at the table. In addition, global funds, with their focus on popular, often lifesaving, interventions, were appealing to publics, civil society organisations (CSOs) and political leaders. Among their potential strengths are (Isenman and Shakow, 2010):

- Mobilisation of additional resources and political support through a focus on issues that are, to varying extents, global public goods and that appeal to the moral sensitivities of CSOs and political leadership in donor countries;
- An emphasis on results and performance, including providing performance-based financing to help achieve them;
- The potential to bring off much greater change than would have occurred in their absence, as GAVI and GFATM have shown (e.g. immunisation or antiretroviral therapy (ART));
- Incorporation of scientific review panels to pass on or rank the quality of proposals submitted, although these are a mixed blessing when issues are not technical;
- Encouragement of innovation and sharing of cutting-edge technology;
- Securing of potential economies of scale or market influence Engagement with a broad set of stakeholders, giving a key governance role to civil society and the private sector;
- Pooling funds at the global level that donors might otherwise provide bilaterally;
- Ability to be nimble and adaptable, not weighed down by the baggage of accumulated rules and perceived political interference, although global funds also accumulate their own barnacles fairly rapidly; and
- A high standard of transparency, with documents uploaded onto websites which donor agencies would normally consider internal or confidential.

10. Although the AAA recognises that 'global funds and programmes make an important contribution to development', it also calls on global funds 'to support country ownership, to align and harmonise their assistance proactively, and to make good use of mutual accountability frameworks, while continuing their emphasis on achieving results'. It also calls on donors to 'ensure consistency between their overall commitment to the principles of aid effectiveness and the line that their representatives take on the Boards of global programme funds'. Evaluations and related studies of global funds have confirmed the benefits of global funds but have been much harsher in their criticisms of their adherence to agreed Paris/Accra principles, as discussed in part below.

2. Overview of existing allocation approaches and their impact on aid effectiveness

11. Global funds potentially have at their disposal a wide range of choices about how to allocate their funds to be most effective. The word 'potentially' is important: the choice depends on the degree of flexibility that the initial funders and other key stakeholders of new global funds build into their initial design and whether the governance structure permits or encourages change. This section looks at the advantages and disadvantages of different strategies for allocations used by global funds, with a focus on the Paris/Accra principles of predictability, sustainability and capacity. The following section then focuses in more detail on GFATM, GAVI and FTI, putting their allocation models into the context of their overall efforts towards aid effectiveness.

12. The underlying principle guiding allocations is easy to set down but much harder to operationalise: the objective of donors should be to provide aid in a manner that maximises (the present value of) desired outcomes or impacts over time, taking account of spillover effects (positive and negative) on overall country and sectoral programmes. A range of allocation mechanisms are available in designing global funds. With challenge funds, a fixed amount is allocated to the highest-ranked proposals submitted in each round of funding, with the remainder receiving nothing. With results-based approaches, the amount received varies according to achievement with regard to agreed indicators (ranging from inputs to outcomes). All global funds, not just those that provide financing linked directly to measurable results, target high effectiveness – balancing where their aid will accomplish the most and where it is most needed – at least as their implicit objective. Where they differ is on the best way to achieve this, including the relative level of emphasis on what is accomplished in the short term and on what is invested in building for the longer term.

2.1 Challenge funds

13. A challenge fund is one where there is a competition for a fixed amount of funding for specified purposes. Those who win have their proposals financed, albeit with adjustments that reflect reviewers' perspectives on relative merits or on reasonableness of the amount requested. Losers receive nothing. Challenge funds are, in essence, a form of competitive tendering.

14. Among the major funds in the social sectors, only GFATM operates as a challenge fund. GFATM was set up with a very different and longer-term set of objectives: to finance programmes, including antiretrovirals (ARVs), with high and increasing recurrent costs and a strong moral and political argument for continuing financing indefinitely. GFATM's Technical Review Panel (TRP) looks at projects recommended by country-level Country Coordination Mechanisms and approves the best of these. The approval rate varies over time and among the three GFATM diseases. The latest available results (Round 9) show an average approval rate of about half (53%, with 47% of HIV proposals, 61% of tuberculosis proposals and 55% of malaria proposals, all including support for health systems (GFATM, 2009d). GFATM grants run for an initial three years and can be extended in the second year for an additional three years, to a total of five years.[5]

15. In essence, there is a mismatch between the use of a series of contests, especially with a failure rate of half and covering only three-five years, and the partnership model that would be required to address the continuing financial needs of national programmes across a wide range of countries. For example, the view of a universal basic right to ARV treatment, later embodied in

[5] GFATM's 'rolling continuation channel' for follow-on grants for good performers was cancelled in 2010. GFATM provides two years' interim financing for maintenance of ongoing programmes when grants terminate and there is no relevant subsequent grant in place.

Millennium Development Goal (MDG) Target 6b,[6] is a global choice strongly supported by donors. It is not a choice made by developing countries among their health objectives to which they would give the highest priority in funding. So it is not surprising that GFATM has *de facto* softened the hard edges of the challenge fund model in order to spread its financing very widely: to 144 countries (as of May 2010) and it is starting to provide support for 'National Strategy Applications'. A key point here, though, is that there have been no subsequent global funds launched on a challenge fund basis to meet large-scale and ongoing recurrent cost needs. And GFATM is undergoing a continuing, if not always smooth or rapid, process of making changes towards becoming a hybrid between a challenge fund and a partnership model – with more emphasis on predictability, sustainability and capacity. The continuing process of its adaptation to the agreed Paris/Accra principles is discussed below.

16. Because of its size (US$19.3 billion by 2010), it is not surprising that GFATM has generated a small industry, including international conferences and donor-funded technical assistance, to prepare and revise proposals for GFATM financing (GTZ, 2010). As such, what looks like an excellent country proposal may reflect more the skill of a consultant than the quality of the government's proposal or its commitment. A related problem is that, even where proposals are not prepared by consultants, better-off countries with stronger planning groups will be more able to show off their programmes in the best light. (The same is true for the bilateral US President's Emergency Plan for AIDS Relief (PEPFAR), which dwarfs even GFATM in size, but this operates primarily on a partnership basis rather than using a challenge fund model.)[7] Yet another problem is the resources used to prepare proposals that get turned down, over 50% in the case of GFATM.

17. Challenge funds are used widely in medical and academic research, as well as in the social sectors. Here, the competition aims to generate the best and most innovative research or demonstration projects.The cost of preparing proposals that are turned down is, at least implicitly, justified in terms of contribution to knowledge, a public good. This cost is harder to justify in aid aimed to support ongoing programmes. Eyben et al (2008) note the advantage of encouraging the exploration of multiple pathways to exploring complex problems as well as the disadvantage in some situations of turning actual or potential partners into competitors. Even in research trade-offs arise between obtaining the best proposals and sustaining the capacity to produce good research in the future. DFID has over time put differing degrees of emphasis in its own research programmes between achieving specific results, providing longer-term support for capacity development to produce results in a given area and core support to work on longer-term capacity. As emphasised by the former director of a leading UK development research institute interviewed for this study, it is difficult to keep and finance top research talent through continuing competition for shorter-term research funds from DFID and other sources. The same issue of striking a balance between institutional support aimed at the sustainability and capacity of future research and attracting the best specific research proposals is seen in the history of the longest-standing global fund, the Consultative Group on International Agricultural Research (CGIAR).[8] It is now undergoing a major reform process, intended in large part to consolidate and increase the sustainability of the financing of its research institutes, getting away from a process whereby most of its budget comes from *ad hoc* contributions of donors to specific research centres for specific projects.[9] A part of the financing for its research institutes will still be awarded competitively, though, as in a challenge fund.

[6] 'Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it'.
[7] A 2008 law authorised the US government, through PEPFAR, to establish partnership frameworks with host countries to promote a more sustainable approach to combating HIV/AIDS, characterised by strengthened country capacity, ownership and leadership. Partnership frameworks provide a five-year joint strategic framework for cooperation between the US government, the partner government and other partners to combat HIV/AIDS in the host country, through service delivery, policy reform and coordinated financial commitments. See www.pepfar.gov/frameworks/index.htm.
[8] www.worldbank.org/ieg/cgiar/.
[9] www.cgiar.org/changemanagement/cm_implementation.html.

18. DFID has been a leader in the use of challenge funds across countries, and, at least in the case of Bangladesh, within countries. While these DFID funds are not global, exploring them helps us understand whether and how this model can be used by global funds. Evaluations of the Business Linkage Challenge Fund (BLCF) and the Financial Deepening Challenge Fund (FDCF) found that both had positive results (Emerging Markets Group, 2009; Irwin and Porteous, 2005). Like almost all project evaluations, these did not use rigorous approaches to separate out correlation from causality – for example whether the selection process identified promising projects that would in any event have succeeded through finding alternative funding – or take account of the cost of preparation of projects not approved. However, the analysis appears reasonable, and the results seem plausible. These are, though, very different from the major global funds that are financing ongoing recurrent costs in health and education. They were designed to take commercial projects from a 'no-go' to a 'go' and, once up and running, successful projects should be able to be replicated.[10]

19. DFID's Civil Society Challenge Fund, like the BLCF and the FDCF, is a 'classic' challenge fund, encouraging competition among UK-based CSOs for projects lasting up to five years. Sustainability is defined in terms of impact of the given project, implying a focus on one-off projects rather than continuing support for recurrent costs. 'All proposals are required to have a component of building support for development in the UK' (DFID, 2010). Partly to this end of generating support for development within the UK, funding is tied (to UK-based lead CSOs), and only two awards can go to the same organisation annually.

20. **Overall, challenge funds have shown themselves to be well suited to encouraging innovation and piloting and should be used for that purpose. But this approach should be avoided in new funds and modified in existing ones when the objective is longer-term support for scaling up country programmes.** They are particularly poorly suited to activities that lead to large, let alone growing, recurrent costs. But there still may be a role for challenge fund windows in major global funds to help encourage innovation and piloting, including in middle-income countries that are excluded from consideration for large-scale grants for ongoing services. There would still be need to avoid the waste of resources that come from high turn-down rates. The World Bank's Health Results Innovation Trust Fund[11] has addressed this issue by using a limited tender, striking a compromise between a partnership approach and a challenge fund by preselecting a group of countries about 50% larger than the number it wants to work with in developing proposals for results-based financing.[12]

21. Building more partnership into challenge fund models can not only increase predictability and sustainability (as in the case of current GFATM evolution) but also reduce both the waste from rejected proposals and the incentive to try to win the 'beauty contest' by using consultants to produce plans that look good whether or not they are owned or implementable.

2.2 Results-based aid

22. This report does not deal in depth with results-based aid, whereby disbursements are linked with results, as this topic is covered in depth and breadth in Pearson et al. (2010), which synthesises recent analysis and evaluations. There is also an extensive review of results-based aid projects in the 'e-book' of the Global Partnership on Output Based Aid (GPOBA, 2010), although this is more from an advocacy point of view. However, a number of points can be made here.

23. A global fund providing results-based aid is quite different from the challenge funds discussed above. Challenge funds generally do not disburse on the basis of results, although

[10] www.frich.co.uk/html/challengefunds.html.
[11] www.rbfhealth.org/rbfhealth/.
[12] Based on interview with Amie Batson, Deputy Assistant Administrator, USAID, and previously the responsible person in the World Bank for this trust fund

credibility may be enhanced by performance on past proposals. Results-based aid still generally involves a contest for available funds, though, in two ways: submission of an acceptable programme for financing and ceding unused funds back into the common pool for redistribution. The challenge fund and results-based models can be combined. GFATM does so by varying the amount of disbursement under challenge-based grants, in part according to performance on agreed results. This illustrates the point, further developed in this paper, that there are advantages in combining different allocation approaches with regard to balancing incentives and managing risks.

24. As Pearson et al. (2010) point out, pegging disbursements to specific outputs can be effective in terms of achieving demonstrable results on those outcomes. And there is strong pressure to show value for money in aid as in other areas. The authors and the analysis in their report call for a degree of caution, though, on several grounds.

25. First, as noted, the objective is maximising results (or, more precisely, outcomes and impact) over time. It is for this reason that the aid effectiveness principles of Paris/Accra call for emphasis on the underlying determinants of longer-term progress, including country capacity, systems and institutions. Lack of results in the short term can be a good indicator of a lack of progress in the longer term, although maximising results in the short term can come at the cost of attention to these longer-term determinants. As such, disbursement against indicators of outputs (such as improvements in policies or in institutions) is not necessarily inferior to disbursement against outcomes (e.g. immunisations or primary school completion) alone. GFATM is an example of disbursement against indicators of results that include outputs (and inputs) as well as outcomes, whereas GAVI's Immunisation Services Support (ISS) programme is an example of disbursement by outcomes.

26. Second, though, disbursement against immediate results, in general on the basis of incremental results over the preceding year, creates tensions with predictability and sustainability. As stated in the AAA, 'greater predictability in the provision of aid flows is needed to enable developing countries to effectively plan and manage their development programmes over the short and medium term'. This applies particularly to scaling up programmes that involve primarily increased recurrent costs, like hiring teachers or ARV treatment, which are politically and morally difficult to reverse. Sustainability of financing from global funds to partner countries also has clear implications for sustainability of financing from donors to global funds.

27. Third, evaluations readily show that spending more money on a given objective using results-based aid produces more results. But, as Pearson et al. (2010) point out, whether these results come from the incentive effect of linking disbursements to results – as it seems at first glance – or simply from the global fund's financing of programmes relevant to those results has yet to be demonstrated. Pearson et al.'s question applies all the more when considering the present value of results over time. On the other hand, not being able to show to a rigorous statistical standard that there is causality rather than just correlation does not mean that there is no causation. The same point can be made about the impact of the Paris/Accra principles on development results, although the micro evidence at the project level is strong (Wood et al., 2008). It even applies to the debate that has gone on for four decades about the impact of aid on growth (Arndt et al., 2009; Papanek, 1973; Rajan and Subramanian, 2008). In the case of results-based aid, the impact of financial incentives on behaviour is well enough established to sustain the case for causality, although not to determine how strong that causality is.

2.3 Review of specific allocation approaches

28. **GFATM** uses a flexible definition of 'results' that emphasises programme performance indicators more than outputs achieved. It makes flexible adjustments to disbursements on the basis of those indicators as well as using them in determining whether to provide funding in the

future and at what level. GFATM'S Board also has recently approved 'the establishment of a dedicated funding envelope to allow for additional funds to be committed to programs on the basis of demonstrated strong performance and impact' (GFATM, 2010b). This fund is meant to increase disbursements within the life of a grant. While this emphasis on results-based financing reduces predictability, it increases the focus on using funds where they are effective and provides incentives to programme recipients to improve performance.

29. **GAVI** uses different funding mechanisms. One is its ISS, with payments of US$20 per capita per diphtheria, tetanus and pertussis (DPT) injection for an increase over the level in the previous year (with financing in the first two years on the basis of the number of children to be covered, in order to help build initial capacity). This system provides strong incentives for immunisation, since the funds provided as a result of increased immunisation are available for other uses in the health sector (or elsewhere). In theory, a country might get no ISS funding in a given year if it does not increase its coverage. In practice, countries can generally broadly predict, if to varying extents, how much it will be able to increase coverage. An evaluation of the ISS found that it had had a major impact with regard to the rapid spread of DPT immunisation (GAVI, 2007a). GAVI's Injection Safety Support (INS) and Health Systems Strengthening (HSS), on the other hand, finance agreed plans rather than outputs, with a low risk of unpredictability. Country level support for implementation (commodities and services) is carried out by alliance members such as WHO, UNICEF and the World Bank. Funding is not on a 'challenge' basis. GAVI has *de facto* indicative allocation envelopes based on the number of children in each age cohort in eligible countries. It has been able to maintain this policy as its coverage has expanded, in part through a substantial increase in financing and in part by adjusting its eligibility and co-financing criteria to equate supply and demand for funding (GAVI, 2009b).

30. The **Catalytic Fund of the Fast Track Initiative** does not allocate funds on the basis of either challenge or results. but instead follows the Paris/Accra partnership approach. In the past, it attempted to respond positively to all acceptable financing proposals, in some cases with reductions to fit total available finance. It is now shifting to an approach of ex ante allocation envelopes. In either case predictability is high once programmes that meet the criteria are approved and disbursements start. But there have been problems and delays in project implementation, owing in part to the implementation procedures of the World Bank, the principal implementing agency. The FTI is planning to provide financing increasingly on a results basis, partly in line with expected reforms in "investment lending" of the World Bank, which has been its lead implementing agency. This would mean results in terms of meeting indicators and taking agreed steps rather than necessarily payments for services.

31. The **Global Environment Facility (GEF)** also operates on a partnership basis. Within its mandate it supports country priorities, even though it focuses on financing innovative projects rather than overall programmes. For its two largest programmes, it changed its past policy of allocating funding to its implementing agencies for onward allocation to countries, to one of allocating envelopes to the countries themselves and letting them choose among eligible implementing agencies. This increases predictability (subject to the procedures of implementing agencies). It also means that it is the partner country rather than the donors that is in the driver's seat of the 'challenge'.

Box 2: Climate fund allocation models

None of the major climate funds – whether dealing with mitigation or adaptation -- qualifies as meeting the strict definition of a challenge fund, apart from the Congo Basin Forest Fund (CBFF), which is administered by the African Development Bank (AfDB), with £100 million pledged by the governments of the UK and Norway. This provides funding on a competitive basis in a two-stage process: competitive submission of a concept note; then, for those chosen in the first round, submission of a detailed project proposal (using a standard application form). The first call for proposals was launched in June 2008, with 188 concept notes received in response; 94 (50%) met the stated criteria and were invited to submit a full proposal by mid-December 2008. Following technical review and assessment, six successful proposals (6%, or 3% of all proposals received) were chosen. As a counterpart to its strict selectivity, this approach entails a very high degree of uncertainty regarding access to funding and a great deal of wasted effort.

There exist hybrid models whereby climate funds support the development of an investment strategy, but with only a few projects per country prioritised and funded, based on a specific set of criteria. (These can include performance indicators such as on greenhouse emission reductions, for example.) The Least Developed Countries Fund (LDCF) is an interesting hybrid case because it supports, in a first phase, the development of National Adaptation Programmes of Action (NAPAs) in LDCs that identify adaptation priorities. It then goes on to support project concepts developed on the basis of the NAPA. The Clean Technology Fund (CTF) is based on a similar model. Investment plans are approved with a view to endorsing a resource envelope for programmes/projects included in the investment plan and authorising the designated multilateral development bank (MDB) (CTF implementing agency) to proceed with the development and preparation of individual investment operations for CTF co-financing. These partnership approaches between recipient countries and the climate fund for the development of investment plans represent an opportunity to support the development of countries' capacity to plan and prioritise adaptation programmes, in turn ensuring increased country ownership and sustainability of programmes. Furthermore, they should in principle decrease the degree of uncertainty for recipient countries regarding approval of projects and activities to be funded, since the plans will have been developed and prioritised in cooperation with the climate fund and its implementing partner.

All climate funds involve a competitive element, including in country and/or project qualification for funding, as well as with regard to the volume of funding provided. The objectives of concessional financing for mitigation – aimed at producing global benefits from mitigating the effects of climate change –, and of adaptation – aimed at helping countries adapt to the costs and risks of climate change –, are quite different. In both cases, though, the existence of a national development strategy integrating climate change or a climate-specific strategy, which can be reviewed against a specific set of criteria, could potentially be used as a trigger for programmatic funding (discussed in Box 7) – although this would be a change from the project focus of most climate funds. There remains a strong case, though, for selected project-specific financing of major investments in mitigation.

32. **European Commission (EC) MDG contracts:**[13] Although the European Development Fund (EDF) is a horizontal donor rather than a vertical fund, it has developed an interesting hybrid instrument that offers long-term budget support (six years renewable) of which a share (up to 30%) is disbursed according to progress towards meeting agreed MDG goals. This instrument, similar in concept although not form to that of GFATM, merits consideration by global funds, whether or not they wish to use budget support. (Pearson et al., 2010 and IDD and Associates, 2006 point to the advantages of budget support in supporting country systems.) The six-year, renewable time horizon provides predictability for countries, with agreement between the EC and the concerned country about the share that should be used as an incentive to achieve agreed results. The MDG contracts are relatively new and have yet to be evaluated, but the generally positive reviews of budget support and of results-based aid should apply to its two main components. The point here is not to detail how the EC has combined the two but to show that they can be combined in the same instrument.

33. **International Development Association (IDA) country allocations:** IDA country allocations, and those of concessional funds of other MDBs, are also results oriented, although they are rarely referred to as such. Its aggregate performance rating, the Country Performance and

[13] See http://ec.europa.eu/development/how/aid/mdg-contract_en.cfm.

Institutional Assessments (CPIA), measures recent past performance on economic and social management, governance and implementation of World Bank projects. It is used as a proxy for expected aid effectiveness, striking a balance between results and predictability (Mumssen et al., 2010).[14]

34. The **Millennium Challenge Corporation** (MCC), although bilateral, uses an interesting hybrid model – a challenge fund that is horizontal. Partner countries are judged not on the basis of the proposal submitted but on the basis of aggregate performance on 17 indicators, with an emphasis on governance (including democracy). This approach is conceptually similar to that of IDA, which has a broader set of variables in its CPIA. A big difference, though, is that the MCC uses a challenge approach where its aggregate performance indicator determines country eligibility, while IDA uses performance "only" as one of the determinants of allocations. Once a country is chosen, it works with the MCC to develop a proposal that fits its own development priorities. However, the cut-off level varies by year, depending on the performance of competing countries, Thus, even if a country that has received a grant implements it well, it may not make the cut-off the next time it applies (Pearson et al., 2010).

[14] See also http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:20052347~menuPK:2607525~pagePK:51236175~piPK:437394~theSitePK:73154,00.html.

Box 3: Cash on Delivery model

Both Pearson et al. (2010) and GPOBA (2010) mention, but do not explore in depth, an interesting proposed programme, **Cash on Delivery (COD)** aid. This has been recommended by the Center for Global Development (CGD), primarily on the grounds of its powerful impact on incentives – and so on results – and for being highly non-interventionist at the country level. [15] This is a special case of results-based aid distinguished by: a constant payment per specified output across countries; operating only through partner country governments; a highly non-interventionist approach that consciously avoids involvement in how countries propose to achieve their objectives; and financing for a six-year renewable period, thus easing, or at least postponing, issues of institutional sustainability faced by other models of results-based aid.[16] The COD approach recognises the need to include indicators of quality (e.g. learning in the case of basic education), in order to mitigate the risk of letting quantity drive out quality.

COD efforts are still at the design stage. The closest existing case is the GAVI ISS, also with constant payments (in this case per immunisation) across countries as well as operating only through partner country governments. In the case of GAVI there is a strong presumptive case that the evidence on returns to at least low-cost child immunisation is so high that this amply justifies the choice made by donors to earmark funds for that purpose and for GAVI to provide strong incentives to do so even at the risk of some distortion in incentives.

If the principle of donor choice of priorities and per service payments is widely used, though, this will bring about broader questions of distortion of cross-country allocations as well as of pre-empting partner country priorities within and across sectors. This would mean a move far from the Paris/Accra objective of 'putting the country in the driver's seat'. Rather, while the country could determine on its own the routes to be taken, donors would increasingly determine the choice of destinations. The larger the number of COD (sub)-sectors covered, the higher COD's share in relevant (sub)-sectors, and the payment the country receives relative to the cost of providing it, the greater the concern of distortion. CGD is aware of this risk and calls for COD aid to be additional. With fiscal pressure on aid budgets, though, and with calls for aid for climate change to be additional as well, this does not seem a likely outcome.

But the underlying COD idea of payment for outcomes achieved remains robust as one way to provide incentives for rapid progress, particularly if the outcomes are fairly broadly defined (as is the case of in proposed COD support for primary education). And the idea of six-year renewable contracts deals to a large extent with sustainability of capacity and systems, although not with fiscal sustainability (which will be more of a problem the higher per-unit payments are relative to per-unit costs). CGD is currently working with several governments in Africa to develop country-specific COD programmes that would not raise the issue of cross-country distortions.[17] CGD also reports that 'the approach is also being explored for application by governments to their own transfers to states or districts'. It would also be useful for COD-type approaches to consider drawing on the example of GAVI's ISS, which provides initial financing for capacity and systems development before initiating payment for outcomes achieved.

35. The range of approaches that global funds and relevant comparators have used to allocate funds is illustrated in Table 1. A key point here is that there is a wide range of models on which current and proposed global funds can draw in the effort to find the right one to achieve given objectives.

[16] See www.cgdev.org/section/initiatives/_active/codaid/faq and Mumssen et al. (2010).
[17] http://blogs.cgdev.org/global_prosperity_wonkcast/2010/03/09/cash-on-delivery-aid-ayah-mahgoub-on-cod-in-education/.

Table 1: Allocation mechanisms used by global funds

Global fund	**How much: Country allocation mechanism**				**For what: Vertical/horizontal**		
	Challenge fund	**Results based disbursem ent**	**Ad hoc (against proposals and funding availability)**	**Country indicative envelope**	**Vertical: Earmarked within sector/ subsector**	**Sub-sector-wide**	**Un-earmarked ex ante by sector**
GAVI -- ISS		X		(X)[18]	X		
GAVI – HSS				(X)		X	
GFATM	X	X			X	X	
COD		X			X		
Results-based funds		X			X	X	
FTI Catalytic Fund			(X)	(X)		X	
GEF				X	X		X
EC MDG contracts		X		X			X
DFID Business Linkage Challenge Fund	X				X		
Clean Technology Fund			X		X		
Congo Basin Forest Fund	X				X		
IDA and comparable MDB funds		(X)		X			X
MCC	X						X

36. In keeping with Paris/Accra principles, the most aligned and harmonised support is programmatic – aligned with country priorities and programmes as a whole rather than only with specific objectives within those programmes. (This is a key reason why global health funds should provide support to health systems as well as to their specific mandates.) **Global funds in general should make increased use of modalities of financing, including budget support, that finance overall sub-sectoral programmes, whether disbursements are based on covering a share of overall programme costs or on achievement of specific results**. The two can readily be combined in the same grant (as is already the case for GFATM, *de facto*, and EC MDG grants).

37. Overall support for sub-sectoral programmes and results-based aid are both appropriate means of financing by global programmes. Both are focused on achieving development results: the differences between them relate to relative emphasis, on longer-term and broader results (sub-sectoral support) or on more immediate and specific results (results-based aid). **Global funds, and those who set them up, should take a portfolio approach that balances the two**, as should donors in general.

[18] (X) indicates partial or implicit

3. Selected global fund allocation models and aid effectiveness: recent efforts and remaining challenges

38. As noted above, in spite of numerous virtues, global funds raise issues of compatibility with some of the Paris/Accra principles of aid effectiveness. To address these issues, a series of sensible suggestions was put forth at the Accra Roundtable on Aid Architecture. These build on and extend the calls in the Paris Declaration and AAA for better integration, drawing on emerging good practice among global funds (Manning, forthcoming). These include: consider the balance between funding for targeted global initiatives and funding for aid institutions with a broader remit; think twice before establishing new funds; align decision-making timetables with local planning and budget cycles; ensure that the principles of ownership, alignment, harmonisation and mutual accountability are given support; ensure timely reporting of commitments and disbursements; give high priority to sustainability, particularly where funding recurrent costs; and invest in capacity development and avoid policies that drain capacity. The full set of recommendations is set out in Annex 2.

39. This section discusses in more depth three issues of aid effectiveness closely related to allocations -- predictability, sustainability and capacity – focussing on GFATM, GAVI and FTI. However, it is important to note upfront that, while improving performance against these principles is necessary for aid effectiveness, it is not sufficient. There is a need to balance the various objectives. For example, the importance of receiving funds on time and in the amount agreed to needs to be balanced with the importance of focusing on results and ensuring that partners and their projects are performing well.

Box 4: Progress towards other Paris/Accra principles

Ownership: Global funds are widely commended for taking on a broader, more inclusive notion of ownership by including civil society, the private sector and other domestic stakeholders in decision-making processes. On the other hand, global funds' centrally driven mandates and lack of field presence make supporting ownership by partner country governments more difficult (World Bank, 2008a). Ownership is also harder when, as noted by Cambridge Education et al. (2009), funding requests are drafted by consultants and are additional/parallel to existing country plans.

Accountability and transparency: Lack of in-country presence makes mutual accountability challenging for global funds. GAVI is able to draw on in-country UN Children's Fund (UNICEF) and World Health Organization (WHO) staff as intermediaries but, according to Isenman and Shakow (2010), these 'have difficulty in speaking to governments on their behalf [and] in being held accountable for delays or other problems in implementation'. More encouragingly, some global funds are looking for ways to be more involved in country-level discussions through the International Health Partnership (IHP). Global funds have been leaders in transparency, though. In addition, GFATM has taken steps to develop guidelines to improve the accountability and transparency of aid reporting in-country (GFATM, 2009b) and is a signatory of the International Aid Transparency Initiative (IATI). Other global funds should participate in the IATI effort to agree and implement a common set of specific objectives and standards that include transparency, promptness in reporting current aid and advance indications over the next three years.

Harmonisation: Harmonisation is a challenge for global funds (Isenman, 2008). Lack of field presence and the use of processes that are globally driven make joint missions or pooling of funds difficult. For example, in 2007 only 14% of GFATM missions were organised with other partners and only 22% of analytic reports were undertaken jointly (GFATM, 2009c). There are, however, efforts to overcome shortcomings. GFATM supports health sector-wide approaches (SWAps) in Ghana, Malawi, Mozambique and Rwanda (OECD, 2009b) and its salary support policy has been harmonised with partners (GFATM, 2009c). In addition, GFATM and PEPFAR have signed a memorandum of understanding to coordinate HIV/AIDS activities and resources in Ethiopia (Alemu, 2009). The FTI's Guidelines for Capacity Development in the Education Sector promote a shared agenda and enhanced donor coordination (Cambridge Education et al., 2009). And in 2009, GAVI, GFATM and the World Bank agreed to a coordinated approach to health system strengthening – see section 3.3 for details.

3.1 Predictability

40. Predictability poses a challenge for global funds, donors and partner countries. Committed funds are often not disbursed in the quarter or even the year for which they were scheduled. In addition, partner country governments receive insufficient information on donors' forward spending plans, making it difficult for them to plan even for the medium term.

41. Global funds are subject to the same challenges of predictability in their own finances, as do multilateral donors in general, relying on complex international replenishment arrangements which limit their ability to make longer-term commitments to partner countries. In addition, because of their relatively newness and rapid growth, it is harder for them to predict their future financing, all the more so given the difficult outlook for budgets in donor countries. Yet a predictable flow of aid is particularly important when scaling up funds to programmes that are politically and morally difficult to reverse and have large recurrent costs, such as hiring teachers or providing ARV treatment. . And, as discussed above, the flipside of results-based aid is that countries that fail to reach agreed targets may receive only a portion of committed funds.

Financing global funds

42. More specifically, the FTI lacks long-term financing commitments and remains heavily dependent on a small number of core donors (Burnett et al., 2010; Cambridge Education et al., 2009). GFATM receives funding from a broader range of donors and its three-year replenishment mechanism reduces reliance on *ad hoc* commitments, although the US and Japan have in the past not made multiyear commitments. The UK has committed to giving £1 billion to GFATM between 2008 and 2015, dependent on demand, results and performance (DFID, 2008). However, such long-term commitments by donors are not yet the norm. In the case of GAVI, the share of multiyear donor government donations (i.e. spanning three years or more) has increased, from 33% in 2005 to 67% as of January 2008 (GAVI, 2010c).

43. **Increasing the share of global fund support that comes from innovative financing is one way to improve long-term predictability** (as well as to increase the overall level of funding available). To this end, a range of mechanisms have been established. The International Financing Facility for Immunisation (IFFIm), for example, has secured US$2 billion for GAVI by raising funds in the capital market based on donor pledges of future contributions (Manning, forthcoming). However, innovative financing is not without its risks, in particular the risk that, 'in order to bring more donors on board, organisations handling these new mechanisms [will] only focus on quantitative and easy to reach results' (OECD, 2009b). And, as some innovative financing mechanisms, including IFFIm, are at least partly reliant on traditional donor support, there is a risk that, as donors' obligations become due, donors will reduce their traditional funding.[19]

The predictability of support from global funds

44. In part to increase predictability, GEF and, increasingly, the FTI, provide indicative country envelopes. In contrast, as discussed above, only about half of the proposals submitted to GFATM have been funded. GFATM's April 2010 Board meeting, while not officially announcing a 'cap' on Round 10 funding, put in place a new prioritisation mechanism and agreed that only resources available by December 2011 would be taken into consideration – which, unless funds vastly exceed expectations, means that a *de facto* cap is likely.

45. The duration of Catalytic Fund allocations was extended to three years in 2007, but several countries continued to receive one or two year allocations (Cambridge Education et al., 2009). GFTAM provides up to five years of funding, broken into two years initially followed by an

[19] For additional examples of innovative funding mechanisms, see Annex 3.

additional three years. The vast majority of countries receive this second phase of support. GAVI funding is available for the duration of countries' health plans and/or immunisation strategies with some HSS support extending to countries as far as 2015 (GAVI, 2008a).

46. Commitments often vary considerably from disbursements. This is in part because some global funds vary disbursements according to partner country performance. GFATM reports an overall disbursement rate of 90% for 2009 (with the disbursement rate measured 'by comparing the amount of funding disbursed to that planned in grants'). However, 40% of active grants have a disbursement rate of less than 75% (GFATM, 2010a). In-year predictability is also a challenge. Both FTI and GFATM disbursements are significantly delayed in the first half of the year (Cambridge Education et al., 2009). In both cases the reasons for the delays are complex, due to a combination of delays in internal processes, delays on the side of partner countries, and steps taken to address outstanding issues and risks. The FTI mid-term evaluation finds that Catalytic Fund financing is weakly aligned with partner country budget cycles.

3.2 Sustainability

47. Closely related to the issue of predictability is that of sustainability. The potential of funds coming to an end – as a result, for example, of a country failing to be awarded a second round of funding – makes it difficult for partner country governments to plan for the long term, particularly when a shortage of funding would mean withdrawing services or large-scale firing of staff. Sustainability is also dependent on whether global funds are allowed to enter into long-term partnerships and – importantly – the extent of growth in country capacity, systems and domestic resource mobilisation.

48. A thorough overview of GAVI's sustainability approach is provided by the 2008 GAVI evaluation (Chee et al., 2008). According to this, the Financial Sustainability Plans introduced by GAVI are a useful tool for assessing future country financial needs, as well as for raising awareness of immunisation costs. In addition, GAVI has managed to attract new money for vaccines and immunisation through increased donor support and innovative financing mechanisms. GAVI may also have exerted downward pressure on future vaccine prices by attracting more vaccine manufacturers.[20] And, in many higher performing countries, 'availability of GAVI funding, together with increased donor support, has led to systemic improvements including better trained staff, more ownership at district level, and increased community involvement, which will have lasting impact beyond GAVI funding'. However, the evaluation notes a number of shortcomings, including the fact that GAVI's co-financing policy allows countries to introduce more expensive vaccines while, in many cases, contributing less government funding than in previous years. In addition, the authors report cases where countries have become dependent on the relatively generous unearmarked incentives for immunisation provided by the ISS. In Laos, for example, 'dependence on ISS funding created a serious gap in unfunded outreach costs once all investment funds were depleted and reward funding was not forthcoming'. The GAVI evaluation also finds that few countries will be able to fully finance immunisations and vaccines themselves in the near future. Most are in a position to finance only a fraction of the costs. With hindsight, it appears that maintaining high levels of immunisation will require long-term subsidies in aid-dependent countries. This raises the broader question of long-term financing of programmes that have a high development return but are beyond the financing capacity of low-income countries.

49. Some of the issues raised in the GAVI evaluation are applicable to global funds more broadly, for example the tighter funding outlook, with donors facing the need to reduce their budget deficits. The need for continued donor support to finance recurrent costs of priority basic services

[20] GAVI reports that 'by aggregating demand for vaccines, GAVI is able to create economies of scale and enable the vaccine industry to scale up production capacity, and to attract new suppliers to the market. The increased competition reduces prices of vaccines, making them more affordable to developing countries. Over the last three years, the price of pentavalent has dropped from US$ 3.62 in 2007 to US$ 2.96 in 2010, a fall of almost 20%' (GAVI, 2010a).

(and meeting the MDGs) is again widespread. Yet, the FTI's Catalytic Fund, for example, has in most cases not contributed to recurrent costs (Cambridge Education et al., 2009).

50. Recent evidence in the health sector has also called attention to the problem of substitution, with countries reducing their own budget contributions to health (or certain health sub-sectors) as donors increase theirs. A current debate, initiated by Murray et al. (2010), discusses the extent of this substitution. Whereas Roodman (2010) has questioned the extent of the substitution effect, it is unlikely that finance ministers would not try to use substitution to arrive at an outcome more consistent with their own inter-sectoral priorities. Although the incentives of global funds and their advocates – global and national – lead them to attempt to minimise substitution, the incentives of finance ministers, and partner country governments in general, lead them to maximise it. This is an issue on which donors are highly ambivalent: strongly against substitution but strongly for country choice. One way to reduce substitution is earmarking by global funds for global drug research or procurement (e.g. advance market commitments or the Affordable Medicines Facility for Malaria, which uses economies of scale to reduce costs). Some programmes in these areas can have high potential returns (DFID, 2006; Manning, forthcoming; World Bank, 2008a). However, the amount allocated to them should be determined by their relative cost-effectiveness, rather than by the desire to reduce substitution.

51. In-country, a key issue for the financial sustainability of current programmes is the increasing share of health expenditures allocated to a small number of diseases. According to Ravishankar et al. (2009), disease-specific programmes accounted for about three-quarters of the increase in aid to health between 2002 and 2006. Stakeholders consulted for the five-year evaluation of GFATM expressed concern that the increasing level of funds for HIV/AIDS, although an important 'emergency response,' leads to a reliance on external funds that 'threatens the potential sustainability of the disease control programmes' (Sherry et al., 2009). A recent case study on Cambodia reports that, whereas 'Global Health Partnerships (GHPs) have delivered welcome additional resources to the health sector […] GHPs have also contributed towards a growing misalignment between donor support and stated government priorities and have had some negative impacts'. These 'may have served to undermine broader health systems development efforts' (Pearson et al., 2009). The large share of support received from a few global funds is also of concern. In an extreme case, the FTI's Catalytic Fund provided 70% of total sector budget support to education in Rwanda in 2008 (Cambridge Education et al., 2009). GFATM is also a major donor in some countries, as indicated above.

52. The short-term focus of global funds can also undermine sustainability. The Five Year Evaluation of GFATM found that while GFATM is clearly committed to performance, its system focuses 'on short-term outputs rather than on longer-term outcomes, results and capacity building' (Sherry et al., 2009). Indeed, implementers in more than half the 16 countries assessed that, on at least one occasion, they sacrificed the quality of implementation in order to achieve a quantitative numerical performance-based funding output target. DFID (2006) notes that 'GFPs have often been set up without a clear vision of how long they will last and how their impact can be sustained. Very few GFPs have sustainability or exit plans.' And, according to Caines et al. (2004), 'there is a risk that country spending patterns will be dictated by the GHPs, and the need to sustain the activities and services provided by them, rather than by national priorities'. Going forward, global funds should better take into account both short term and long term results.

53. In part to ensure sustainability, global funds are increasingly funding broader sector strategies. The FTI Board of Director's meeting in May 2010 'confirmed its ambition to make program financing available for the entire national education sector plan'. For now, given resource constraints, this means a focus on the six EFA goals, although the majority of financing will continue to go to basic education (FTI, 2010). While the broadening of funding reduces distortionary risks, broadening to a sectoral level raises important questions of overall architecture. A series of sectoral global funds would compete directly with funding for multilateral, and to some extent bilateral, horizontal funding to support country priorities.

54. The FTI Board and Secretariat are also working with the World Bank, the FTI's principal implementing agency, to encourage more use of programmatic assistance. GFATM has, as noted, also taken steps to adapt its 'challenge fund' project-based model to longer-term programmatic support. In 2009, a first 'learning wave' of National Strategy Applications was launched on a pilot basis. This allows partner countries to apply for funds based on their national disease strategy, rather than using the previous proposal-based grant applications. Five such applications were approved last November (GFATM, 2010a). In addition, GFATM's 'continuity of services' policy, which has been in place for years, provides up to two years of funding beyond the program end date/termination date in order ensure that patients continue their courses of treatment.

55. Co-financing requirements, while controversial, are another way to increase sustainability. In 2008, GAVI started to require a number of countries to co-finance GAVI-supported vaccines. In particular, countries are required to provide co-financing when they introduce new vaccines, or when they receive continued support for existing vaccines beyond the first five years of GAVI support. As a result, 44 countries are now co-financing their vaccine costs, 17 of which are financing beyond the required levels and three of which are co-financing before their required start date (GAVI, 2010d). In 2008 alone, countries provided US$17.3 million in co-financing (GAVI, 2008a). GFATM's stance on cost sharing also seems to be toughening. For example, the minutes of the April 2010 Board meeting state that 'the Board strongly recommends that proposals coming from "lower-middle" and "upper-middle" income applicants clearly demonstrate increasing government contribution over the proposal lifetime to ensure sustainability of the proposal interventions in the long term and a possible exit strategy from requiring Global Fund financing' (GFATM, 2010b). The GFATM Secretariat has also proposed a new indicator that will 'monitor that government expenditure in health in GFATM supported countries is not decreasing as a result of increased external funding' (GFATM, 2009b).

56. GAVI and GFATM are also providing support to health system strengthening, as discussed in Section 3.3, and participating in the Health Systems Funding Platform with the World Bank, detailed in Box 5.

Box 5: The Health Systems Fund Platform and other collective efforts

In addition to individual efforts, GAVI, GFATM and the World Bank have created the Health Systems Funding Platform. The aim of this initiative, started in May 2009 and facilitated by the WHO, is to streamline health system strengthening support. Three key elements will be supported at country level: one plan, encompassing all stakeholders; one budget and implementation process; and one results framework (i.e. one annual report). For details, see World Bank et al. (2010) and GAVI (2010b).

Additional joint endeavours include:

- The formation of, and the activities undertaken by, the Global Programs Learning Group and the Task Team on Health as a Tracer Sector (TT HATS).
- The adoption of 22 best practice principles for aid effectiveness by a number of global health partnerships in 2007 (OECD, 2009b).
- Participation in a multi-donor initiative, the Health Eight (H8). H8 is an informal network of the heads of eight organisations – GAVI, GFATM, the UN Population Fund (UNFPA), UNICEF, the UN Joint Programme on HIV/AIDS (UNAIDS), WHO, the World Bank and the Bill and Melinda Gates Foundation – that aims 'to strengthen co-ordination and collaboration of external assistance and provision of aid in support of national processes' (OECD, 2009b).
- Formation of the IHP+ (IHP and related initiatives) to 'better harmonize donor funding commitments, and improve the way international agencies, donors and developing countries work together to develop and implement national health plans'[21]. This includes the joint Health System Funding Platform, mentioned above, and its 'Joint Assessment of National Strategies'.

Yet, it should be noted that a platform approach is unlikely to address the issue of global funds' getting more 'vertical' or focused on very specific areas as their funding gets tighter. And it would only partly address the related problem that global funds' view of broader systems tends to focus only on the parts of the system nearer to their narrow mandates.

3.3 Capacity development

57. Global funds have also been criticised for placing insufficient focus on capacity building, including system strengthening (OECD, 2009b) and, in the case of health, for drawing resources away from broader sectoral objectives and systems (Biesma et al, 2009). These criticisms apply to varying extents to aid in general, particularly to project aid. But they are of particular pertinence to global funds, given the specificity of their objectives.

58. A key issue for sustainability is that the way that global funds operate can undermine partner countries' capacities and systems and place additional demands on government staff. First, global funds do not make sufficient use of government systems, even though evidence suggests that doing this is an effective way of improving them. Rather, they have opted at times to create parallel implementation systems and to establish their own management and reporting structures (Alemu, 2009). They have also to varying extents bypassed local procurement mechanisms – though arguably for cost-effectiveness reasons (Chee et al., 2008). GFATM, for example, is – according to Pearson et al. (2010) – 'never on budget, rarely on plan and uses parallel processes for monitoring, accounting, auditing etc'.

59. Second, reporting global fund assistance in recipient government budgets can be a challenge. This is in part because global funds deal primarily with line ministries. And, according to Isenman (2008), some ministries 'prefer to keep a substantial share of external resources off budget' in order to strengthen their case for domestic budget resources. The type of assistance provided – e.g. commodities rather than cash – can also serve as a hindrance to increasing the share of aid on budget (Chee et al., 2008).

[21] www.internationalhealthpartnership.net/en/home

60. Third, many global funds require recipients to follow donor-specific procedures, formats and timetables (for example when reporting on results and applying for funds), and to provide additional information, thus increasing the transaction cost of aid. Fourth, studies at country level, as well as evaluations, have shown that global funds can undermine sector system capacity by pulling staff and other resources from national programmes, through offering higher salaries and better working conditions, and by creating parallel implementation mechanisms (Biesma et al., 2009; Isenman, 2008; OECD, 2009b). The GFATM National Strategy Application pilot and the GAVI-GFATM-World Bank Health Systems Fund Platform have the potential to help global funds lessen some of these adverse impacts.

61. The Accra Roundtable on Aid Architecture (Annex 2) suggested a range of ways for global funds to strengthen, rather than undermine, recipient capacity. These include:

- Acknowledging that focused interventions will normally require the strengthening of overall systems as well;
- Aligning decision-making timetables with local planning and budget cycles;
- Encouraging greater coordination with recipient countries' central ministries;
- Investing in capacity development; and
- Avoiding policies that drain capacity from other parts of the national system.

62. There are clear capacity gaps that need filling. Many countries face a shortage of qualified staff and have insufficient information system, baseline data and monitoring and evaluation capacities (Sherry et al., 2009). Such capacity shortages are challenges for both recipients and global funds, as they limit absorptive capacity and the feasibility of performance-based funding. To this end, global funds provide substantial amounts of financing and technical assistance to help partners build their capacity. In the past, because global funds tend to focus on a subset of sector interventions, capacity-building support was often aimed specifically at their programmes, rather than at the sector as a whole (Alemu, 2009). However, the scope of capacity-building efforts has expanded in recent years. This has been in part to assure complementary support needed to achieve the specific objectives of global funds and in part to contribute to overall sectoral objectives. GFATM has supported health system strengthening at least to some extent since its inception. In 2005 (corresponding with Round 5 financing), this support was formalised through the call for separate health system strengthening grant applications. As a result of low uptake, this option was discontinued, but since 2007 partner countries have been able to include health system strengthening activities as an explicit part of the disease-specific grant applicants. According to GFATM (2009c), approximately 35% of its committed funding has been intended 'to bolster infrastructure, strengthen laboratories, expand the numbers of human resources, augment skills and competencies of health workers and develop and support monitoring and evaluation systems'. In total, US$1.2 billion has been approved for crosscutting health system strengthening interventions (GFATM, 2010a), although this is a fairly broad definition of capacity building.

63. GAVI has been providing funds for HSS since December 2005. Initially, the Board set aside US$500 million for this but it has since approved a further US$300 million (Pearson, 2008). Latest figures indicate that US$524 million has been committed to date (GAVI, 2010a). Countries are eligible for US$2.5 or US$5 per birth cohort, depending on their income level. Funding generally focuses on three areas: health workforce mobilisation, distribution and motivation; supply, distribution and maintenance systems for drugs equipment and infrastructure; and organisation and management of health services. However, countries can also receive funds to cover other health-system related areas specific to their needs (GAVI, 2008b). However, although this funding is in many ways broad, it is still linked to GAVI's mandate: according to HLSP (2009), 'countries are encouraged to use GAVI HSS funding to target the "bottlenecks" or barriers in the health system that impede progress in improving the provision of and demand for immunization and other child and maternal health services'. GAVI has also allocated US$30 million between 2007 and 2010 to 'strengthen the coordination and representation of CSOs' (GAVI, 2010b). In 2009, the UK,

Australia and Norway committed US$1 billion to expand IFFIm for health system strengthening (ibid).

64. The FTI has dealt with capacity both as a part of its support for overall country programmes and through specific financing under its Education Programme Development Fund (EPDF). The EPDF is currently undergoing a reform process that includes putting funding in the hands of the Local Education Group, led by government, and an increased emphasis on capacity development.

65. While global fund capacity-development efforts have achieved impact, the recent GAVI and GFATM evaluations suggest that technical assistance and other support for capacity development needs improvement. This is consistent with the point made by Caines et al. (2004) that technical assistance is *ad hoc* and driven by immediate needs rather than a medium- to long-term strategy.

66. **Capacity development, even sector-wide, does not automatically mean building new capacity in the public sector. It may mean, for example, buying specialised services from universities or the private sector or strengthening capacity of civil society. This needs to be done in a way that adds to the total capacity available for development priorities, rather than drain capacity from other parts of the national system. Part of capacity development should be support – domestic or international – to the preparation of strong but implementable strategies and strong global fund financing proposals that flow from them**. This would be far different from the technical assistance mentioned earlier where short-term consultants write convincing-sounding but unrealistic proposals.

Box 6: Capacity development by climate funds

Channelling money for planned adaptation through national governments and sectors is dependent on political will in recipient and donor countries, partly influenced in the latter by the pressure to show results attributable to specific support provided. Placing emphasis on building human capacity to engage proactively in developing and implementing adaptation policy is one way to stimulate willingness in recipient countries. The Pilot Program for Climate Resilience (PPCR) shows effort in this direction. The core feature of the PPCR is that is designed to deliver a package of funding at scale to help transform national development planning to make it more climate resilient. Resources from the PPCR will be blended with other resources from the MDBs, the UN Framework Convention on Climate Change (UNFCCC) and other international support mechanisms and with national resources to promote institutional change, capacity building and learning through implementation of climate-resilient national development priorities.

Funds usually provide guidelines to develop investment proposals and, in some cases, technical support is provided to develop these plans. In the case of the CTF, interested countries request the organisation of a joint mission of the World Bank Group and the relevant regional development bank (RDB) to support the preparation of an investment plan, describing how CTF financing will be used. The CTF Committee, which reviews the CTF investment plans, would help prioritise projects to be funded, according to an agreed set of criteria. This process aims to contribute to building recipient countries' capacity to develop coherent and sustainable investment plans and encourage climate funds to move towards programmatic aid further aligned with local priorities and systems. Attention is needed in this process to assure real country ownership and capacity development rather than having the World Bank and RDB do too much of the planning themselves.

4. Selected recommendations for further reform

4.1 Increasing the impact of global fund allocations

67. There is broad agreement that the impact of the recent global financial crisis and of the debt burden taken on by donor countries to stimulate their economies will have a negative impact on the climate for aid in the next several years, raising the level of competition for scarce funds between global funds and horizontal aid. Global funds already accounted for about one-half of aid to health in 2006 and for three-quarters of its increase over the previous four years (Ravishankar et al., 2009). It is necessary to note, though, that partner country health officials are, quite rationally, ambivalent. If the same amount of money is guaranteed, they would rather allocate it themselves. But they will rarely want to leave earmarked money sitting on the table.

68. This raises two important questions: how should donors balance their portfolios between global funds and horizontal aid responding to country set priorities; and how should global funds balance their portfolios between eligible uses (e.g. among specific diseases or between them and health systems in the case of GFATM). In Rwanda, for example, although the epidemic and the endemic risks for malaria are 21% and 57%, respectively, and although HIV/AIDS has a prevalence rate as low as 3%, the allocation for HIV/AIDS is 2.5 times that for malaria. Similarly, in Uganda HIV/AIDS expenditure accounts for over 40% of total health spending (World Bank, 2008b). While these figures refer to total donor expenditure, not global funds exclusively, they confirm the high share of health aid going to specific diseases. In the case of GFATM, recent figures show that, of the US$5.1 billion in cumulative expenditures, 61% went to HIV programmes, 15% went to tuberculosis and 24% went to malaria (GFATM, 2010a). Analysis of cost effectiveness can be helpful here in guiding allocations among diseases and between specific diseases and strengthening health systems.

69. One likely impact of the current global economic difficulties and likely stress on donor budgets is increased political pressure to allocate funds to specific causes/initiatives with which publics can identify – i.e. to global funds – even to fund broader objectives. In the case of health, this would mean pressures to pass funding for health through GFATM and GAVI. At the same time, though, there will be pressures on those global funds to protect their core mandates at the expense of complementary objectives like improving health systems. These pressures are likely to come particularly from constituencies on their Boards that represent those core mandates. So donors should expect that 'raising money vertically and spending it horizontally' will end up increasingly, rather, as raising and spending money vertically.

70. Global fund allocations by country also merit more attention. At the global level, there needs to be a better match between the needs of individual countries and the support they receive from donors to address them. There are marked disparities between countries – Zambia receives US$20 per person for health, Chad just US$1.59 (WHO, OECD, World Bank, 2008). GFATM and (until recently) the FTI have been reluctant to have *ex ante* envelopes on the grounds that allocations should be based on country requests and that donors had committed to finance all reasonable programmes. However, as noted above, this meant that allocations depended in part on proposals that were often prepared by consultants knowledgeable on how to 'game' the system, including on the degree of ambition in what to ask for. Evidence suggests that, in the absence of explicit guidelines, what happens in practice for global funds, as for bilateral aid, is a substantial bias in allocations in favour of smaller countries. This is by country size, for example, with much higher per capita allocations for less populous countries; similarly, there can be inconsistent treatment of the balance between need and expected cost effectiveness (Isenman and Gacougnolle, 2008; Beynon, 2003). Similarly, the FTI evaluation showed that, when allocations were made on a proposal-by-proposal basis, better-off low-income countries received relatively

more than poorer ones (although FTI allocations were still more poverty oriented than those of other donors) (Cambridge et al., 2009).[22]

71. The GEF was the first global fund to adopt a quantitative analytic approach to allocations, based on criteria of burden (need) and performance, to increase its aid effectiveness. Evaluation of the GEF allocation system, the Resource Allocation Framework, showed that its advance indication to countries of likely allocation envelopes increased country ownership (GEF, 2009). The FTI now makes some use of a modified version of this approach, including a variable that gives more to ‘donor orphans’ and less to ‘donor darlings’. Both are sector-specific modifications of the longstanding IDA allocation approach, in which a country’s allocation share is a function of its need (in the case of IDA per capita income) and, as a proxy for expected returns, a measure of past performance on economic and social management and governance. The weights given to any of these variables are approved by their respective Boards, based on staff recommendations. So the suggested allocations envelopes that emerge feed back to managements and boards what would be consistent cross-country allocations based on their own choice of variables and weights. The objective is to maximise impact per unit of expenditure – in terms of effectiveness and equity. Global funds can then decide to modify the allocations that emerge, for example to respond to exceptional opportunities or problems.

72. **Other major global funds should also consider developing custom-crafted consistent systems for setting indicative ranges of *ex ante* country envelopes**. (See Annex 3 on how this could be done, taking the specific cases of GFATM and GAVI).The question for consideration in the case of GFATM and GAVI is whether addressing the issue of inconsistency of country requests (relative, for example to relevant population cohorts or country capacity) could permit them to save even more lives for the same amount of funding. There is increasing recognition by managements and Boards of the importance of adjusting approaches to country allocations. For example, the GFATM Board meeting of April 2010 called for a review of ‘optimal allocation of future resources’ (GFATM, 2010b). And the GAVI Board focused on modification of its prioritisation policy in 2009.

73. In the case of climate funds, those for adaptation could use a quantitative approach for the allocation of resources to determine country envelopes, adapting the approach of the GEF, mentioned above. Bosch et al. (forthcoming) suggest that this quantitative approach might include the country’s vulnerability, population, national income, global environment benefits and portion of the national budget designated for climate change adaptation or mitigation. It should also include a “performance” variable to predict likely effectiveness of use of resources. Country envelopes are less useful for mitigation, since mitigation is a global public good. Rather, allocations need to take account of relative returns to sectoral or overall mitigation programmes (or major projects) submitted by partner countries. Interviews carried out for this study pointed to the desirability of agreed international standards for the allocation of concessional finance for mitigation to be applied by bilateral and multilateral sources of concessional funding. This need is most pronounced in concessional funding for projects that have – or that should have – private sector participation, whether for investment or insurance.

[22] ‘Distribution of FTI Catalytic Funds amongst its recipients has not favoured those countries most in need of external financing to reach EFA goals […] The available evidence suggests that within the group of 30 countries that have received Catalytic Fund allocations, the distribution of Catalytic Fund allocations per child has been skewed to the better-off low-income countries and those that started the decade in a relatively better position in terms of aid to basic education per child. There does not appear to be a relationship between the level of Catalytic Fund allocation per child and the proportion of out-of-school children in a particular country. This being said, in comparison to other donors, the Catalytic Fund clearly focuses its support more tightly on Lower Income Countries, and within that group on Least Developed Countries, than any other major donor’ (Cambridge et al., 2009).

4.2 Better integrating global funds at country level

74. A key challenge facing all stakeholders is how to bring closer together the earmarked approach of global funds and unearmarked approach of horizontal aid. **Donor agencies should see funding of country programmes and global funds as complementary instruments in aid investment portfolios and adjust internal policies and incentives to manage competition between sectors and increase consistency in application of policy. And, as called for in the AAA, they should increase internal consistency between their overall policies on aid effectiveness and the positions that their staff take in the establishment, funding and operations of global funds.** Indeed, much of what donors bemoan in the activities of global funds is a reflection of mandates and modalities in which the same donors played a major role.

75. The discussion in Section 3 pointed to a number of remaining challenges for global funds for better integration and stronger implementation of agreed principles of effectiveness at the country level. Key implications for addressing these challenges can be summarised as follows:

- **Global funds, and, even more importantly, the funders who determine what commitments they can make, should give more attention to predictability across and within years – and at least as importantly to longer term sustainability**. The periods of financing by global funds and of funds available to them need to be better reconciled, with longer term commitments for countries undertaking longer-term commitments of recurrent costs that are beyond their domestic financing capacity. Instruments to do so include innovative sustainable financing and longer term commitment authority, including through preferred access to continuing financing for adequately performing countries. Sustainability is also an important reason for adapting support of global funds to country priorities, including through support of overall sub-sectoral and sectoral programmes.
- Capacity development – particularly for the longer term and for sector-wide needs – needs more attention by global funds. **Parallel systems and structures set up by donors need to be cut back and adapted to longer-run country needs, as called for in the Paris Declaration**. Capacity development, even sector-wide, should not be limited to building new capacity in the public sector but may mean, for example, buying specialised services from universities or the private sector or strengthening and using capacity of civil society. This needs to be done in a way that adds to total capacity available for development priorities, rather than drain capacity from other parts of the national system.
- At the level of specific funds, the FTI has been well aligned in concept with Paris/Accra but it should give more emphasis to its initial role, unique among global funds, of coordination and mutual accountability for aid to basic education in general. GFATM should accelerate its efforts to soften its challenge fund model. These efforts include its new 'single stream' (combining grants that focus on one disease) financing, and its support of: country strategies ('National Strategy Applications') and health systems (although the challenge model remains far from ideal for such purposes.). This is still consistent with a strong focus on results, long as well as short term. Given the importance of support to overall sectoral objectives, including in achievement of their specific mandates, both GFATM and GAVI should strengthen their support to health systems and the joint 'Health System Funding Platform' with the World Bank, even in the face of slower growth in funding.

76. This need for clarity and consistency applies to the continuing evolution of current global funds. It applies at least as strongly to proposals for additional global funds, including in the current high priority areas of climate change and food security. There is no shortage of thoughtful suggestions on the table on good practice on global funds. The AAA reflects some of these at a

high level of generality, including using existing institutions for new funds.[23] The conclusions of the Accra Roundtable on Aid Architecture mentioned above (and in Annex 2) bear serious consideration for implementation.

Box 7: Alignment of climate funds: use of programme based approaches

Currently, international adaptation finance delivery mechanisms almost exclusively favour financing projects rather than programmes. This may be partly related to the legacy of the NAPA process, or a view (more plausible for some countries than others) of insufficient capacity to implement large-scale adaptation programmes. In any case, the lack of a comprehensive move towards programme-based approaches has limited the potential for general budgetary support to build national capacity and strengthen strategic debates. The uncertainties associated with adaptation and the need to build capacity over extended periods is, with the exception of large discrete infrastructure investments, not compatible with the project format. Achieving adaptation through multilaterally and bilaterally funded projects is hampered by a variety of factors: the finite resources and often short timescales attached to projects; the common focus on short-term results; the tendency towards off-budget funding for the donor-financed part of the project; the frequent competition between donor-funded projects for the same scarce highly skilled staff; and the tendency to set up the parallel project implementation units that the PD criticises.

Programme-based approaches are in many cases a more effective means of encouraging leadership and ownership of host countries, for mitigation as well as for adaptation. They can also contribute to a reduction in transaction costs of recipient countries and allow them to concentrate more on their core priorities. Increased dedication by donors to improve alignment and predictability and reduce and adapt conditionality to support of the country's own strategies, as called for in the AAA, is central to capacity development. Emerging, but not yet operational delivery mechanisms, such as the PPCR and the Adaptation Fund, are likely to be more closely aligned with Paris Principles – e.g. providing budgetary support or not prescribing priority spending – but there is still considerable work to do to promote closer coherence (Mitchell et al., 2008).

The World Bank's CTF seems to be taking a step further towards increased alignment of its investment plans with recipient countries' national development plans. The CTF aims to support low carbon development and mitigation of greenhouse gas emissions through public and private sector investments. It will invest according to programmes developed on a country-specific basis to achieve nationally defined objectives. CTF investment plans are jointly developed by the government and the relevant MDB and take account of ongoing relevant MDB operations. CTF co-financing in eligible countries helps them implement national development strategies and programmes with low carbon objectives. It is envisaged that the government will play a central role in programming of the CTF's public sector-related projects and in donor coordination.

4.3 Additional recommendations for climate funds

77. Among key concerns raised since the appearance of the new funds is the question of whether the resources provided by bilateral donors will in practice be additional to existing official development assistance (ODA) commitments.[24] While there seem to be a broad consensus on the fact that additional finance will be required above and beyond existing ODA for developing countries to adapt to climate change (Stern, 2006), it is quite unclear how donor agencies will avoid diversion of funds otherwise available for ODA. This will be all the more difficult in the face of existing commitments to increase ODA substantially and the fiscal pressure on aid budgets.

78. **Climate-related finances will largely be classified and reported separately from developmental aid transfers. But it remains crucial that this does not go against integration of climate funds with recipient countries' national development policies and processes and**

[23] The AAA states: 'As new global challenges emerge, donors will ensure that existing channels for aid delivery are used and, if necessary, strengthened before creating separate new channels that risk further fragmentation and complicate co-ordination at country level' (OECD, 2008a).

[24] Existing sources of global environmental finance include national government spending, national private sector spending, foreign direct investment, international debt and ODA. Globally, the private sector constitutes the largest share of investment and financial flows needed to address climate change, at approximately 86% of all such flows. In stark contrast, ODA funds are currently less than 1% of global investment (UNFCCC, 2007).

with other development financing. Indeed, as underlined by Porter et al. (2008), the greater ease of classifying finance for specific adaptation projects as additional, compared with finance for applying a climate lens to other development interventions, may contribute to further divisions between these two approaches and result in a tendency towards more project-based approaches.

79. Adaptation programmes have a high degree of overlap with mainstream development programmes in-country. Typically, they seek to strengthen, repair and make climate resilient a wide range of investments in, for example, water, agriculture, transport and coastal area development, which are prominent in national development strategies. Mitchell et al. (2008) found a tendency for donors to support 'climate proofing' of development investments – in effect, trying to restore the *status quo ante*. This problem is exacerbated by taking a project rather than programmatic approach.

80. There has been less attention to using a climate lens to change development strategies. This would include changes in investment programmes to take account of impact of climate change on returns and risks to investment across and within sectors and on poverty reduction. The determination, including the crucial trade-off between reducing risk and increasing growth and poverty reduction would be made by the concerned developing country, although that determination would have to be justified. An example of such changes would be adaptation of cropping patterns or use of some funds to address the needs for social protection or human development of those among the poor made worse off by climate change. It would be unfortunate if such climate-driven changes were deemed to be "mainstreaming" of climate change, and so not eligible for adaptation financing. Such exclusion would encourage distortions in public investment that would reduce the rate of growth and/or poverty reduction. So the point here is not to disagree with the need for detailed analysis of climate resilience, such as that in McKinsey (2009a), which focuses on increased investment (and insurance) to reduce risk in directly affected sectors, particularly infrastructure and agriculture. Rather, it calls for broadening the scope of analysis and of funding. Simulations could readily quantify the differences in costs and benefits of these two approaches.

81. On mitigation, a great deal can be done for integration with ongoing development programmes, especially in the case of energy, transport and forestry.

82. Given this fundamental overlap, **developing countries will want to build any additional climate change financing streams closely into their national cross-cutting development strategies and their national systems of financial accountability**. They should take the lead in how this is done institutionally, via nationally owned adaptation and mitigation plans and strategies, as well as associated monitoring mechanisms, as clearly set out in the joint Policy Guidance on Integrating Climate Change Adaptation into Development Co-operation (OECD, 2009a) of the OECD's Development Assistance Committee and Environmental Policy Committee. When plans are prioritised and integrated into a country's planning process and can count on the active participation of central and line ministries, civil society and the private sector, stakeholders can effectively lead the planning process. International funding for adaptation should key off national strategies, and not try to superimpose elaborate proposal-based assessment machinery. In mitigation, a global public good in which international value-for-money considerations are stronger, forms of assistance should still be as flexible and nationally owned as possible. New proposal-based systems should be avoided (especially for adaptation) as they usually require complex appraisal systems with high transaction costs for partner countries (OECD, 2010).

5. Concluding observations

83. Global funds are an increasingly significant part of the aid architecture. Their advantages include encouraging innovation, focusing on results, promoting a concept of country ownership that goes well beyond governments to include civil society and other stakeholders, and widespread support from publics and politicians. They also have disadvantages relating to aid effectiveness, which have been amply demonstrated in their own external evaluations. Donors need to take account of the advantages and disadvantages in allocating their aid portfolios between global funds and horizontal country-focused aid, as well as in their efforts in boards and elsewhere to improve the effectiveness of global funds.

84. The issues of integration and alignment of global funds at country level arise essentially from the specificity of their mandates. As shown in this report, major efforts are now ongoing to better integrate global funds into country-based programmes. In health, where global funds account for a large share of overall aid funding, these efforts at the country level are complemented by efforts on collaboration and accountability at the international level. These include, in health, the International Health Partnership (IHP), the 'H8' heads of international agencies working on health, the 'task team on health as a tracer sector' (TT HATS) of the DAC Working Party on Aid Effectiveness and, across sectors, the Global Programs Learning Group. Most of the change, though, takes place global fund by global fund, in response to a growing body of empirical evidence, including from external evaluations of their programmes, and to external pressure from donors and partner countries.

85. All global funds are grappling with how they can adapt their strategies, including how they can allocate their resources, in a way that can be made more consistent with the Paris/Accra process. In doing so, they are turning more attention to the impact of their models on predictability, sustainability and capacity development – determinants of results in the medium to longer term.

86. There is broad agreement that far more remains to be done. **A key conclusion underlying the specific recommendations is the importance of building more flexibility into the strategies of global funds – proposed and current – to better address and balance short- and long-term results.** The latter requires more emphasis on predictability and on development of the capacity and systems to achieve results in the longer term.

87. The 'right' approach depends heavily on the needs of the individual country. Country specificity is more than just a truism. A World Bank study (2008a) confirms strongly the common sense point that the higher the institutional and political capacity of partner countries to manage aid, and the lower the share of global funds in overall financing of the relevant sector and sub-sector, the less salient are the distortion or other issues raised by global funds. This applies, for example, to predictability, sustainability or distortion of national programmes. **So, it is important neither to underestimate the importance of the issues posed by global funds for aid-dependent countries with weak capacity nor to exaggerate the issues they pose for countries with greater capacity and where global funds account for a relatively small share of public financing.** The implicit focus of this report, as with most reports on global funds, is, appropriately, on aid-dependent countries. **But focusing on these alone could lead to missed opportunities for global funds to use either pure 'challenges' or outcome-based disbursements, for example, to stimulate innovation in countries that are not aid dependent.**

88. **Funders – donors and private foundations – bear a special responsibility to ensure the increased aid effectiveness of global funds. This includes through increased flexibility in their business models and increased predictability and sustainability of the financing that they receive and in turn provide.** It is these funders that have – or will – establish global funds and determine their mandates, modalities, governance structures, incentive systems and funding

levels. **They need to use the incentives at their disposal – including membership in Boards and committees and participation in replenishments – to encourage increased effectiveness and empower top management and other agents of change within global funds.** Donors need to find ways to curb and channel waves of excessively narrow enthusiasms, exacerbated by the search for 'what new fund will come from our presidency' and by inter-sectoral competition within donor agencies. This extends to funding of advocacy for increased earmarked funding for global funds, as those working on a given sector press for global funds and for maximising the share of financing earmarked for their sectors (Isenman and Shakow, 2010). At the same time, donors need to work constructively with global funds at the country level – admittedly not an easy task, given the global funds' absence of country presence – and to recognise their staff as committed partners who are trying to respond to their mandates, constraints and incentive systems.

89. As discussed above, donors should ensure that aid effectiveness principles are taken into account at the earliest possible stage. This includes 'thinking twice' before launching new global funds, using existing institutions for any new funds, building aid effectiveness principles at the start into new funds and retrofitting these principles into existing funds (Manning, forthcoming).

90. **Finally, helping global funds to improve their aid effectiveness must come from collective action.** Global funds are, by definition, cases of international collective action. In practice, decisions on global funds tend to be considered one by one by different groups of – and within – sponsoring donors, along with relevant sectoral partners from civil society and with varying degrees of top-level political support. The DAC has for decades been a forum for considering and agreeing guidelines on aid effectiveness, including on difficult political issues like untying aid. Yet, there has been no sustained consideration of the donor role in issues of global funds, although its Secretariat raises these from time to time. The excuse that funding of global funds is highly political should not stand in the way of establishing a high-level donor group to consider the range of issues concerning the establishment, funding, mandates and aid effectiveness and other modalities of global funds. This group should selectively include other major present and potential contributors to global funds, including particularly the Bill and Melinda Gates Foundation. And it should bring in the voices of partner countries and civil society, for example through working with the DAC-hosted Working Party on Aid Effectiveness.

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Annex 1: Glossary

Accra Agenda for Action (AAA): Outcome of the High level Forum (HLF) held in Accra in 2008. In support of the Paris Declaration key points agreed upon include several aspects of ownership and accountability, including predictability, use and support of country systems, reduced and more transparent conditionality, untying, and transparency. There is also emphasis on the other principles of the Paris Declaration, harmonisation (including division of labour), results and mutual accountability.

Aid effectiveness: refers to the improvement of the impact of aid on development. The AAA and the Paris Declaration provide a more precise view of the changes in behaviour and practice required to achieve increased aid effectiveness.

Aid modality: An aid modality is the high level approach agreed between the partners to a development activity, indicating its general scope and where the governance, leadership, and facilitation reside. Budget support and project financing are examples of aid modalities. Aid modalities are chosen based on an assessment of the desired scope and relationships, as well as the nature and capacity of the partner to lead the activity.

Aid untying: The ending of the practice of most donors to insist that aid is spent on goods and services from the donor country in favour of giving unrestricted access to those who can compete best on price, quality and service. Aid from DAC donors has become increasingly untied, but unevenly and incompletely so.

Alignment: When donors base their overall support on partner countries' national development strategies, institutions and procedures.

Bilateral aid: Bilateral aid is provided to developing countries and countries in transition on the Development Assistance Committee (DAC) list on a country to country basis.

Budget support: Budget Support is a form of programmatic aid in which funds are provided: in support of a government programme that focuses on growth and poverty reduction, and transforming institutions, especially budgetary; to a partner government to spend using its own financial management and accountability systems.

Capacity building: Means by which skills, experience, technical and management capacity are developed within an organizational structure, often through the provision of technical assistance, short/long-term training, and specialist inputs (e.g., computer systems) by contractors, consultants or contracting agencies. The process may involve the development of human, material and financial resources.

Challenge fund: A challenge fund is one where there is a competition for a fixed amount of funding for specified purposes. Those who win have their proposals financed, albeit with adjustments that reflect reviewers' perspectives on the relative merits or reasonableness of the amount requested. Losers receive nothing. Challenge funds are, in essence, a form of competitive tendering.

Earmark: In finance, an earmark is a requirement that all or a portion of a certain source of funds be devoted to a specific set of expenditures.

Evaluation: The systematic and objective assessment of an on-going or completed project, programme of policy, its design, implementation and results. The aim is to determine the relevance and fulfilment of objectives, development efficiency, effectiveness, impact and sustainability. An evaluation should provide information that is credible and useful, enabling the incorporation of lessons learned into the decision making process of both recipients and donors.

Ex ante: Ex ante is Latin for "beforehand". In models where there is uncertainty that is resolved during the course of events, the ex ante values (e.g. of expected gain) are those that are calculated in advance of the resolution of uncertainty.

Global funds: “Global funds” are the subset of global programmes and partnerships that provide earmarked funding for specified purposes to eligible countries across more than one region of the world. In setting up global funds, the initial funders and other partners reach explicit agreement on: a set of objectives, usually at the sub-sectoral level; products or services to be provided; an institutional structure (“rules of the game” as well as specific organisational arrangements); and dedicated resources to achieve the agreed objectives. In other words, global funds focus to varying extent “vertically” on specific issues or themes, in contrast with the horizontal approach of the country-based model of aid, where donors provide support for priorities, strategies and systems set by the partner country.

Harmonisation: Donors work together and make use of their respective comparative advantage to avoid duplication and inconsistency in order to reduce transaction costs for partner countries and to support alignment. They do so by co-ordinating their aid, using common procedures, implementing “division of labour” to reduce the number of donors in a given sector, and acting jointly.

Impact: Positive and negative, primary and secondary long term effects produced by a development intervention, directly and indirectly, intended or unintended.

Innovative financing: Innovative funding mechanisms seek to increase predictable, long-term funding for development raised from sources other than direct government aid. For example, new instruments draw on new actors in development such as the capital markets and industry.

Input: The financial, human, and material resources used for the development intervention.

Managing for results: Management strategies that focus on performance and improvements in country outcomes and provide a framework in which performance information is used for improved decision making.

Millennium Development Goals: A set of eight international development goals for 2015, adopted by the international community in the UN Millennium Declaration in September 2000, and endorsed by IMF, World Bank and OECD.

Monitoring: A continuing function that uses systematic collection of data, with a focus on specified indicators, to inform management and the main stakeholders of an ongoing development intervention of progress and problems in achievement of objectives and the use of allocated funds.

Multilateral aid: Aid channelled through international bodies for use in or on behalf of aid recipient countries. Aid channelled through multilateral agencies is regarded as bilateral where DFID specifies the use and destination of the funds.

Mutual accountability: donors and partner countries hold each other accountable for development results by jointly assessing, through country level and international mechanisms, mutual progress in implementing agreed commitments on aid effectiveness including those made in the Paris Declaration

ODA: Official development assistance is defined as those flows to developing countries and multilateral institutions provided by official agencies or by their executive agencies, which meet the following tests: (i) it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and (ii) it is concessional in character and conveys a grant element of at least 25%. Only aid to countries on 'Part I' of the Development Assistance Committee List is eligible to be recorded as official development assistance.

Outcome: The likely or achieved short-term and medium term effects of an intervention's outputs.

Output: The products, capital goods and services which result from a development intervention; may also include changes resulting from the intervention which are relevant to the achievement of outcomes.

Output-based aid: Output-based aid (OBA) is a specific type of results-based aid that link the disbursements directly to delivery of specified public services in developing countries.

Ownership: Partner countries exercise effective leadership over their development policies and strategies and co-ordinate development actions.

Paris Declaration: The Paris Declaration is an international agreement in which over one hundred countries and organisations committed to continue to increase efforts to increase aid effectiveness through action on five broad principles: country ownership, alignment, donor harmonisation, managing for results, and mutual accountability.

Predictability: A measure of how predictable flows of aid to developing partner countries are. This includes the extent to which aid promised within a given year is delivered and how many years in the future donors provide information about aid to be provided.

Programme-based approaches: Programme-based approaches are funds provided to a sector – or economy-wide – to deliver an overall programme, led by the partner country, in general with a single budget and a formal process for donor co-ordination, and that make efforts to increase the use of developing partner countries' systems.

Results-based aid. Results-based aid links disbursements, in part or in whole, to achievement of agreed results. *Results-based aid covers a very wide range of models, including disbursements according to outcomes, outputs, inputs, policies or some combination of these.*

Scaling up: Identifying the most effective ways to channel additional resources in order to maximise impact on the MDGs.

Sustainability: The ability to continue benefits from a development intervention after major development assistance has been completed; the probability of long-term benefits; the resilience to risk of the net benefit flows over time.

System support: Provision of assistance to support the development of a framework of processes and procedures used to ensure that a government, a sector or an organisation can fulfil the tasks required to achieve its objectives.

Technical cooperation/technical assistance: Technical co-operation is the provision of advice and/or skills, in the form of specialist personnel, training and scholarships, grants for research and associated costs.

Annex 2: Accra Roundtable on Aid Architecture

The Accra Roundtable on Aid Architecture resulted in a series of suggestions for global programme funds. These recommendations, written verbatim, are as follows:

a) Funders of existing and potential Global Programme Funds are invited to:

- Consider carefully the balance between funding for targeted global Initiatives and funding for aid institutions with a broader remit, able to accommodate local priorities across the board.
- ‘Think twice’ before establishing new funds, applying a clear test of value-added. Learn lessons from the experience of existing global programme funds. In accordance with the AAA, as new global challenges arise, ensure that existing channels are used and if necessary strengthened before creating separate new ones which may increase fragmentation at the country level.
- Ensure consistency between their overall commitment to the principles of aid effectiveness and the line that their representatives take in the Boards of Global Programme Funds.

b) The Boards of Global Programme Funds are invited to:

- Recognise that focused interventions will normally require also the strengthening of overall systems, however financed.
- In accordance with the AAA, ensure that the principles of ownership, alignment, harmonisation and mutual accountability are given support along with the focus on achieving results.
- Align decision-making timetables to local planning and budget cycles.
- Ensure timely reporting of commitments and disbursements to feed into partner countries’ budget and planning processes.
- Encourage greater coordination with central Ministries in recipient countries.
- Give high priority to sustainability, particularly where funding recurrent costs, while recognising that this can often be achieved only over a considerable period.
- Invest in capacity development, and avoid policies that drain capacity from other parts of the national system.
- Recognise the broad links between outputs and outcomes, which are typically the product of relevant activities by many actors often in many sectors, when monitoring results.
- Actively engage in a learning process to improve effectiveness, through sharing of best practices, such as in the Global Programs Learning Group.

c) Countries receiving assistance from Global Programme Funds are invited to:

- Strengthen national and sectoral policies in order to provide a robust framework for uptake of Global Programme Funds on a sustainable basis including working with the International Monetary Fund (IMF) to adjust financial envelopes to better include predictable spending by such funds.
- Ensure close coordination between sector and central Ministries, especially the Ministry of Finance, under existing budget and planning processes.
- Ensure that Global Programme Funds take full account of local policies for decentralisation.
- Strengthen national results monitoring frameworks for public expenditure that Global Programme Funds and others can use to monitor the impact of their interventions.
- Address systemic issues which inhibit the development of capacity (as opposed to bidding staff away from other activities by special inducements).
- Promote domestic resource mobilisation in order to contribute to sustainable financing of high-priority interventions over the longer term.

- Build on the opportunities that Global Programme Funds provide for greater engagement with non-State actors.

d) Non-government partners of Global Programme Funds are invited to:

- Recognise the need for appropriate coordination with government policies and interventions in the area concerned.
- Report transparently about receipt and expenditure of funds.

e) The OECD DAC is invited to:

- Improve the reporting of the flow of funds from the original sources (e.g. taxpayers, voluntary contributors) through all the intermediate channels to the country level.
- Continue to encourage active learning and sharing on aid effectiveness among existing and new global programmes, and consider providing a forum to facilitate monitoring, discussion and action, through support of a formalised relationship between the OECD DAC and the Global Programs Learning Group.

f) All parties are invited to:

- Promote an evidence-based culture by continuing joint learning and by regular joint evaluation of the activities financed by Global Programme Funds.
- Consider whether the appropriate response to the growing concern about effective systems at sector level is best addressed by broadening the mandate of Global Programme Funds or by adjusting the balance between these initiatives and broader-based programmes.

Annex 3: Improving prioritisation of GFATM and GAVI allocations

GFATM's 'prioritisation algorithm' for ranking projects could readily evolve into a way to set the country envelopes recommended in the text. (It would, for example, change the variable measuring a country's disease burden from the **percentage** of people to the **number** of people.)

Country envelopes that emerge - for GFATM, GAVI or other global funds - would be readily adjustable to take account of results-based aid. To do so, the country envelopes would take account of the expected average level of achievement of agreed results. Countries that fell short would lose that share of their financing back into the common pool.

The country prioritisation that GAVI adopted in 2009 is based on well-reasoned background studies,[25] working within guidance from the GAVI Board's Programme and Policy Committee 'that the primary driver of eligibility should be to focus on the poorest countries'. It is worth investigating whether applying a heavy but gradual pro-poor weighting to per capita income - instead of the current on/off income threshold for country eligibility, tempered by increasing cofinancing requirements - would enable GAVI to increase the number of children vaccinated (holding funding constant). It may well be that relatively small allocations for middle-income countries, with their greater capacity for self-finance, that would otherwise be excluded could have a significant multiplier effect.

Note that this is entirely consistent with the GAVI Board's decision to use average national per capita income, rather than the incomes of the poor, as the relevant poverty variable. It would be quite reasonable, though, if GAVI were to say that any amounts going to middle-income countries on the basis suggested here could be used only for pilot projects or for addressing pockets of poverty and low immunisation.

Similarly, it is also worth seeing if the (on/off) threshold for eligibility for most new vaccines could be changed in part into an allocation criterion. GAVI recently raised that threshold to 70% coverage of DPT immunisation. The alternative would be a lower threshold, but with allocations adjusted to the capacity for which DPT coverage is an indicator.

The cost of simulations, building on work already done, though, to see if policy should be reconsidered, would be modest. Given the recentness of the GAVI decisions on prioritisation, though, consideration of these changes are likely to have to be deferred even if they are found desirable.

In both cases, and for global funds in general, the general IDA allocations formula to be adapted to each relevant global fund would be, in simplified form: Share of allocations =a (Relevant population cohort$^{\alpha}$ x Need variable$^{\beta}$ x Peformance variable$^{\gamma}$). The weightings (elasticities) measure the percentage change in the share of allocations for each 1% change in the other variables. ('a' is simply a 'scalar' variable that makes the allocations add up to 100%). In practice, there would be more than one variable for need, each with its own weighting, as well as for performance.

The basic approach to allocations outlined here can readily be adapted to the needs of individual global funds:

- It is also not complicated to add another variable to compensate for whether a given country is over or underfunded based on these criteria. This would just add 'x (Other donor assistance)$^{\varepsilon}$' to the formula.
- A bonus for fragile states could readily be added as well.

[25] www.resultsfordevelopment.org/projects/review-gavi-alliance-eligibility-policies.

- The formula is readily adaptable to *ex ante* decisions to exclude or give higher/lower funding to certain groups or countries. The sum of such changes simply decreases/increases the amount available for allocation by the formula to other countries.
- Similarly, as discussed in the text, the formula is readily adaptable to results-based financing. There would be an initial staff estimate of the net increase or decrease in results-based disbursements across countries. That estimate of net increase/decrease is then updated periodically, affecting the amount available for future allocation.
- The formula can readily take account of different levels of co-financing from domestic resources. The formula determines the grant amount ("grant equivalent") for a given country. Adding in the share of co-financing from domestic resources then yields the country's overall allocation.
- The formula would also be periodically adjusted to take account of changes in predicted supply (donor contributions) or demand (countries eligible and likely to request funding within a replenishment period). This depends on staff estimates. Explicit staff estimates are in any case desirable whatever the allocation system in comparison. For example, the alternative of simply allocating currently available funds to those countries applying in a given annual "round" would introduce major inconsistencies in funding across rounds and reduced overall impact.

The advantage of such a quantitative approach to inform decision making becomes larger the larger the number of countries and more complex the allocation process. Without one, adjustments are *ad hoc*, opaque and often internally inconsistent, with consequent reductions in results achieved. It is not that the formula makes the decision but that it informs decision makers on what would be the implications of following the set of variables and weightings that they themselves have chosen.

Annex 4: Innovative financing

If global funds are to be able to make long-term commitments to partner countries, they need to have long-term funding themselves – or firm assurances of such funding – to commit. Innovative financing is one method of providing that assurance. These mechanisms can secure long-term commitments and additional funds, including from non-traditional sources.

GFATM's partnership with **Product Red**, for example, gives it a share of profits from the sale of identified products from sponsors. And **International Finance Facility for Immunisation (IFFIm)** raises funds on international capital markets by issuing bonds backed by long-term pledges from donor countries. Through its front-loading approach, IFFIm raised US$ 2.3 billion of additional funding in its first three years, enabling GAVI to double spending on immunisation. The aim of IFFIm is to raise US$ 4 billion on capital markets over the next 10 years – enough to support the immunisation of half a billion children (GAVI, 2010a).

In 2007, GFATM launched **Debt2Health** to facilitate debt swap agreements between creditors and partner countries. While these are known development financing instruments, the innovative feature here is that creditors agree to relinquish interest payments on a country's debt on the condition that the partner country invests the freed-up resources in public health using the GFATM system. By the end of 2009, two agreements had been signed and a third was pending signature. These three agreements cover debts with a face value of US$146 million and will eventually raise US$80 million to fight disease. Another three agreements with a face value of US$110 million are being negotiated, with the potential to generate additional resources of US$74 million.

The **Airline Solidarity Tax** was launched in February 2006 at the Ministerial Conference on Solidarity and Globalisation: Innovative Financing for Development and against Pandemics. It was set up to finance UNITAID to improve access to treatments for HIV/AIDS, malaria and tuberculosis for the populations of developing countries, by obtaining lower prices for quality medicines and diagnostics that are still too expensive for these countries and speeding up their availability and delivery in the field. The tax is essentially a series of national taxes that countries commit to levy voluntarily. Once implemented, the tax is applied to all airlines departing from the countries imposing it. A levy on airline tickets is paid by passengers when purchasing the tickets as a form of *ad valorem* tax. Consulting firm McKinsey & Co estimates that the levy could raise as much as US$1 billion a year. Furthermore, the tax presents very little extra administrative burden as its collection is embedded in existing structures.

Additional innovative financing mechanisms include the newly launched "**Massive Good**" scheme (whereby travellers can make a voluntary $2 contribution when purchasing airline tickets and other products). For further information on innovative financing, including forthcoming schemes, see the reports prepared by the Taskforce on Innovative International Financing for Health Systems, including the report 'More money for health, and more health for the money.'

Note, however, that innovative financing is not without its risks. There is, for example, a risk that in order to bring more donors on board, organisations handling these new mechanisms will focus excessively on quantitative and easy to reach short-term results (OECD, 2009b). And, as some innovative financing mechanisms, such as IFFIm, are at least partly reliant on traditional donor support, there is a risk that, as donor obligations become due, donors will reduce their traditional funding.

Annex 5: List of interviewees and people consulted

Name	Organisation
Prerna Banati	GFATM
Amie Batson	USAID
Desmond Bermingham	Independent consultant, former Head of Secretariat, FTI
Jonathan Beynon	European Commission
Collins Chansa	Ministry of Health (Zambia)
Linda English	FTI Secretariat
Helen Evans	GAVI
Rosalind Eyben	IDS
Barry Greene	GAVI
Stephen Groff	OECD DAC Secretariat
Thomas Groh	French Ministry of Finance
Jane Kirby-Zaki	World Bank
Richard Manning	Independent consultant, former DAC Chair
Gavin McGillivray	DFID
Mavis Owusu-Gyamfi	DFID
Mark Pearson	HLSP
Bob Prouty	FTI
Andrew Rogerson	OECD DAC Secretariat
Elisabeth Sandor	OECD DAC Secretariat
Jean-Louis Sarbib	Development Gateway
Alex Shakow	Independent consultant, former Executive-Director, Development Committee
Andrew Steer	World Bank (DFID at time of interview)
Wilma van Esch	Ministry of Foreign Affairs (Netherlands)
Sonia van Nispen	Ministry of Foreign Affairs (Netherlands)
Alan Winters	DFID