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Donor Schizophrenia and Aid Effectiveness: The Role of Global Funds

Paul Isenman and Alexander Shakow
April 2010

Institute of Development Studies

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Summary

This paper looks at what donors, who are at the same time funders and critics of global funds, can do to increase the coherence of their own policies and actions. The role of global funds – that is to say, global programmes with sectoral or sub-sectoral earmarking and with substantial operations at the country level – has become increasingly prominent in the past decade as they have accounted for much of the increase in total aid and for most of the increase in aid for health. Some of the strongest criticism has come from aid donors who have supported the call in the Paris Declaration and the Accra Agenda for Action for supporting overall country strategies and systems. Yet those donors are the founders and funders of global funds and have a major role in setting their mandates and policies. Why this apparent schizophrenia? This paper, based on a set of interviews as well as published sources and the personal experiences of its authors, aims to provide a dispassionate view of the considerable strengths and weaknesses of both the global fund and Paris-Accra approaches to aid effectiveness and, taking account of the internal incentives driving the behaviour of donors and other key stakeholders, to suggest how the two models can be used more effectively together. It calls for donor agencies to see funding of country programmes and global funds as complementary instruments in aid investment portfolios and to adjust internal policies and incentives to manage competition between sectors, including through increasing coherence of their representation on the boards of global funds. It calls for more effort at 'thinking twice' before starting new funds, for building the principles of Paris-Accra into new global funds, and giving stronger encouragement to the efforts of existing global funds to retrofit these principles. As part of this effort, it calls for coherent strategies, agreed with ministers, that cover broad allocations between global and country programmes, rather than treating each new initiative in health or environment one by one. And it makes recommendations on a series of selected current policy issues, including sustainability, taking a broader view of country allocations, and mutual accountability.

Keywords: global funds; aid donors; Paris Declaration; Accra Agenda for Action; incentives; aid effectiveness; aid volume.

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Contents

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Acronyms

AAA	Accra Agenda for Action
ART	Antiretroviral therapy
CCM	country coordinating mechanism
CGIAR	Consultative Group on International Agricultural Research
CSO	Civil society organisation
DAC	Development Assistance Committee
DALY	disability-adjusted life year
FTI	Fast Track Initiative
GAVI	The GAVI Alliance (formerly the Global Alliance for Vaccines and Immunisation)
GEF	Global Environment Facility
GFATM	Global Fund to Fight AIDS, TB and Malaria
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association
IFFIm	International Finance Facility for Immunisation
IHP+	International Health Partnership
LFA	Local Fund Agent
MDB	multilateral development bank
MDGs	Millennium Development Goals
NGO	non-governmental organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PEPFAR	US President’s Emergency Fund for AIDS Relief
PD	Paris Declaration
RT	Roundtable
WP-EFF	DAC Working Party on Aid Effectiveness

Note: This paper is written as a report from advisers to the senior managers of a representative bilateral development agency facing issues common to all donors.

Memorandum for the Director-General

Introduction and summary

This report responds to your request for an analysis of policy choices raised by the growing importance of global funds, particularly in the health sector. The report draws on our agency's experience of working with these funds and on interviews with knowledgeable people, including in global funds, as well as on published sources. It aims to help you confront some difficult decisions, analytical and political, on how to allocate our aid and how to ensure that it is used to maximum effect. ('Global fund' is used in this report, as in the Accra Agenda for Action (AAA), to refer to global programmes that provide substantial assistance earmarked for a limited set of purposes to a wide variety of countries.)

We start from our objective of managing our total aid portfolio, bilateral and multilateral, in a way that maximises poverty reduction, the achievement of the MDGs and, more generally, development impact. This then raises some tough issues regarding global funds: whether and when to set up new funds; whether and when to use existing institutions when we do so; how aid effectiveness principles can be built into new funds and retrofitted into existing ones; how to allocate funds between global funds and other multilateral programmes – some of which (including most UN agencies) are themselves earmarked by sector; the implications of global funds for the overall balance between our bilateral and multilateral assistance; and how we can encourage better coordination and more joint action between global funds and more 'horizontal' aid programmes. Our focus is on negotiation with other key stakeholders, taking account of their incentive systems, with the objective of increasing development impact.

The report stresses the importance of understanding the incentives that drive major stakeholders, including our own, and the challenges and opportunities for change that these incentives suggest. We recognise that on the most important issues regarding global funds our agency's influence, even within our own government, is limited. We cannot give 'orders' to global funds on their policies or funding levels. A new type of diplomacy is needed which uses the 'soft power' of negotiations, networks, and incentives to deal more effectively with global funds. We concentrate on the two biggest global health funds – the GAVI Alliance (formerly The Global Alliance for Vaccines and Immunisation) and the Global Fund to Fight AIDS, TB and Malaria (GFATM). Our key recommendations are, however, broadly applicable beyond the health sector, including to global funds for climate and food security.

Our staff's views on global funds vary widely, as do those of senior policymakers from developing countries. Some of our colleagues, particularly those involved in country programmes, have been highly critical of global funds, calling them inconsistent with the Paris Declaration's emphasis on supporting overall government development strategies and priorities. Some others, including ourselves, understand these weaknesses but recognise that global funds are a reality and a growing one, that they are producing tangible results on the ground, and that they are important to our efforts to help increase both the effectiveness and volume of aid. Yet others are strong champions of global funds as a way to address chronic underfunding of their (sub)sectors – a point on which there is near-universal agreement across sectors – including through funding for advocacy for more funding.

Moreover, we need to recognise that we, as one of the initial funders – and not the global funds themselves – have determined their number, funding, mandates, and broad policies. To the extent there are problems, we need to be at least as proactive in addressing them as we were in causing them. To some extent we have been trying, recognising that since we have set up inclusive governance structures, we as funders cannot make unilateral decisions. But we can do better, much better. The challenge we face is how to bring closer together the earmarked approach of global funds and the non-earmarked approach of the Paris Declaration and the AAA (Paris-Accra).

Here are our main recommendations for action.

- **Clarify our strategy for multilateral aid, of which support for global funds is a major part, taking account of the issues discussed in this paper.** Recognise the limits of strategies *per se*, however, and focus on how to bring about real-world change. Involve ministers and other parliamentarians as well as civil society – so we do not become what one observer referred to as the 'butter in their sandwich'. Consult developing countries and the private sector.

- **Set ourselves a challenge of working effectively with other donors and private foundations on the range of policy issues regarding the role and effectiveness of global funds.** Interests may differ in part, but they overlap substantially and progress requires joint action. The Development Assistance Committee offers a basis for high-level informal joint efforts, but this would require reaching beyond the DAC to non-DAC donors and foundations.

- **Get more serious about 'thinking twice' before establishing new earmarked funds and use existing institutions where possible to implement them.** Our ministers and representatives at international meetings on sectoral issues should avoid open-ended and exaggerated promises to meet all needs in a given subsector when – as is almost always the case – this would lead to an adding-up problem of intra- or inter-sectoral distortions. Take a lead in incorporating sound principles of aid effectiveness in new global funds and retrofit them to existing ones.
- **Use a portfolio approach in allocations, taking account of evidence on cost-effectiveness, as part of that strategy.** Increase the share of multilateral aid, and within that increase the share of 'horizontal' multilateral aid relative to that of global funds. And give more attention to evidence-based cost-effectiveness. In the case of health, this can lead in quite surprising directions, such as including support for country nutrition strategies or for raising tobacco taxes as 'defaults' in health systems.
- **Be less schizophrenic and more proactive in helping resolve problems that we were a party to creating.** Speak with a consistent voice in relevant fora – including governing boards and committees of global funds, replenishments, the DAC Working Party on Aid Effectiveness (WP-EFF), and at the country level. Encourage champions of change in global funds, as well as the WP-EFF's Global Programmes Learning Group in this effort.
- **Do not underestimate the importance of the issues discussed here for aid-dependent countries with weak capacity. On the other hand, do not exaggerate their importance, particularly in countries where global funds account for a relatively small share of relevant overall public financing.**
- **Learn from, and be better partners with, global funds.** They have much to offer, including the focus on results, involvement of civil society and the private sector, transparency, and capacity for adaptation and innovation. We may criticise how they have achieved these objectives, but we ourselves need to do more and better in these areas. The competition from global funds is constructive in making all donors raise their game. Recognise that the staff of global funds, like the staff of multilateral and bilateral agencies, are doing their best to respond to their mandates, incentives and accountability systems. Recognise also, though, that global funds are strong advocates for their mandates and that mission creep becomes a strong temptation for their staff and governance structures alike. Treat global fund staff, at the country and global levels, as the valued partners they are.
- **Recognise and support the changes global funds are making to respond to the Paris Declaration (PD) and the Accra Agenda for Action (AAA).** But recognise that much more is needed and 'follow the incentives' to help bring about that change. Give more priority, in our work on aid effectiveness, to climate change and the environment where there has been the fastest growth in the number of funds and volume of funding.

- **Face up squarely to the incentives of key stakeholders of global funds that make it likely that 'raising money vertically and spending it horizontally' will instead end up both raising and spending it vertically, particularly as funding gets tighter.** Some 'diagonalism' is probably necessary, given the stronger political support for specific activities that capture the popular political mind. But be discerning diagonalists, going in with our eyes open and recognising that added political support does not at all mean full additionality – i.e., that increased flows to a global fund would increase aid by a similar amount overall.
- **Give more attention to the sustainability of funding for programmes that we have encouraged that entail strong moral and political commitments to financing ongoing costs – particularly given the uncertain environment for growth in overall aid.**

These are our recommendations in brief. The analysis underlying them follows.

1 New models of increasing aid effectiveness: Paris-Accra and global funds

Our agency has in the past decade been a major contributor to the emergence of two new and divergent approaches, or models, of aid effectiveness that from the start travelled in quite different and in part contradictory directions. The Paris-Accra model concentrates on the 'how': improving the effectiveness of how aid is provided, with a focus on support for government 'owned' programmes. The global funds model combines 'what' and 'how', with sector and sub-sector-specific objectives and a focus on applying global best practice at country level. We deal with both on a daily basis. But it is worthwhile to step back and reflect on their strengths and weaknesses.

1.1 The Paris-Accra model

This model, embodied in the Paris Declaration (2005) and the Accra Agenda for Action (2008) is based on the recognition that, especially in the longer run, it is what countries, not donors, do that matters. Donors can create hothouse programmes that bloom brilliantly for a time and then wither away. Thus, the emphasis is upon country ownership, alignment of development assistance in support of country programmes, a complementary harmonisation of aid among donors and reduction in transaction costs, more focus on results, and on accountability of donors as well as of developing countries. This approach emerged from decades of lessons of experience that showed the weaknesses of the prevalent approach, which was – in oversimplified terms – the 'principal-agent' model where development would succeed only if aid agencies (the principals) could find effective incentives (persuasion, conditionality, the power of the purse) to get poor countries (the agents) to implement the programmes and policies that donors knew were needed. Experience, particularly in countries with the most rapid progress in growth and human development, has demonstrated that sustainable progress depends rather on the countries' own commitment and implementation capacity.

The Paris-Accra approach recognised that the power imbalance between donors and recipients was more a hindrance than a help in achieving development results. It represents a move away from a principal-agent model toward a 'network model', emphasising mutual accountability for achieving development goals based on shared objectives and greater voice for developing countries and, to some extent, for civil society as well. It turned out that the long-standing 'club model' of the OECD Development Assistance Committee (OECD-DAC), which relied on shared objectives and peer pressure, was well adapted to encouraging this shift at the global level – in part through its Working Party on Aid Effectiveness (WP-EFF). A 2008 evaluation of the Paris Declaration found that in just three years it had had a significant impact on behaviour of both donors and developing countries (Wood *et al.* 2008).

1.2 The global funds model

Since 2000 we and other donors have created a number of global funds, particularly for environment and health. There are 70–90 global programmes (often referred to as 'partnerships') in health alone, including research, technical assistance, advocacy and financing entities. Only a small number fall into the last category and only two provide financing at the country level in amounts that are significant sector-wide: the Global Fund to Fight AIDS, TB and Malaria (GFATM) and the GAVI Alliance. They disbursed $2.7 billion in 2007, over 12 per cent of total official development assistance (ODA) for health; more recent data will show a significant increase based on the establishment of the International Finance Facility for Immunisation (IFFIm) and the 2007 Replenishment of the Global Fund. These amounts are dwarfed, however, by the US President's Emergency Fund for AIDS Relief (PEPFAR), with annual disbursements now over $5 billion, or about 25 per cent of the sectoral total (Financing Global Health 2009). Although it is funded bilaterally, PEPFAR otherwise behaves like a global fund and is struggling with essentially the same aid effectiveness issues as GAVI and GFATM.

We participated in the creation of GAVI and GFATM and other so-called 'vertical funds' for a number of reasons. There was a view, particularly among our civil society organisations (CSOs), that there was a need to break the mould of development orthodoxy. Existing international institutions were seen – depending on whether it was the World Bank, UNICEF or WHO – as some combination of too bureaucratic and slow, powerful and arrogant, and unwilling to give a seat at the table to CSOs. As Paul Farmer put it more recently, 'A first principle for the emerging global health movement, in fact, might well be "Do not emulate the mainstream aid industry"' (Farmer and Garrett 2007). Thus, something new and different was needed. In the case of GAVI and GFATM, the objectives were, respectively, to deliver newly available vaccines and to address, on an urgent basis, the prevention and treatment needs of the many millions suffering from these three diseases. Both had great global appeal to publics, CSOs and political leaders.

The model was, like that of Paris-Accra, intended to be a sharp break from the past, but in quite different ways. It was to:

- be evidence-based, sharing cutting-edge technology and good practice globally;
- incorporate scientific review panels to pass on or rank the quality of proposals submitted;
- pool funds at the global level that donors might otherwise be providing bilaterally;
- give a key governance role to civil society and the private sector;
- show quantifiable results (if more on outputs than outcomes) and, more recently, provide performance-based financing to help achieve them;
- have the ability to bring off massive short-term change unlikely to be achievable otherwise (e.g. insecticide-treated bed nets for malaria);

- create 'financing' rather than 'implementing' agencies, thereby requiring fewer staff (if many times more than initially anticipated), which would rely on partner agencies for help in-country;
- be nimble and adaptable, not weighed down by the baggage of accumulated rules and political interference found in the World Bank or UN agencies;
- set a high standard of transparency, putting documents on their websites that donor agencies would normally consider internal or confidential; and
- address issues that had, to varying extents, characteristics of global public goods, and that appealed to the moral sensitivities of civil society and political leadership in donor countries.

Both these new approaches, or models, have much to commend them. Not surprisingly, their weaknesses are in large part mirror images of their strengths. Our agency has on different occasions strongly supported both these models without sufficient thought to inconsistencies between them and how they might be reconciled. The appeal of global funds to civil society and world-famous public figures and artists, and to political leaders, has led to explosive growth in their financing, initially in health and, more recently, in attention to climate change, where there were 22 funds with agreed funding of over $18 billion as of December 2009 (Climate Fund Update 2010). In contrast, we have had much more difficulty gaining public or political understanding of the longer-run benefits of the Paris-Accra approach. Nevertheless, it is encouraging how much support there was in Accra in 2008 for recommitment to the Paris Declaration and for carrying it forward in the Accra Agenda for Action. One person we interviewed characterised Accra as a 'coup of the (aid) technocrats'.

1.3 Weaknesses of the two models

Global funds

Global funds have significant disadvantages when viewed from the perspective of the health sector as a whole. These disadvantages are the flip side of their strengths – particularly that they focus on specific issues rather than taking a sector-wide approach, that they receive disproportionate increases in funds relative to other sectoral needs, and that there is insufficient involvement at the country level. And we were, again, a party to each of these features.

GAVI and GFATM grants are made on a research-based model of rounds of proposals reviewed by external panels. This essentially one-off competitive approach is an excellent way to promote research and innovation. But it is ill-suited to long-term support and system-strengthening and so creates internal tensions within the global fund model. It creates incentives to tailor proposals to take account of the generally known preferences of external review panels with limited country knowledge rather than of what the country needs and 'owns'. Another source of tension is between relatively short-term financing and the 'moral mortgage' of long-term obligations for recurrent cost financing of staff, medicines and vaccines (financing of anti-retroviral-therapy by GFATM is the extreme example). That tension is exacerbated by the risk that a country's follow-on proposal may not make the cut, raising severe financial and political risks. In addition, the rounds approach has meant that global funds have set up their own processes, including calendars for proposals and for reporting. This has meant that governments need to 'align' with the systems of global funds, while Paris-Accra calls for the contrary. The widely admired leanness of their staffs (at least initially) has meant less capacity to work with developing countries or donors on strengthening or overseeing programmes on the ground. Also, the lack of country staff has made collaboration harder for governments and donors.

There has been a good deal of debate about the extent to which global funds have a distortionary effect within sectors. Disease-specific programmes, mostly for HIV/AIDS, accounted for half of aid to health, and about three-quarters of the increase in aid to health, from 2002–2006 (Financing Global Health 2009). The implicit basis of global funds is an updated version of the traditional principal-agent model of aid, although one more of 'global best practice knows best' than 'donor knows best' and without conditionality except that implicit in the award process. Note that the issue is not whether a given programme is vertical at the country level. It is rather whether the vertical earmarking is done at the global or country level.

If the question is whether governments would have spent the same amount of funding differently, the answer would generally be 'yes'. The rapid expansion in the programmes the funds financed created a great many new jobs for skilled health staff and higher salaries in their programme countries – either directly or as top-ups to government salaries. They attracted a significant share of the best staff from elsewhere in the sector (Biesma *et al.* 2009). Whether the rest of the health sector would have been better off in the absence of global fund support, though, depends on the extents to which: that funding was additional; there was direct funding for the rest of the sector (as recently in the case of funding by GFATM and GAVI for health systems); there were positive spillovers (externalities) on the sector as a whole; and to which governments have found ways to restore partial fungibility – itself determined by the importance of global funds in total financing for the sector as well on government ingenuity. A further complication comes from the varying (and often overstated) extent to which what is financed by global funds is for 'global public goods'; to the extent that benefits are global rather than national, donors would be justified in an earmarking that reflected those global benefits. These same points apply to distortions between sectors. Understandably, this complexity makes empirical analysis of distortions difficult.[1]

1 Problems of distortion of priorities and of obliging countries to respond to global fund processes have been amply documented at the field level in evaluations and reviews, initially in a path-breaking cross-country study by McKinsey commissioned by the Gates Foundation in 2005 (McKinsey 2005). Also, for a debate on distortions versus positive spillover effects see Garret (2007) and Farmer and Garrett (2007).

Paris Declaration

Despite its overall highly positive assessment, the evaluation of the Paris Declaration prepared for the Accra conference made it clear that there were also issues to address (Wood *et al.* 2008). One was the need for greater emphasis on civil society and parliaments as part of 'country ownership'. There were also questions about the high transaction costs of harmonisation to both developing countries and donors, whether overall or at the sectoral or project levels. Some of these high costs were recognised as a necessary initial investment to be recouped in future higher development impact and lower costs. The recognised need to reduce those costs lies behind the emphasis, particularly among European donors, on 'division of labour', primarily through reducing the number of donors in each sector to reduce donor fragmentation (OECD 2009). The evaluation, like the '2008 Survey on Monitoring of the Paris Declaration',[2] also pointed to the lack of progress on mutual accountability. There is also concern in some countries about the principle of 'harmonisation' being carried so far that 'developing countries' are faced with 'ganging up' from a unified donor monopoly supplier. The monitoring survey confirms strongly that the problem remains more one of fragmentation and, for example, inability to pool funds, than of 'excessive' progress on harmonisation.

Some development agency staff – on occasion even our own – forget that Paris-Accra deals essentially only with process and not with the substance of what needs to be done. They at times focus so heavily on the principle of alignment to country programmes that important issues, such as quality or severe risk of corruption, do not get the attention they deserve. They seem to forget that modalities, dialogue and allocations should be adapted to the needs of individual developing countries and that the objective is not better processes *per se* but better development outcomes. We should be wary of taking to an extreme any reasonable approach, whether the Paris-Accra or global fund models, or the MDGs.

The key challenge we face is how to bring closer together the approaches of Paris-Accra and of global funds – in a way that draws the best lessons from each. In doing so, we need to see them, like aid in general, as only a small part of the complex socioeconomic and political process that determines development outcomes. There is growing, if still far from universal, recognition that the two approaches are not 'good versus evil' but can even be complementary. The issue is partly how and in what dosages they should be applied, at the country and global levels, and partly how they can enrich each other. An example is how to achieve better results over time by combining the focus of global funds on measurable (and so essentially short-term) results with the focus of Paris-Accra on longer-term systems and capacity. In the past several years a number of important steps have been taken, discussed below, to bring greater consistency between the two approaches. There is still a long way to go. We shall start by looking at what donors, especially ourselves, need to do, and then focus on the global funds themselves.

2 OECD/DAC: www.oecd.org/document/33/0,3343,en_21571361_39494699_39497377_1_1_1_1,00.html

Box 1.1 Selected lessons from global funds

Focus on results

All donors are giving increased priority to managing for results. Global funds have, to varying extents, been at the vanguard of this effort. There is now a need for joint work on linking disbursements more directly to results, on moving further along the results chain, and on difficult issues like 'moving from attribution to contribution' and balancing short-term results against the longer-term results that come from strengthening systems and capacity.

A broader concept of 'ownership'

We have a good deal to learn from the, on balance quite positive, experience of GAVI and GFATM in integrating CSOs and the private sector, including into governance structures. The main advantage is greater inclusiveness of ownership and voice, leading to better results as well as broader ownership. The main disadvantages are increased cost, difficulty in bringing about change, and conflicts of interest regarding grants. Our dialogue with governments of developing countries should, in keeping with the AAA, encourage greater 'voice' for civil society and parliaments as well.

A hybrid country-based and global model

The experience of global funds suggests that good results can be obtained by a hybrid model that combines support of country strategies with global knowledge and objective external validation. It is important that any such validation be done early enough to influence programme design rather than result in unexpected last-minute turn-downs.

Transparency

Here GFATM in particular has set a high standard for transparency in posting on its website material on its operations as well as the deliberations of its Board. GFATM and GAVI have only recently recognised, though, the need for the same transparency at the country level, including informing finance ministries of support they are providing.

2 Turning the spotlight on ourselves and other donors

2.1 Looking objectively at our own incentives

Understanding the incentive structures – in practice and not just on paper – of major stakeholders is crucial to encouraging changed behaviour, including our own. Our own house is more divided than we like to think. We are pushed by political pressures – i.e., incentives to act – from our ministers and from CSOs, including the media, to support global funds even though our official policy strongly supports the Paris-Accra approach. Our sectoral staff are often supporters of expanding the number and size of global funds in an effort to get earmarked resources for their (sub)sector(s). A well-informed commentator, Owen Barder, puts it more strongly:

> Within many aid agencies there is a permanent state of low intensity bureaucratic warfare for resources, sucking up the time and attention of staff as they fight to defend and expand funding for the causes they work on. They deliberately stoke up pressure in private alliances with civil society organisations – many of whom they fund – to raise the political stakes through conferences, international declarations, and publications with the aim of committing funders to spend a larger share of aid resources on their issue. Territory is captured and held by way of international commitments in summit communiques.
>
> (Barder 2009)

Barder goes on to say, '… we should, as a development community, heap scorn and opprobrium on anyone caught advocating for more resources in their sector'. This goes too far. Competition in ideas, including advocacy for them, can help advance development. But he is right in calling for 'social norms' to govern this donor- and foundation-funded globalised 'market'. And we should see that our internal policies and incentives reflect sensible social norms to govern that market.

Our policy and field staff are most worried about the proliferation and size of funding of global funds, a concern consistent with our policy statements. We have yet to set clear accountability guidelines for our country-based staff in working constructively with global funds, helping them and, at the same time, pushing them to do the most they can within their own rules to increase their effectiveness. Some policy staff, though, are tiring of being the 'butter in the sandwich' between political leaders and CSOs and so are tempted to subscribe to the idea that 'funds have to be raised vertically, but should be spent horizontally'. This 'diagonal approach' is in part a necessity, for both political and fundraising reasons, but also a risky one. Those who are most closely involved with global funds are sincerely and deeply committed to their objectives and internal incentive systems. This applies to their staff and, if anything, more strongly to CSOs who sit on their boards or who otherwise support them.

When funding is growing rapidly, there may appear to be enough slack for both vertical and horizontal objectives. Even then it seems odd for donor countries to be saying implicitly to developing countries: 'We are politically unable to provide aid in the highly fungible and aligned manner called for in Paris-Accra. We hope that you have the capacity and institutional structure to do what we have been unable to do and set this right. In other words, do as we say rather than as we do. But we have to warn you that we will have to criticise your efforts to increase the inter-and intra-sectoral fungibility of our funding, sometimes even calling this a diversion of funding'.

When growth in funding slows relative to growing needs to meet core mandates, the consequences are likely to be more severe, and the result could well be that funding intended to be spent horizontally ends up being spent more and more vertically. We have an insufficient idea of the net additionality that global funds bring to our and other-donor overall aid levels. We know that even in countries like ours that have commitments to reaching given GDP targets, delivering on those commitments over time is far from assured. And we can see the political and popular push behind global funds – particularly, for example, when they are identified as key development initiatives of a G8 presidency. What is more diffuse and harder to see is what the impact is on direct mobilisation of horizontal funding, including for future replenishments of International Development Association (IDA) and concessional loan windows of regional banks. **Thus, if we are to be in part diagonalists, let us be discerning diagonalists, going in with our eyes open and recognising that added political support does not at all mean full additionality.**

We must engage our political leadership in a strategic process in which they take on some ownership. If not, we are likely to be condemned to continue making decisions one by one, responding to the political attractiveness of the proposal at hand. The task is difficult, but it is important that we find a way to get through to our ministers more convincingly. They, not we, make the political decisions. We hope that as the G8 gives way to the G20 and its more diverse membership, there will be greater appreciation for the importance of working together to promote sustainable growth and human development – a strong argument for greater attention to country-focused 'horizontal' programmes. There is a risk to be resisted, though, of decreased focus on problems of low-income countries.

2.2 Paris-Accra principles – donor challenges

Like other donors, our own behaviour, reflecting our own incentives, has been far from a model of consistency. Others, speaking less diplomatically, have talked of donor schizophrenia about global funds.

Our challenge is: to sharpen our strategy on multilateral aid – including support of global funds – so that it provides clear guidance on the major policy choices we face, to get that strategy accepted government-wide, and, most difficult, to move from an agreed piece of paper to consistent implementation. Given that we are talking about collective action to fund global institutions and that all donors face a mix of policy and politics, we should – in the spirit of Paris-Accra

Box 2.1 How are we doing on responding to Accra?

Donor Responses to the Recommendations of the Accra Agenda for Action (OECD 2008a) and the Accra Roundtable on Aid Architecture (RT) (OECD 2008b).

- *'Think twice' before establishing new funds, applying a clear test of value-added (RT)*. Our record is not good. The AAA has been followed by a profusion of new funds, with emphasis moving from health to climate change and now to food security and agriculture. **We badly need to find politically viable processes for 'thinking twice'.**

- *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 coordination at country level.* **Here our record is much better and we should strive to keep it that way**. New funds post-Accra are so far being implemented through existing institutions.

- *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.* Global health funds have accounted for three-quarters of the total increase in health funding – not a good sign of this balance. With the profusion of global funds for the environment, there is a strong danger of repeating the same pattern. **Yet in the spirit of Paris-Accra we should be increasing the share of multilateral aid**. While Paris-Accra does not explicitly call for more multilateral aid, that is the logical implication of its focus on harmonisation, including on minimising fragmentation and transaction costs. (Why not do harmonisation on a 'wholesale' basis rather than 'retail' by country and sector?) **We should also be increasing the share of 'horizontal' aid**, where developing countries get to decide their own sectoral priorities, relative to 'vertical' aid, of which global funds are the biggest part. As part of our decision-making **we should invest more, with other donors, to bring evidence to bear on the contentious question of when and to what extent funding for global funds is additional**.

- *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*. The positions taken on global fund boards by our representatives are too often not consistent with those taken by our representatives elsewhere, such as at the MDBs (multilateral development banks). **We need to be more consistent**.

– work closely with other donors. We could start with the ‘like-minded group’ of more progressive donors but also be working DAC-wide, encouraging the DAC in its recent efforts to involve emerging donors and foundations as well. **We should set ourselves the challenge of being a major catalyst for working effectively at the highest levels with other donors and private foundations on the range of policy issues regarding the role and effectiveness of global funds.** Here at home, we should involve our ministers and parliamentarians, as well as CSOs – especially those not limited to specific sectoral issues – in our strategy; this will bring in their ideas and help build needed political support.

3 GFATM and GAVI: incentives and progress to date

3.1 Understanding the incentives of other key stakeholders

As in our own agency, we need to understand the funds’ incentive structures if we and other donors want to have a significant impact on increasing their effectiveness. The issue is not ‘good guys’ and ‘bad guys’. Rather, we need to take greater account of what drives the behaviour of global funds *and* their key stakeholders (as described below), including the axiom in public administration that ‘where you stand depends on where you sit’ (Miles’ law). People are usually behaving rationally according to their incentive and accountability systems – the real, *de facto* ones more than those implicit in announced policies.

Foundations

The Gates Foundation has been by far the lead foundation in global funds (Financing Global Health 2009). The incentive system of the Gates Foundation emphasises measurable results, evidence, evaluation, and, importantly, meeting disbursement objectives. While Gates is supportive of the work of the World Bank and to some extent other multilateral organisations in health, it wants the global health funds it supports to guard their independence and different way of doing things. Its focus on global funds has meant some ambivalence in practice about the relative priority given to Paris-Accra principles. **It is important for us and other bilateral donors to continue to reach out to Gates and other major foundations on aid effectiveness issues.**

Private sector

GFATM, and GAVI even more so, have broken new ground in partnerships with the private sector. These partnerships are vital for research and production of pharmaceutical products important for developing countries, as well as for raising funds, including through innovative financing. GAVI and GFATM are, however, well aware that in some cases there are tensions between social objectives and obligations to shareholders for profit maximisation.

Developing country governments

Developing country governments are represented on the boards of global programmes, but they have had little role in determining how the funds were set up or the rules by which they function. It is hard for most governments not to seek such funds, even though they might much prefer unearmarked assistance.

A World Bank study for Accra in 2008 (World Bank 2008a) found that the extent of concern about distortion in country programmes caused by earmarked funds depended largely on two things: how important such funding was as a share of the country's overall health budget – itself determined substantially by the country's income level; and the general capacity of the country to manage donors. While this, too, is influenced by income level, countries like Ethiopia, Rwanda and Vietnam show that poor countries can effectively manage donors. **To further strengthen the hand of governments, we should encourage more consistent involvement of finance ministries and other central coordinating agencies of government with global funds**. More generally, let us not underestimate the importance of the issues discussed here for aid-dependent countries with weak capacity. But by the same token, let us not exaggerate their importance in countries where global funds account for a relatively small share of relevant overall public financing and where capacity to manage donors – and global funds – is high.

Civil society

Understandably, CSOs on the boards of global funds, or otherwise active in promoting them, tend to be those with a similar focus.[3] They tend to be key supporters of increased funding for their issues and 'their' global funds, and also tend to argue forcefully for the role of CSOs in country programmes. They were influential in getting the GFATM Board to put through its 'dual-track' approach of encouraging separate grants to government and CSOs – rather than encouraging joint proposals that would provide incentives for governments and CSOs to work more closely together. However, CSOs increasingly recognise the need to deal with broader health issues. The Roundtable on Civil Society in Accra reflected an increased recognition by CSOs of the importance of government programmes and of the need for CSOs to hold themselves, as well as others, accountable.[4] Some major CSOs with a broad (rather than sector-specific) focus on poverty reduction have become strong advocates of Paris-Accra. **We, like other donors, can play an important role in informal dialogue with CSOs, particularly those based in their own countries, on issues of aid effectiveness**.

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3 The GFATM Board (20 members) has representatives from the communities suffering from the diseases as well as a representative from both a developing and a developed country NGO. The GAVI Board has 27 members, one of whom is a developing country NGO, but it also has nine 'unaffiliated' persons from a wide variety of backgrounds.

4 The summary of the Roundtable on civil society took account of 'the importance of CSO accountability as a key topic that CSO partnerships could and should address', although this was not a major theme of the Roundtable (OECD 2008b).

The World Bank

Multilateral incentives differ by institution. While our multilateral strategy should cover all major multilaterals, including those of the United Nations as well as the regional development banks, the focus here is on the World Bank – by far the largest source of multilateral 'horizontal' aid.

The World Bank places strong emphasis on overall country development plans, or Poverty Reduction Strategies in the case of the poorest countries eligible for highly concessional credits from the World Bank's International Development Association (IDA), so its field and central policy and fundraising staffs tend to have sharply negative views on (sub)sectoral earmarking. Where there is such earmarking, the World Bank much prefers that it take the form of otherwise completely fungible add-ons to IDA. At the same time, the World Bank is in aggregate by far the biggest implementer (and, even more so, financial trustee) of such earmarked 'trust funds'. This is partly because bilateral donors have confidence in the World Bank and partly because World Bank sectoral staff have been highly entrepreneurial in encouraging and raising trust funds.

The World Bank incentive structure includes a sharp focus on meeting targets for lending and other 'deliverables'. So, like those in global funds, World Bank staff are concerned about the opportunity cost of time spent working with other donors, including global funds (whose staff are generally not present on the ground during World Bank missions). World Bank incentives also include a heightened risk aversion in response to strong pressure from its Board and President for strict observance of its 'fiduciary' (procurement and public financial management) and safeguard (environment and resettlement) policies. This has occurred in part due to reactions to some much discussed cases of corruption in World Bank-financed projects (World Bank 2008b).

The combination of concerns about opportunity costs and World Bank policies reduces incentives for the World Bank to focus on sector-wide programmes, even though such programmes are its comparative advantage. There are clear implications for our close dialogue with the World Bank at various levels, including but by no means limited to our representation on its board. We share the World Bank's concern about corruption. **But we should urge it – and fellow board members – to put more emphasis on strengthening country systems relative to that put on following World Bank rules**. The World Bank's current stance is quite a change from the period leading up to the Paris Declaration when it was at the forefront of urging recalcitrant donors to change. **We should also urge the World Bank to give more emphasis to working with global funds and other donors – and to be less risk-averse – even if it means higher costs or, because of multiple donors, a somewhat higher chance of difficulties in implementation**. We should also encourage our bilateral partners to press the Bank on these matters as well. (For a specific current area of concern see the discussion of health systems below.)

Global funds

Those of us who have worked with global fund staff know that they are generally highly capable, stretched and hard-working. Their management, staff, and governance structures are highly committed to carrying out their mandates, in part because they have been selected on the basis of past experience and commitment to those mandates. They face strong pressures (incentives) to commit, and then to disburse, with relatively few staff (though increasing fast)[5] and with none on the ground. Time spent on harmonisation, or on country visits to attend major donor meetings with government, come at the expense of time spent on commitments and disbursements and monitoring their rapidly growing portfolios. These pressures suggest we should show some sympathy for their requests for further increases in staff – rather than seeing this as a betrayal of their original design. This implies recognition by our staff on the ground of the constraints that the staff of global funds face.

It does not, however, mean accepting the status quo. We need to recognise that their internal incentives, as well as Miles' law, drive global funds to become strong advocates for their mandates. We need also to recognise that mission creep is a common issue for global funds as it is for other organisations. So is staff creep. Sorting out well-justified need for more staff from that related to mission creep or territorial imperative requires a well-informed strategic view. **We should be proactive in encouraging and assisting change, and we should pursue this encouragement and support consistently** – including on governing boards, and in replenishments, as well as at the country level. To take the example of replenishments, the report of the Chair of the mid-term review of GFATM's second replenishment in March 2009, shows clearly their relevance for issues of aid effectiveness – in that case alignment, harmonisation, the role of country coordinating mechanisms (CCMs), and sustainability (Global Fund 2009c).

3.2 Progress of GFATM and GAVI in applying Paris-Accra principles at the country level

Both GFATM and GAVI have made important progress in their programmes to respond to Paris-Accra principles. They are both active participants in the International Health Partnership (IHP+), as well as in the development of the 'common platform for joint health systems strengthening funding and programming'. Both are monitoring Paris indicators. Their overall, if gradual, positive trend has resulted from increasing support from management, staffs, and – more slowly and ambivalently given their diversity – governing boards.

GAVI has implemented the first International Finance Facility for Immunisation (IFFIm), which provided innovative financing to front-load the scale-up of immunisation. It is playing a lead role in the expansion of IFFIm, which will include health services. GAVI has a novel programme for performance-based financing for the take-up of new vaccines that disburses according to the annual increase in the number of vaccinations achieved (GAVI 2009). Its policy is to move toward greater use of country systems, including shifting from its fixed annual date for proposals to a system more aligned to country budget cycles.

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5 The Global Fund staff, originally intended to be no more than an unrealistic 75, now totals nearly 600 (Global Fund 2009b).

GFATM has carried out a series of policy changes to take a more programmatic approach. These include: support for national strategies for the diseases it covers, rather than just for specific project proposals; moving toward consolidation of existing grants into a single stream, at least for each disease; and a liberalised and clarified policy on financing of salaries (mitigating salary differentials and encouraging the hiring of needed staff).

PEPFAR has also made recent progress on aid effectiveness, building on its good record in moving toward its performance targets. In reauthorising the programme in 2008, the US Congress gave PEPFAR a new, much more unfettered mandate (and increased funding) which *inter alia* emphasises ‘improving harmonisation of United States efforts with national strategies of partner governments and other public and private entities’ (PEPFAR 2008). Partly as a result, PEPFAR has demonstrated increasing recognition of the importance of broader issues of aid effectiveness, including partnership agreements with countries, more attention to health systems, and closer collaboration with the Global Fund and other donors.

The Global Programs Learning Group has played a modest but useful role in the reform process. It is a multi-sectoral forum, convened by GFATM, for global funds (GFATM, GAVI, Fast Track Initiative (FTI), Global Environment Facility (GEF)) and other global programmes (including the Consultative Group on International Agricultural Research (CGIAR) and the Cities Alliance), to compare experience among peers in implementing Paris-Accra. PEPFAR also joined in 2009. As a ‘learning’ group, its intent is not to bring about major policy change, which depends on the accountability structure of each participating global programme. Rather, it works through a peer process to spread good practice and encourage increased commitment to policy change. The Learning Group is closely linked to the DAC Working Party on Aid Effectiveness, and GFATM represents it on the WP-EFF Steering Committee. To strengthen this link, the WP-EFF secretariat also participates in the Learning Group.

4 Selected current issues

There remain a range of issues on which more attention is needed, of which several are discussed below. There are others as well, including use of country systems, encouraging more collaboration between governments and CSOs, and moving further along the results chain to outcomes. In keeping with the Paris-Accra lessons, the most effective changes are likely to come from encouraging ownership of the change process within the global funds, including support to champions of reform in management, staffs and on boards.

4.1 Health systems [6]

There is broad agreement that strengthening health systems poses a major challenge for the ‘architecture’ of aid to health. The report of Working Group 1 of the High Level Task Force on Innovative International Financing for Health Systems put it powerfully:

> The problems of fragmentation, unpredictability and targeting of development assistance to the delivery of specific technologies have become so visible that they have resulted in a universal call for a coordinated effort to support the country health systems that all disease and programme-specific efforts must ultimately rely on.
>
> (High Level Task Force on Innovative International Financing for Health Systems 2009a: 12)

The 'Shakow report' (Shakow 2006) recommended in 2006 a clear delineation between the World Bank and GFATM (and global health funds in general) according to their respective comparative advantages. This was in response to the financing by GFATM (and GAVI) of health systems, but with lack of clarity on how much or for what. There was broad agreement that the World Bank should take a leadership role in strengthening health systems, working closely with WHO, the global funds and others.

The World Bank, however, faced a number of obstacles in assuming the leadership role on health systems one might have expected from its cross-sectoral comparative advantage. It had an initial slow start, now somewhat redressed, in implementing its 2007 health strategy to focus on health systems. World Bank leadership of pooled funding for health systems has been made more difficult because of the complexity of World Bank fiduciary policies, which GFATM and GAVI – as well as bilateral donors – have been reluctant to follow. Also, GFATM and GAVI operate in countries where either the World Bank does not lend or where its borrowers, which determine the inter-sectoral use of World Bank resources in consultation with the Bank, have not requested support for health. GFATM and GAVI have increasingly recognised the need for support of strengthened health systems in order to avoid distortions in priorities and to have the supporting services they need to achieve their objectives. The rapid increase in their resources until 2009 made funding of health systems more feasible.

To help overcome problems caused by the large numbers of players in the health sector, we and others encouraged the creation of the International Health Partnership (IHP+). It aims to accelerate scaling up of support for health in a manner consistent with the Paris Declaration by getting partners to work more closely together. The IHP+ led in 2009 to the High Level Task Force on Innovative International Financing for Health Systems, which has launched IFFIm2 and made recommendations for expansion of innovative financing (High Level Task Force on Innovative International Financing for Health Systems 2009b: 8). It has also led to the development of a 'common platform' to provide a 'common framework for proposal, approval and implementation processes for joint HSS programming and funding' from the World Bank, GAVI and GFATM (World Bank 2009a; 2009b).

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6 The term health system refers here to the overall functioning of the health sector. It is sometimes used more narrowly to mean the 'glue' or central services that hold disease-specific programmes together. And it is sometimes used more broadly to refer to everything that affects health status, from water and sanitation to girls' education. The latter concept is useful in adding a health dimension to the setting of inter-sectoral priorities but is so ambitious that it is less useful in determining priorities within the health sector.

We should continue to strongly support this effort, including encouraging flexibility from boards and managements on all sides, recognising the major differences in their business models. This flexibility should permit pooled financing where the developing country so requests. We should urge the IHP+ process to give priority to evidence-based cost-effectiveness (in terms of life years or DALYs saved), as we should in our own allocations.

Applying this criterion can lead to some surprising results. Health systems would go beyond communicable diseases to include support for country nutrition strategies, with a focus on children under two and on micronutrients; they would include tobacco control as well, with a focus on encouraging increases in tobacco taxes, which both decrease its consumption and generate substantial revenues for scaling up health systems. But we cannot forget that we already knew that some costly treatments – particularly antiretroviral therapy (ART) – did not rank high on cost per DALY when we committed to support them. **In planning ahead for the 'common platform' and for support for health systems, we should keep in mind that when funding gets tight, as is likely, the share of GAVI and GFATM funding for health systems risks declining sharply. This is a major reason for caution on 'raising money vertically to spend it horizontally'.**

4.2 Sustainability

As the size and impact of GFATM and GAVI – and PEPFAR – funding grow, it becomes increasingly important to address issues of longer-term sustainability. Again, this is an issue we helped to create in the case of GFATM and GAVI, since we recognised the 'moral mortgage' involved. Much of the solution to the problem of these ever larger costs over the medium term must come from increased domestic resource mobilisation. But this alone will not suffice, except in middle-income countries. It is increasingly uncertain whether these global funds, despite their strong public support and the moral obligation involved, will continue to see rapid increases in funding, particularly as donors face the need to reduce budget deficits. Also, as funding for them increases, there will be increasing issues of distortions of staff and funding in the rest of the health sector, unless the growth primarily takes the form of support for health systems.

Sustainability is not simply a problem for these institutions. It is one also for the funders who set them up and gave them their funding and ambitious mandates. There is a need for in-depth analysis of likely growth in financing needs, net of domestic resources, and for options for meeting the gap. The need for sustainability reinforces the need to match up long-term commitments to long-term financing, underlining the importance of the work of the High Level Task Force on Innovative International Financing for Health Systems.

4.3 Allocations

As the size of GFATM and GAVI financing grows, it becomes increasingly important that they – like other global funds – look at priorities for the highest-impact use of funds across programmes and countries. For GFATM, there are choices among and within (e.g., prevention versus treatment) its three diseases. For GAVI, there are choices between development and greater use of increasingly expensive vaccines. For both, there is the share going to health systems. Like other global funds, both also face questions of which countries should receive their grant assistance. GFATM has adopted a constructive policy of continuing its support but requiring offsetting contributions from relatively better-off countries.

This then leads to the question of how the global funds should allocate their funds among eligible countries. According to the Global Environment Facility (GEF) evaluation of its allocation system, the 'resource allocation framework' showed that its advance indication to countries of likely allocation envelopes increased country ownership (GEF 2009). It has been relatively easy for GAVI to estimate rough funding levels based on needs across countries, since it provides a largely standardised set of products and services (except in the case of health systems). This becomes harder as funding growth slows and demand shifts in part to more expensive vaccines.

Country allocations are more difficult in the case of GFATM because a given country's request could vary widely, depending in part on the level of programme ambition or on its (or its consultant's) educated guess of the maximum GFATM would be likely to provide. There has been a reluctance in the case of GFATM, as in the case of the Fast Track Initiative in Education (FTI), to use any cross-country guidelines for allocations. For both, the reluctance comes from a desire to respond to country proposals and because donors had undertaken in principle to let no sound programme go unfunded. Evidence suggests, though, that in the absence of explicit guidelines, the result is a substantial bias by country size, for example, with much higher per capita allocations for less populous countries, or with inconsistent treatment of the balance between need and expected cost-effectiveness (Beynon 2003). The FTI is now in the process of installing a system of normative but flexible indicative country envelopes that addresses these issues. It adapts the GEF framework to education and provides increased support to 'donor orphans' relative to that of 'donor darlings'. **We should urge both GFATM and GAVI to consider an approach of indicative country envelopes.**

4.4 GFATM's country coordinating mechanisms

There are strongly held views, pro and con, on the role of CCMs – country coordinating mechanisms – set up at the behest of GFATM. This is part of a broader debate on issues of country ownership involving the role of external technical assistance in preparing proposals, technical review panels lacking direct country knowledge, and the use of Local Funding Agents (Global Fund 2009a). CCMs do not appear to be as well suited as existing government-led coordination mechanisms are to be the GFATM counterpart in support of health systems or of national strategies for single diseases. Such government-led mechanisms are explicitly called for in UNAIDS' 'three ones'[7] and implicitly in Paris-Accra. While CCMs set a standard for inclusiveness, they also raise problems of oversight because some of their grants go to their own members, inevitably so since these members represent the leading groups in the fight against its three diseases.

At a minimum, we should support GFATM's efforts to encourage mergers of CCMs with existing national coordination mechanisms in a manner that preserves more voice for civil society than is often the case in those mechanisms.

4.5 Mutual accountability

Participation in mutual accountability mechanisms at country level – as called for explicitly in the AAA – is difficult for global funds, since by design they do not have local staff. While GAVI can draw on help from UNICEF and WHO staff on the ground, these intermediaries have difficulty in speaking to governments on their behalf. Neither CCMs nor Local Fund Agents (LFAs) can play this role on behalf of GFATM. Yet as GAVI and GFATM become more deeply involved in financing health systems, it becomes more important that they participate in key meetings of coordination and mutual accountability between government and health donors.

5 Conclusion

The conclusion of this report is clear. Global funds are an important, legitimate, and growing part of our assistance portfolio. They have strengths and weaknesses – weaknesses that are in part the unintended consequences of our own decisions. We need to help them increase their effectiveness. We need also to strike a better balance between global funds and 'horizontal' assistance, and between bilateral and multilateral aid, if we are to increase the impact of our development portfolio as a whole. To do so, we will need to develop and implement, with the involvement of our political authorities, a clearer strategy that takes account of the incentives facing key stakeholders.

7 The 'Three Ones' are: 'one agreed… framework that provides the basis for co-ordinating the work of all partners; one national coordinating authority, with a broad multisectoral mandate; and one agreed national monitoring and evaluation system' (http://data.unaids.org/UNA-docs/Three-Ones_KeyPrinciples_en.pdf, accessed March 2010).

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