

Global Program Funds at Country Level: What have we learned?

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ABBREVIATIONS AND ACRONYMS

AFD	Agence Française de Développement (France)
APOC	African Programme for Onchocerciasis Control
ASWP	Annual Sector Work Programs
CAS	Country Assistance Strategy
CCM	Country Coordinating Mechanism
CGAP	Consultative Group to Assist the Poorest
CGIAR	Consultative Group on International Agricultural Research
CSO	Civil Society Organization
DFID	Department for International Development (United Kingdom)
EDPRS	Economic and Development Poverty Reduction Strategy (Rwanda)
EFA-FTI	Education for All-Fast Track Initiative
ESMAP	Energy Sector Management Assistance Program
FIRST	Financial Sector Reform and Strengthening Initiative
GAVI	Global Alliance for Vaccines and Immunization, or GAVI Alliance
GBS	General Budget Support
GEF	Global Environment Facility
GFATM	The Global Fund to fight AIDS, Tuberculosis, and Malaria
GFHR	Global Forum for Health Research
GPF	Global Program Fund
GTZ	German Technical Assistance Corporation
GSPR	Growth Strategy for Poverty Reduction (Benin)
HLF	High-Level Forum
IAVI	International AIDS Vaccine Initiative
IHP	International Health Partnership
INFODEV	Information for Development Program
MDBs	Multilateral Development Banks
MDG	Millennium Development Goals
MGDS	Malawi Growth and Development Strategy
MOU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
OCP	Onchocerciasis Control Program
ODA	Official Development Assistance
OECD-DAC	Organisation for Economic Co-operation and Development: Development Assistance Committee
PACT	Partnership for Capacity Building in Africa
PARPA	Action Plan for Reducing Absolute Poverty (Mozambique)
PEAP	Poverty Eradication Plan (Uganda)
PEPFAR	President's Emergency Plan for AIDS Relief (USA)
PPIAF	Public-Private Infrastructure Advisory Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credits
SBS	Sector Budget Support
SPA	Strategic Partnership with Africa
SWAp	Sector-Wide Approach
TDR	Tropical Disease Research
UNAIDS	United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

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EXECUTIVE SUMMARY

I. Global Program Funds and the Paris Declaration

i. **Global Program Funds (GPFs) – programs that channel funding to a specific development objectives across countries – have grown rapidly since 2000.**

Although in aggregate they are still small relative to global aid flows they have become significant in size and numbers in many recipient countries – and in some countries they are a dominant source of finance for specific sectors. GPFs have been particularly important in health, environment, and education, and we expect similar trends in new areas of concern to donors such as climate change.

ii. **Since GPFs channel funding to a particular goal (such as a Millennium Development Goal), sector, or theme, they are sometimes referred to as “vertical” funds.** At country level, they can complement “horizontal” funding mechanisms that address country needs across sectors. Both approaches have an important role in addressing the breadth of development challenges. An important dimension of a GPF is the degree of its verticality. Intense verticality results when a GPF is narrowly earmarked to a subsector objective (HIV/AIDS treatment, enrollment in primary education, etc.) and the level of funding of the program represents a very large share of total spending in the sector (health, education) at country level. GPFs vary significantly in their degree of verticality, and this is an important feature in discussing their role in the aid architecture and at country level. In terms of implementation, GPFs also vary significantly in whether they are covered in government plans and/or reported on government budgets and whether they use country budget and fiduciary systems.

iii. **The Paris Declaration of 2005 acknowledged the growing importance of global programs and the need to take specific actions to address “insufficient integration of global programmes and initiatives into partner countries’ broader development agendas...”** This paper, based on consultations with recipient countries (a Workshop in Mauritius in June 2007 and recent visits to Malawi, Mozambique, Rwanda, and Uganda), reports on progress and remaining areas where more efforts are needed. The Accra High Level Forum will provide an opportunity for further discussion of GPFs in the development aid architecture. The main findings and conclusions of this work are summarized below.

II. Main Findings

iv. **Ownership and alignment of aid flows with country priorities – what this report calls allocative alignment – are seen by countries as critical.** The need for aid flows in general and GPF in particular to be aligned with national priorities and to be predictable, sustained, and on-budget remains a major preoccupation of countries. Harmonization of donor aid, management for results and mutual accountability are seen as secondary if major allocative alignment issues remain unaddressed. This paper gives particular attention to allocative alignment.

v. **All countries consulted are making significant progress in ownership by defining their national development strategies and translating objectives in actionable Medium-Term Expenditure Frameworks (MTEFs).** Progress in this area is critical for countries to guide the discussion with donors – particularly when differences emerge on aid allocation. But much depends on institutional capacity and government leadership, as well as the extent to which donors are aligned with domestic processes and systems. This institutional capacity varies across countries – and in many cases central ministries seem to be better technically equipped than sector ministries.

vi. **Governments place a high value on aid being “on budget,” including funding from GPFs.** To render credibility to the budget and the MTEF, it is important that aid be adequately reflected in these instruments, particularly when aid accounts for a significant share of public spending. In the countries consulted, the share of aid off-budget ranged from 25 percent of Official Development Assistance (ODA) in Uganda to 45 percent in Rwanda.

vii. **Increasingly GPFs are taking steps to integrate into country level development programs.** Most GPFs are on-budget, except for those channeling their funding through NGOs or the private sector, such as PEPFAR. Also, some GPFs are now participating in Sector Budget Support and SWAps and are becoming more integrated into sector dialogue. For example, GFATM has joined Sector Wide Approaches (SWAps) in Malawi, Mozambique, and Rwanda. The EFA-FTI program business model is well integrated and is based on sector programmatic approaches and promotes budget support. The GEF’s use of implementing agencies helps to integrate its funding through UN agency and MDB channels already present in country.

viii. **However, allocative distortions may emerge under intensely vertical GPFs.** When GPFs are large and narrowly earmarked, they can create allocative distortions within the subsector and at the sector level. In addition, when intensely vertical GPFs grow fast, they may pull resources from other parts of the sector, leaving gaps in capacity to meet other important objectives, including other MDGs. This has been especially important in the case of large GPFs (such as GFATM and PEPFAR) addressing HIV/AIDS. In Uganda, for example, the rapid increase in funding to fight HIV/AIDS has put pressure on the availability of nurses and doctors across the health sector, as competition increases for scarce qualified personnel that cannot be expanded in the short run. This is a serious issue that deserved further analysis. A balanced strategy across interventions is required while improving the ability of overall health systems to expand.

ix. **The ability of the authorities to assess possible allocative imbalances and sustainability risks is impaired when GPFs are off-budget and do not provide adequate reporting on their funding.** This is more critical the stronger the verticality of the GPF. Programs that are off-budget tend to provide less detailed information on the magnitude and directions of spending. They are also not part of a multi-year planning process that would facilitate the government’s ability to adjust its own (on-budget) resources to avoid duplication and overfunding, identify complementary actions, and to predict better future disbursements. GPFs with intense verticality may

create future obligations to fund recurrent costs. Information is critical to assess such risks.

x. **Progress on the principles of managing for results and mutual accountability depends on choice of indicators and better approaches to attribution.** Country consultations revealed that indicators for results need to be broader and to incorporate notions of sustainability. Short-term and partial output indicators, such as numbers of people treated, should be complemented by indicators of long-term progress in final objectives, such as the prevalence of the infection. This will allow assessing the extent to which the interventions being supported contribute to the final objective and the need for complementary interventions. With regard to attribution, concerns were expressed about too much emphasis on attributing results to a single GPF. Progress on results reflects a variety of factors not always easily attributable to a single donor or agency. Country officials understood that future funding from a GPF might depend upon such attribution, but suggest a broader notion of attribution would be more appropriate to support a sense of mutual accountability.

III. Conclusions and Messages

xi. **GPFs that operate outside the budget should report on commitments and disbursements in line with the budget cycle.** A specific GPF may use private institutions to channel and disburse its funding – and this may be a reason for the program to be off- budget. There may also be legal restrictions in the charter of the GPF that impedes its being on-budget. However this should not prevent the GPF from providing information on commitments and disbursements in a timely manner to feed into countries’ budgets and MTEFs.

xii. **GPFs with intense verticality must recognize the impact their interventions may have on availability of resources and skills in other segments of the sector.** Capacity building components, such as training of personnel, could become central themes in their operations. A broader view should be taken of the opportunity costs of those scarce resources. Intensely vertical GPFs should consider a more flexible approach to assist in removing capacity constraints and to pace the commitment of highly earmarked resources to the degree that constraints are being removed.

xiii. **Partner country capacity constraints pose a cross-cutting challenge in achieving the Paris Declaration principles.** Supporting countries’ institutional capacity to translate ownership into an MTEF should remain a leading priority of donor technical assistance programs. Progress in this dimension is critical in turn to ensure meaningful downstream progress on systems alignment, donor harmonization, and joint monitoring and accountability. Donors (including GPFs) should therefore not undermine governments’ ability to make institutional improvements by creating parallel processes and systems for managing their funds.

xiv. **As new global initiatives come forward, involving the creation of new funding channels, their advocates and sponsors should consider early on the lessons learned from recent experience with other GPFs.** Will a separate new

funding channel be more effective than existing mechanisms? The creation of new funds may be most appropriate in the area of global public goods. From the start GPFs should be designed to become well integrated into countries' own priorities. This can mean avoiding intense verticality and including a multi-year financing framework to help predictability and fiscal sustainability. Fragmentation into many sub-programs or windows financing a very specific way of addressing the final objective (each one being financed by a different donor) should be avoided. Ideally, such specificity should emerge at the country level according to country circumstances, and not be defined ex-ante by donors.

xv. **Official aid must strive for a balance between vertical and horizontal approaches so that both can reinforce each other in achieving sustainable results.** The call to “think twice” before establishing new GPFs reflects the need to address this balance strategically. A key conclusion of this work and the consultations and workshops of the last two years is that GPFs can not succeed in a vacuum. Long-term achievement of their objectives depends on overall growth and fiscal sustainability at the country level. A supportive policy and institutional environment – including policy measures and investments in related sectors – is necessary. Identifying these is very country-specific and is at the center of the more horizontal approaches of aid. Thus the effectiveness of global programs will depend on the ability of traditional aid to reinforce their potential results by emphasizing support for complementary policies, institutions and investments. The voices of both donors and partner countries should be brought to bear in this process.

xvi. **In Accra, participants may consider the set of key messages on GPFs, to guide donors and partner countries alike.** The following succinct points may be helpful as a general guide.

Guidance on Global Program Funds

When there are new initiatives...

- Think twice about whether a separate new funding channel is needed.
- Strengthen the voice of partner countries.
- Maintain balance between vertical and horizontal approaches.
- Avoid intense verticality.
- Contribute to the provision of Global Public Goods.

When implementing existing or new GPFs...

- Funding should be on-plan, on-budget.
- Align to country systems and harmonize approaches.
- Ensure sustainability and predictability.
- Integrate into sector strategies and measure sector results.
- Help bridge gaps between global/regional needs and country capacities.

Section 1

Global Program Funds and the Paris Declaration

1.1 Renewed support for development finance in the new millennium has been driven by globally shared objectives. The debate around development has been focused on achieving the Millennium Development Goals (MDGs) as eight globally agreed development objectives on poverty, health, education, and the environment. And, the Global Public Goods discussion has been focused on the intersection of global and national interests, where collective action has been called for in addressing high priority areas such as halting the spread of communicable disease, protecting the environmental commons, and most recently, meeting the challenge of climate change. These MDG and GPG objectives cut across many countries and regions.

1.2 One response has been the creation of global programs. The targeted nature of these programs brings visibility and focus to ensure that specific and often emerging priorities receive enhanced attention and dedicated funding. Donors and other sponsors of new targeted initiatives see them as promoting innovation, upscaling of investments, and new global governance approaches. They are able to make a clear case in their domestic funding appropriation processes, and the issues focus energizes advocates and other supportive constituencies. While the Global Environment Facility was founded in 1991, several new global programs with significant country level funding in health have come forward since 2000. These include the GAVI Alliance (2000), Global Fund to Fight AIDS, TB, and Malaria (2001), and President's Emergency Program for AIDS Relief (2003). New global programs can be found in other sectors beyond health, such as the Cities Alliance (1999), Education for All Fast Track Initiative (2002), Enhanced Integrated Framework (EIF) for trade (2007), as well as several current proposals for significant new funds to address climate change. Since 2000, some of the largest GPFs have mobilized about \$ 33 billion.¹ This rapid growth has led to a lively discussion about impact on the ground and efforts towards better coordination.² As explained in Section 2 below, the structure of these global programs is diverse and may involve existing as well as new multilateral governance structures and funding.

1.3 The Paris Declaration recognized the growing importance of global programs. When the Paris Declaration was signed in March 2005, its signatories committed themselves to taking concrete and effective action to address "*Insufficient integration of global programmes and initiatives into partner countries' broader*

¹ 1/ Data notes: based on donor contributions, by program, these amounts include: CGIAR: (CY00-CY06) \$ 2,719 million; EFA-FTI (CY04-CY08) \$992 million; GAVI: (CY00-CY07) \$ 3,193 million (of which, \$756 amount is IFFIm - 2007); PEPFAR: (CY04-CY08) \$ 15,000 million; GEF: (FY99-FY10) \$ 3,783 million; GFATM: (FY02-FY06) \$ 6,961 million; Cities Alliance: (FY01-FY07) \$ 337 million.

² Notable achievements include the *Three Ones* principles advanced for HIV/AIDS programs sponsored by a broad range of partners and the *Best Practice Principles for Global Health Partnership Activities at Country Level* agreed in November 2005. The leading donors and sponsors of health programs have continued to deepen their coordination efforts at both the global and country level through the International Health Partnership (IHP).

*development agendas, including in critical areas such as HIV/AIDS.”*³ Further understanding of the process of integration of global program funds was needed.

1.4 The World Bank joined with several partners to explore the question of how global program funds can become part of the country-driven model of development. In late 2005, the World Bank, OECD-DAC, the MDBs and UNDP proposed to follow up the Paris Declaration and identify ways and means for better alignment between global and country based programs. While this work builds on the issue of global program funds in the health sector, it seeks to expand the scope and adapt it for cross-sector application. Case studies at country and program level were sponsored by AFD, GTZ, DFID, the OECD Development Centre, and the Bank, with support from the Government of Norway. The paper *“Integrating Global Partnership Programs with Country-led National Programs: Synthesis of Findings and Conclusions”* was circulated in November 2006.⁴

1.5 An initial Policy Workshop was held. As part of the Senior Level Meeting of the DAC, the Bank and the OECD co-sponsored a Policy Workshop (Paris, December 5, 2006), including representatives from donor and recipient countries, to focus attention on improving the alignment of global programs at the country level. The workshop highlighted that the dichotomy between “vertical and “horizontal” aid can be overcome by a mutually reinforcing approach that strengthens complementarities and synergies. This initiative was welcomed and specific steps were taken to address such concerns in the field, including the dissemination of draft good practice guidance for trial in a few representative partner countries.

1.6 Consultations were then held with developing country policymakers. A second workshop on “Enhancing Linkages between Aid Modalities and Country Strategies: The Views of Partner Countries” was co-sponsored by the Bank and OECD, and hosted by the Ministry of Finance in Mauritius, June 20-21, 2007. This meeting of senior policy makers from 14 countries, primarily from Africa, provided a forum for exchanging experience and views about managing and coordinating development aid, including global program funds in health, education, and the environment. They discussed linking specially targeted programs into their national budgets and their role in exercising greater leadership over their national development plans. Senior policy makers participated from Benin, Botswana, Ethiopia, Haiti, Madagascar, Malawi, Mauritius, Mozambique, Niger, Rwanda, Sierra Leone, Tunisia, Uganda, and Zambia. Individual country consultations followed in five countries which agreed to a more in-depth review: Mozambique, Malawi, Rwanda, Uganda, and Benin, focusing on how the funding provided by GPFs is fitting into the country-driven aid model under the principles of the Paris Declaration.

1.7 Global Programs have created their own Learning Group. During 2007, staff from a number of global program secretariats launched a Global Programs Learning Group (GPLG) to discuss the question of how these programs are responding

³ The Paris Declaration on Aid Effectiveness, March 2005, page 2, para. 4 (iii), at www.oecd.org.

⁴ All available materials related to this project can be found at www.worldbank.org/cfp; choose “Global Programs and Country Linkages” from the lefthand menu.

to the principles of the Paris Declaration, and to share experiences.⁵ The GPLG has been a valuable counterpart to the Bank in discussing how global programs are working at country level, at a time of significant evolution in some of the programs.

1.8 The Strategic Partnership with Africa (SPA) has also launched a series of studies on the topic of vertical funds. The SPA, which includes both African countries and donor representatives, has raised the issue of vertical funds in the health sector through its Working Group on sectoral issues co-chaired by Ghana and USAID. Three initial country consultations have been done in Ghana, Sierra Leone, and Malawi, and two more are planned for Tanzania and Zambia. Emerging messages and recommendations from this work focus on the importance of good country-level integration.

1.9 All indications are that global programs and traditional ODA funding must be seen as mutually reinforcing. A key conclusion of the work thus far has been that the long term effectiveness and sustainability of global programs at country level depend critically on complementary sector and country-wide policies. Global program funds cannot succeed in a vacuum. Long-term achievement of their objectives depends on fiscal sustainability at country level, a supportive policy environment – including policy measures in related sectors, and broader institution building measures. Identifying and supporting such policies is very country specific and is at the center of the more horizontal approaches of aid. Thus the effectiveness of global program funds will depend on the ability of traditional aid on supporting these complementary policies. Yet, integrating global program funds into country-driven aid approaches is just beginning. One example now being tried is the International Health Partnership (IHP), but the real effort will have to be made at country level under country leadership. Not all countries may feel equipped to take on this challenge and should demand and receive special support.

1.10 The purpose of this paper is to provide a platform for discussion at the Accra High Level Forum. This paper explores how countries and donors are rising to these challenges and how the global development community can further support them. It is based on findings from the country consultations carried out to date as well as the conclusions of the Paris and Mauritius Workshops. It is provided as an input to the discussion on Aid Architecture during Round Table 9 at Accra.

⁵ The GPLG includes participants from the Global Fund (GFATM), GAVI Alliance, GEF, CGIAR, and Cities Alliance. The GPLG has issued a draft report on its experiences which will feed into the Accra preparations.

Section 2

Global Program Funds: Definition and Prospects

2.1 **Defining Global Program Funds.** As described in Box 2.1 Global Program Funds are those large scale funds attached to global programs which contain a significant element of earmarked funding for specific objectives.

Box 2. 1: Global Program Funds (GPF) Definitions

Global Program Funds are *large multi-country funds that contain a significant element of earmarked funding for specific objectives with thematic, sectoral or subsectoral breadth.* GPFs are financing instruments of global programs,⁶ which are generally structured as “partnerships” involving shared decision-making by several different organizations or partners. (However, some may be bilateral programs.) GPFs often take a “vertical” approach that targets the program funds to a specific issue (with thematic, sector, or subsector breadth), compared to the “horizontal” approach of traditional aid instruments (bilateral and multilateral) that cover a broad range of development issues, and to the country-based model of aid.⁷ They lead to an increase in the importance of the specific interventions they support in the overall financing for a given country.⁸

2.2 **GPFs as institutions.** GPFs have certain strengths – they are innovative in design, delivery tools and finance; they can obtain economies of scale through concentration on a limited set of issues, and can address urgent needs and demonstrate progress quickly. They often operate as multilateral entities, either in their own legal right or in association with an existing multilateral institution. They have their own governance structures, often with voice for partner countries and civil society, and they demonstrate considerable flexibility in raising funds from markets, the private sector and official donors.

2.3 **GPFs are growing.** Although contributions to GPFs currently represent about 3 percent of total Official Development Assistance flows (see Figure 2.1), and 5 percent of country programmable aid, this share is expected to rise as new funds are coming onstream to address key issues on the climate change agenda, trade, and other emerging

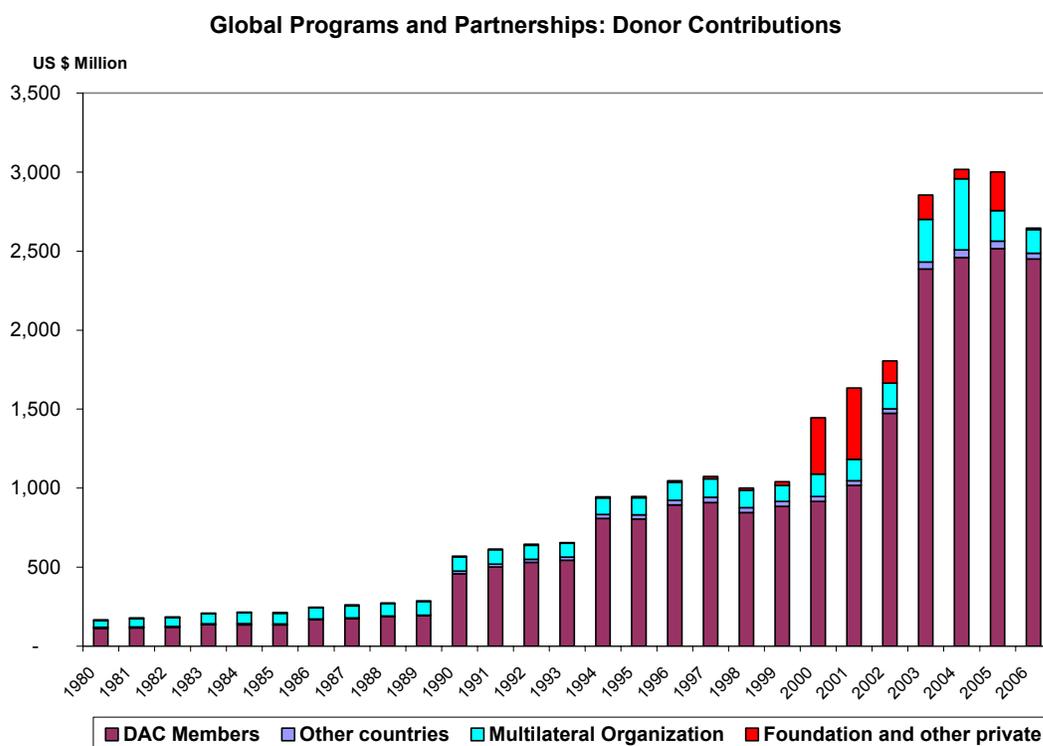
⁶ A widely accepted definition of “global program” was offered in the 2004 independent evaluation report, “*Addressing Challenges of Globalization: An Independent Evaluation of the World Bank’s Approach to Global Programs,*” Independent Evaluation Group, available at www.worldbank.org/oed. PEPFAR, a bilateral program and not a multilateral partnership, shares many of the same characteristics as GPFs.

⁷ “*Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows,*” DC 2007-003, dated March 29, 2007, Development Committee, World Bank.

⁸ For example, the Global Fund to Fight AIDS, Tuberculosis and Malaria has increased the weight of infectious disease control in total aid for the health sector, particularly in Sub-Saharan Africa. The effectiveness and sustainability of global programs will ultimately rest on the presence of complementary sector-level and country-level policies.

global issues.⁹ To the extent that GPFs mobilize development finance from non-traditional sources, such as philanthropic institutions, private sector and civil society, there is a strong argument that they are a source of additional aid. What is less clear, however, is whether donors of ODA are actually providing additional resources to meet the specific goals of GPFs. In many cases, it is likely they are substituting highly targeted funding in place of general multilateral and bilateral assistance.

Figure 2. 1: Contributions to Global Programs are Growing (1980-2006)¹⁰



Source: Financial information from 21 largest global partnership programs, including: ESMAP, WSP, PCD, MFIMP, GEF, CA, FIRST, UNAIDS, OCP, IAVI, GFATM, GAVI, APOC, CGIAR, TDR, PPIAF, PACT, INFODEV, GFHR, CGAP and EFA-FTI Catalytic Fund. The sample is based on programs that have some involvement by the World Bank and does not include PEPFAR.

2.4 The degree of verticality varies across different GPFs. The degree of verticality of a GPF depends on the size of the program relative to the narrowness of the objective.¹¹ Intense verticality may result when the GPF is narrowly earmarked to a subsector objective at country level and the volume of funding represents a high share of total spending in that sector. Intense verticality runs the risk of forcing a country to spend in a subsector much more than it would have without the program, leaving unattended other high priority needs. The imbalance created may be particularly strong

⁹ These figures do not include PEPFAR; if PEPFAR’s non-GPF funding were included, the share of GPFs in total ODA could rise to be closer to 5 percent of total ODA and 9 percent of CPA. Total ODA as recorded by the OECD Development Assistance Committee (DAC), amounted to \$104 billion in 2006, with country programmable aid (CPA) estimated at around \$60 million.

¹⁰ Excludes contributions to PEPFAR, which is a bilateral program similar to GPFs.

¹¹ Examples include: (i) thematic targeting, such as to “environment” which may encompass support for a number of sectors; (ii) sectoral targeting, such as to “health” and (iii) subsectoral targeting, allowing support to go for one area within a sector (one specific disease).

when disbursement is fast; it may divert domestic inputs that are fixed in the short run and were originally used in other priorities.

2.5 Verticality creates the potential for allocative imbalances at the country level. The substitution of general by vertical aid poses the risk of creating development gaps and distortions at the country level. This risk is of particular concern in low-income countries where GPFs (particularly in health and education) have become sufficiently large to dominate these sectors' public investment programs. Long term engagement and high predictability of funding levels will be essential to sustain the gains achieved through the initial heightened attention. These specialized funding mechanisms might become development agencies in a particular sector with increasingly overlapping mandates, but given their *a priori* role as funding rather than implementing mechanisms, they may not be well equipped to address broader sector development issues.

2.6 The prospects for aid effectiveness from GPFs depend upon both the programs themselves and the country environment in which they operate. The flexibility of these programs on allocative and implementation issues, and the capacity of a partner country are key variables in achieving both specific program goals and broader national development objectives. The next section of the paper reports views expressed in the country consultations on how GPFs are fitting into country development programs.

Section 3

Application of the Paris Declaration Principles

Findings at the country level on the role of GPFs

3.1 This section examines how GPFs fit into efforts to apply the principles of the Paris Declaration at the country level. It is based on country consultations in Benin, Malawi, Mozambique, Rwanda, and Uganda. The consultations involved a broad spectrum of views, including officials from central and sector ministries (Finance and Planning, Health, Education, Environment), national AIDS councils, and in some cases, presidential offices, as well as representatives of donors, international organizations, and civil society organizations (CSOs). A number of GPFs are present in each country consulted (see Annex 1). The health sector became central to the consultations given the large funding from GPFs, but experience from education and environment programs was also seen as relevant.

3.2 During consultations, country officials generally welcomed the funding provided by GPFs. Whenever new channels for specialized funding became available, they confirmed their interest in taking those steps necessary to access it, whether preparing a proposal, designing an appropriate project, or revising national or sector strategies. For example, officials in Malawi saw the scaled-up funding under the Catalytic Fund of the FTI as an incentive to join the FTI as an endorsed country, and hence to undertake preparation of a comprehensive education strategy meeting FTI specifications. At the Mauritius Workshop, several policymakers emphasized that keeping funds flowing was an incentive for performance under the terms of these funds. However, the presence of an increasing number of channels of aid, including GPFs with different access and implementation requirements, was seen as an aid management challenge that could best be addressed through the application of the Paris Declaration principles.

3.3 Progress in the five areas of the Paris Declaration is important for the effectiveness of all aid modalities– not only for GPFs. However, in some circumstances, specific types of GPFs may present special challenges on some individual principles. Further, it is important to recognize that there are critical links and sequencing issues across the different principles (see Box 3.1), as discussed below.

3.4 Ownership and the allocative aspects of alignment are at the heart of progress towards aid effectiveness. Among these principles, there are interactions and hierarchies, as outlined in Figure 3.1. From a country's point of view, the most basic and critical stages in the Paris Declaration are the ability to translate ownership of their development plans into specific policies and expenditure priorities, and second, to achieve the allocative alignment of donor aid to their own priorities. Using country fiduciary systems to achieve better harmonization among donors, and improving monitoring and accountability are not ultimately meaningful if donor flows significantly diverge from countries' own priorities. The discussion below recognizes such interactions among the principles.

Box 3. 1: The Paris Declaration

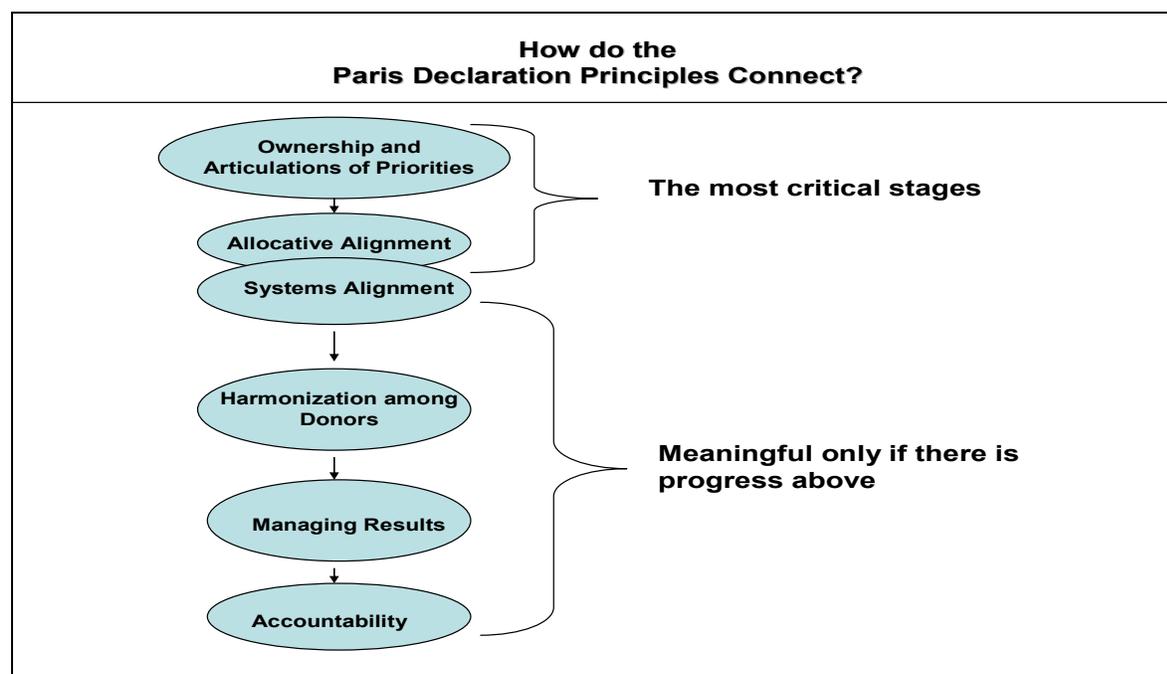
In March 2005, representatives from over one hundred developed and developing countries (including Ministers and heads of agencies) endorsed what is now called the Paris Declaration on Aid Effectiveness. Signatories committed to a set of operational principles to improve the contribution of aid to development in five major areas: ownership, alignment, harmonization, managing for results, and mutual accountability. The principles are defined as follows.

1. **Ownership.** Whether national development strategies (such as the PRS) have clear strategic priorities that are then translated into medium term expenditure frameworks and annual budgets.
2. **Alignment.** The extent in which donors base their support on partners' countries national development strategies, institutions and procedures and report aid on budget. In the country consultations it became clear that this principle has many facets, ranging from achieving basic allocative alignment and sustainability (e.g., aid flows should be aligned with national priorities and should be predictable and sustainable) to systems alignment (donors should use country's public fiduciary systems and avoid creating parallel implementation units).
3. **Harmonization.** The extent to which donor actions use common procedures and conduct shared analysis.
4. **Managing for Results.** Implementation of donor aid focusing on developmental results.
5. **Mutual Accountability.** Donors and partners undertake mutual assessments of progress in implementing agreed commitments.

Ownership

3.5 **All partner countries consulted have made significant progress in defining their long-term vision for development and poverty reduction, and in building medium term plans.** For example, Rwanda's "Vision 2020" provides a long-term vision statement towards reaching middle income status. All of the countries consulted are using national Poverty Reduction Strategies (PRS) to articulate their medium-term strategy (EDPRS in Rwanda, MDGDS in Malawi, PARPA in Mozambique, GSPR in Benin and the PEAP in Uganda). At the Mauritius Workshop, participants noted progress in their ability to articulate national strategies. As PRS and sector development strategies are generally the result of intense exchanges with donors (though not always GPFs), governments see them as strategic frameworks with which all aid modalities should be consistent. These PRS typically benefit from internal consultations with a wide range of stakeholders within the country. The net result is that well-conceived national development strategies have served as a basis for donors to orient their own assistance strategies.

Figure 3. 1



3.6 **Governments have also articulated Aid Policies and Partnership Principles that provide their own vision and principles for managing aid within their countries.** These Aid Policy statements define the priorities and institutional arrangements under which cooperation, dialogue, and coordination should be conducted. They attempt to promote selectivity and complementarities through concerted planning with donors. They are endorsed, sometimes formally as in the Rwanda Aid Policy,¹² by donors with an active assistance program in the country (whether horizontal or vertical). In the case of Uganda, the authorities prepared Partnership Principles¹³ that outlined specific rules to assure that donor aid is fully compatible with the national budget process and with the government ownership of the budget. In Malawi, the Development Assistance Strategy¹⁴ invites development partners “to be truly operational rather than aspirational” in particular regarding alignment to country systems, untying of aid, predictability of funding, and streamlining of reporting requirements and joint reviews.

3.7 **Planning and budgeting are being strengthened.** All countries consulted are taking steps to strengthen the operational value of PRS and sector strategies, and improve their linkage to their budgets and MTEFs. For example, Uganda’s Poverty Eradication Plan (PEAP) is strongly linked to the budget and related reporting processes are well grounded in domestic systems. In Rwanda, the EDPRS is based on a compilation of sector strategies derived from Vision 2020 and the MDGs. The MTEF and the budget are also a synthesis of sector and district levels needs for investment and are in principle linked to the EDPRS. However, their operational value is weakened by the separation between budgeting and planning, weak capacity and incentives for sector ministries to conduct required planning and analysis, and problems of alignment resulting from the substantial amount of aid that remains off budget (40 percent of the

¹² The Rwanda Aid Policy was endorsed in 2006; see www.devpartners.gov.rw.

¹³ “Partnership Principles between Government of Uganda and its Development Partners,” September 2003, Uganda Ministry of Finance, Planning, and Economic Development.

¹⁴ Malawi’s Development Assistance Strategy (DAS) covers 2006-2011.

development budget in 2003). Mozambique has made substantial progress on planning and budgeting, but confronts significant fragmentation of donor-driven instruments and processes, against a backdrop of significant capacity constraints. In Malawi, there is still scope for better synchronizing the decision making process of the PRS and the budget and planning processes.¹⁵

3.8 Donors could do much more to support institutional development, by aligning their practices to domestic systems and focusing on capacity building. Most low income countries face capacity constraints and fragmentation of donor instruments and processes often undermine their ability to make institutional improvements, particularly when they are aid dependent. Timely donor engagement around the MTEF and avoidance of parallel donor processes can go a long way in strengthening overall public sector management systems in recipient countries. At the same time, sector ministries often require extra technical and institutional support – particularly in planning and budgeting, for those facing many donors with different interests and where there has been a rapid scale-up in funding, for instance through GPFs.

3.9 GPFs may raise special ownership and alignment issues. The fact that GPFs set priorities outside country frameworks presents challenges to ownership. Typically, GPFs tend to have strong support from sector ministries, but less so from central ministries, including the Ministry of Finance. In addition, alignment can be made difficult when GPFs operate off-budget and use parallel implementation arrangements. Furthermore, when GPFs account for a large share of funding for a particular sector or subsector, they can cause allocative misalignment and stretch already limited absorptive capacity in recipient countries. These issues are discussed in more detail in the next sections.

Alignment

3.10 Alignment is central to ownership and harmonization. There are two major dimensions to the principle of alignment: *allocative alignment*, which calls on donors to align to partner countries’ strategies and priorities – a donor’s program in the country will largely be determined by country’s priorities – and *systems alignment*, which focuses on donors agreeing to use partner countries’ own systems when implementing their programs (reporting aid flows to the budget, use of government procurement and financial management systems).

Allocative Alignment

3.11 In some sectors, GPFs are prominent sources of finance. The share of global health programs for HIV/AIDS is estimated on an annual basis to average about 41 percent of total health expenditures in the countries consulted. PEPFAR alone contributes about 51 percent of total ODA for HIV/AIDS. Table 3.1 below provides the breakdown of funding in the health sector in HIV/AIDS for the countries consulted.

¹⁵ See “Minding the Gaps: Integrating Poverty Reduction Strategies and Budgets for Domestic Accountability”, The World Bank, 2007,

Table 3. 1: Funding of the Health Sector and HIV/AIDS in 2006 in US\$ millions

Countries Items	Malawi	Mozambique ¹⁶	Rwanda	Uganda
Health Expenditures¹⁷	124 (95)	400 (295)	380 (272)	438 (213)
GFATM	37 ¹⁸	52	30	28
PEPFAR	-	50	105 ¹⁹	140
Other HIV/AIDS Contributors	17	31	36	16.1
HIV/AIDS in % of Total Health Expenditures	43.5	33.2	45.0	42.0

Sources: Staff estimates on the basis of data from OECD-DAC, World Bank IMF and partner country Ministries of Health and Finance.

3.12 Allocative distortions may emerge particularly when GPFs are both large and narrowly earmarked. This has been especially important in the case of very large GPFs emphasizing HIV/AIDS treatment. First, concerns have been raised that GPFs should have a better balance between addressing HIV/AIDS prevention and addressing treatment. Second, other infectious diseases need to be addressed. For example, malaria infections account in Mozambique²⁰ for as much as 40 percent of child deaths and are causes of mortality well in excess of HIV/AIDS which has a prevalence rate of about 14 percent. In Rwanda, the epidemic and the endemic risks for malaria are respectively 21 and 57 percent, while HIV/AIDS has prevalence rate as low as 3 percent and child mortality is high (at 118 per 1000). Yet the allocation for HIV/AIDS is 2.5 times that for malaria and 46 times that for integrated management of childhood illnesses.²¹

3.13 When these intensely vertical GPFs grow rapidly, they may pull scarce resources from other parts of the sector. The rapid growth of large funding for HIV/AIDS in very short periods can put pressure on domestic inputs in the health sector (nurses, doctors) devoted to other

¹⁶ Mozambique has an effective health SWAP. About 26 donors are engaged in it and about 14 contribute to its common fund. Vertical funds contribute about 35 percent of health expenditures including PEPFAR

¹⁷ Figures include off budget expenditures. The figures in parenthesis are budget expenditures.

¹⁸ About 78 percent of this amount is pooled.

¹⁹ This amount is for 2007 to finance more than 200 PCT activities in cooperation with the government in 22 of the country's 30 districts for child and youth education under Abstinence, Be faithful, Condoms (ABC) program; coordinating drug purchasing; decentralization of health care service delivery; support for schooling and vocational training; self help programs for those people living with HIV/AIDS; upgraded nurse training; and integration of malaria, family planning and tuberculosis into HIV care.

²⁰ Data provided by DFID's Mozambique website.

²¹ Box 4, page 20, *Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows*, DC 2007-003, dated March 29, 2007, Development Committee, World Bank.

health priorities. In the short run, the supply of health personnel may be fixed and fast expansion of HIV/AIDS programs may divert personnel from other programs. This seems to have been the case in Uganda where HIV/AIDS expenditures have increased six times since 2003, reaching over 40 percent of total health spending. The competition for time of personnel in hospitals providing HIV/AIDS services as well as other services has been highlighted by a study of the Uganda Catholic Medical Bureau.²² On the other hand a study by USAID in Rwanda finds that the provision of HIV/AIDS support through PEPFAR has not reduced the ability of health posts to increase their coverage of other services.²³ In Rwanda, these local health posts are decentralized but have contractual arrangements funded through the central government to deliver a basic health package, and PEPFAR/USAID have reportedly made efforts to be more flexible in supporting the system. As integrated health systems are only beginning to emerge in African countries, the availability of trained staff is a critical building block. This issue deserves further analysis.

3.14 Sustainability and predictability of donor flows are important aspects of alignment over time. In Uganda and Mozambique, GPFs fund about ninety percent of HIV/AIDS expenditures. Any new ARV treatment involves long term commitments that need to be sustained over the patient’s lifespan. If aid flows suddenly subside, contingent liabilities would arise for which governments might not be prepared. Thus sustainability and predictability of donor funding is critical, particularly when health systems are already constrained in the provision of other services, when costs of services are rising and when scaling up of aid also means scaling up long term operations and maintenance costs. Where GPFs have taken over a substantial portion of sector or subsector funding, fluctuations will create sustainability risks across the sector. GFTAM is planning to provide medium term commitments with a five year horizon and this is welcomed.

3.15 Governments place a very high value on aid being “on-budget,” including funding from GPFs. To render credibility to countries’ budgets and the MTEFs, it is critical that aid flows be adequately reported, particularly when aid accounts for a significant share of public spending. In the countries consulted, the proportion of aid off-budget ranged from 25 percent of total ODA in Uganda to 45 percent in Rwanda.²⁴ Much of donor funding off-budget reflects programs channeled through NGOs or the private sector. While most GPFs were on budget in the countries consulted, some were not. For instance, in Uganda 50-70 percent of the health sector spending is off-budget, with PEPFAR’s funding for HIV/AIDS accounting for the bulk of it. PEPFAR typically provides information on annual commitments, but does not provide financial data on budget execution, and reporting of commitments may not be in sync with recipient countries budget cycles. Having adequate reporting on commitments and disbursements means these can be integrated in the annual budget and MTEFs. It will also encourage an explicit discussion between the authorities and donors if differences in priorities emerge and allow the authorities to reallocate external and internal funding.

3.16 The ability of the government to assess future recurrent costs is made more difficult when the GPF is off-budget. Programs that are off-budget tend to provide less detailed

²² Uganda Catholic Medical Bureau: “Effects of Global Initiatives Projects on Roman Catholic Hospitals in Uganda, 2006”

²³ Study by Family Health International, “Integrating HIV Clinical Services in Primary Health Centers in Rwanda: Effect on the quantity of non-HIV services delivered,” 2008

²⁴ Aid off-budget in Malawi was 30 percent and in Mozambique 40 percent.

information on the magnitude and directions of spending. They are also not part of a multi-year planning process that would facilitate the government's ability to predict future disbursements. When these programs are large, this may create fiscal contingent liabilities whose risks are difficult to predict. In Uganda, for example, the government has made it clear that it "cannot guarantee that sector budget support will increase the relevant sector's expenditure ceiling above what would have been otherwise provided in the MTEF. The level of any sector's expenditure ceiling cannot be determined by the amount of sector budget support promised to that sector."²⁵

Systems Alignment and Harmonization

3.17 Achieving progress in alignment to country procurement and public financial managements systems remains a challenge for all development partners, and some GPFs have made important strides. As outlined below, there is also movement at country level among donors to harmonize their approaches and to work more closely with partner countries through agreements such as MOUs for SWAs and to provide pooled funding to achieve the Paris Declaration objectives. These efforts at alignment and harmonization have increasingly included GPFs where they are major sources of finance at the sectoral level.

3.18 The strength of legal and administrative systems is a key factor in donor decisions to use country systems for procurement and financial management and join program-based approaches. The 2006 OECD Survey on Monitoring the Paris Declaration provides the baseline and targets for all the 34 countries surveyed. Table 3.2 below provides for the five countries consulted the baseline status of the major alignment and harmonization indicators in 2006. A review of these indicators reveals a direct correlation between public financial management (PFM) and procurement systems alignment and use of program based approaches, which has been targeted to reach 66 percent of overall ODA by 2010 as a leading indicator of donor harmonization. While targets should be country-specific taking into account levels of institutional development and commitment to reforms, most countries consulted (Malawi, Mozambique and Rwanda) may not be able to reach the OECD 2010 target unless they receive significant support for institution building.

3.19 Some GPFs have participated in the 2006 Monitoring Survey. This is a positive initiative, including GFATM, and GAVI, and the survey shows their performance as donors on the individual monitoring indicators. Some highlights include that GFATM in Malawi is using country PFM systems 67 percent of the time, ahead of the total average for all donors (55 percent). In Mozambique and Rwanda, GFATM is using country procurement systems for 100 percent of its funds. Only in Uganda did GFATM have any PIUs (one out of the 54 listed in Uganda).

3.20 The extent to which GPFs are aligned to country systems varies across programs. For instance, programs like GAVI and GEF are aligned depending on whether or not implementing agencies²⁶ through which they operate use country systems. GFTAM's implementation arrangements are evolving over time. In Uganda, GFATM funds were originally

²⁵ Partnership Principles between Government of Uganda and its Development Partners; MOFPED, September 2003.

²⁶ In many cases, GAVI funding flows to country level through UNICEF, while the GEF projects are implemented by Implementing Agencies (World Bank, UNDP, and UNEP) and Executing Agencies (regional development banks).

managed by a separate project implementation unit at the Ministry of Health, and project oversight was under the Country Coordinating Mechanism (CCM), created for this specific purpose. Implementation arrangements have now been redefined under the “Long Term Institutional Arrangement” whereby GFATM funding will be aligned with the National AIDS Strategy and will be provided in the form of earmarked budget support. The CCM will be replaced by the AIDS Partnership Committee, an existing donor coordinating mechanism. PEPFAR typically channels its assistance through NGOs and therefore uses parallel implementation arrangements. In many instances, GPFs are participating in program-based approaches which help improve alignment and harmonization as indicated in the next section.

Table 3. 2: Main Alignment and Harmonization Indicators

Indicators in percent	Benin	Malawi	Mozambique	Rwanda	Uganda	Target for 2010
Use of Country PFM	52	55	36	39	60	Significant reduction in percentage of aid to public sector not using partner countries’ PFM and Procurement Systems
Use of Country Procurement Systems	64	35	38	46	54	
Number of Parallel PIUs (numbers)	29	69	40	48	54	Significant reduction of stock of PIUs (by two-thirds)
Use of Program-Based Approaches	61	32	46	42	50	66 percent of aid flows provided in the context of program-based approaches

Source: Aid Effectiveness 2006 Survey on Monitoring the Paris Declaration, OECD, 2007. Based on 2005 aid flows.

Harmonization Through Use of Program-Based Approaches

3.21 The country consultations looked at the provision of aid through program-based approaches and whether GPFs are joining these approaches. Program-based approaches are seen as supporting both allocative and systems alignment, as well as harmonization. Donor agreement to provide aid on-budget and through budget-support modalities – General Budget Support (GBS) and Sector Budget Support (SBS) – as well as through other program-based approaches, for example, Sector-Wide Approaches (SWAs) was seen as a positive indicator of alignment and harmonization.

3.22 GBS and SBS are recognized by governments as preferred financing modalities because they provide the best opportunity for both allocative and system alignment. The flexible use of the funds under these modalities allows better alignment to national budgets and hence to country priorities. GBS and SBS are almost always accompanied by development of capacity and strengthening of governance and management systems to reinforce consistency in policy application and to address fiduciary concerns, and ultimately, make it possible to scale up

aid and reduce earmarking. Country authorities, as in Rwanda, expressed preference that any new global initiatives be designed upfront to include the possibility of providing budget support. A preference for budget support was also voiced by participants at the Mauritius Workshop, though they also elaborated on what they saw as some risks for dependency and predictability associated with budget support.²⁷

3.23 Budget support can improve predictability – if performance is sustained. GBS and SBS have generally corresponded to multi-year commitments of funding (two to three years) with an understanding of roll-over for the same number of years depending on performance and results achieved. As examples, IDA operates on the basis of a three year rolling plan where it supports GBS (through PRS credit or grant instruments) or SBS, and DFID has just signed with Rwanda an MOU for ten-year cooperation subject to sustained good performance over the cooperation period. GPFs such as GAVI, GFATM, and EFA-FTI operate within a multi-year funding horizon although their performance criteria are more linked to short term output results rather than to sustainable medium to long-term outcomes.²⁸ The missing elements are related mostly to policy reforms and building of systems, and importantly, to the lack of flexibility of their earmarking, which may result in distortions when their large contributions do not take into account the relevant gaps that may exist.

3.24 Increasing capacity in the relevant central and sector ministries and other relevant country agencies should attract more finance to be disbursed through GBS and SBS modalities. The financing of a coordinated capacity building platform through a dedicated common fund may help. This good practice has been implemented with success in Rwanda under GBS to strengthen public finance management at national and district levels and promote decentralization and streamlining of the monitoring and evaluation system. Under Rwanda's education SWAp, a common fund for capacity development has attracted a growing number of donors, and the government and donors are contemplating the possibility for extending the experience to the health SWAp.

3.25 The use of sector program-based approaches can also help coordinate and harmonize large numbers of donors. In Mozambique there are about fifteen donors financing the health sector, and a health SWAp has helped to coordinate their programs and funding. Still, the bulk of aid is earmarked and is not disbursed through the sector budget, so more remains to be done. For example, there are two common funds for HIV/AIDS, but most of their money is disbursed outside the pooling arrangements and about 25 percent of it is off budget. One fund for HIV/AIDS is under the Ministry of Health and the other under the National AIDS Council, and both carry out separate programs, despite the "Three Ones" approach for harmonization agreed by the government and donors. In Malawi, there has been progress in donor coordination

²⁷ Participants felt that budget support could be discontinued as a result of changing geopolitical interests of donors, political developments in the country (examples were given wherein the reasons given by donors were very vague), and sometimes as a result of governance problems found at the level of specific projects. Examples were given where budget support was threatened by fiduciary problems at the level of very specific projects at the local level where the central government had limited control. Thus a large amount of budget support could be placed at risk by a small project at the local level. It was also recognized that in some occasions project support can be more effective to generate ownership and building capacity in the line ministry. See Summary of the Mauritius Workshop at www.worldbank.org/cfp.

²⁸ The outputs referred to are for example the number of children vaccinated or HIV/AIDS patients diagnosed or treated, the number of teachers trained, households served with potable water, etc. The outcome and impact of the program on people and the overall development of the sector is not reviewed.

in the health sector around two SWAp MOUs – one on health and the other for support to the National HIV/AIDS Strategic Framework (NASF) –signed respectively in 2004 and 2006. The health SWAp MOU is co-signed by about thirteen donors of whom seven are contributors to the common basket of funds and six are supportive of the general provisions of the MOU and its guiding principles. In Benin, the government has introduced a Program Budget for health and has improved the quality of monitoring and evaluation work of the Ministry to encourage donor partners to consider a SWAp approach in the health sector.

3.26 But the operational value of SWAp arrangements may be limited by conditions. For the signatories of SWAp Memoranda of Understanding (MOU) or pooling arrangements, there is in many cases an escape clause that allows them to disengage if the understanding reached contravenes a donor’s national or agency policies. The possibility for these exceptions weakens significantly the enforcement of the understanding and does not provide sufficient incentives for donors outside the MOU’s arrangements to join.

3.27 Harmonization can be strengthened by the appointment of a Lead Donor. Experience in several countries consulted shows that Lead Donors can promote harmonization and coordination of donors and stakeholders in and outside government. It requires, however, donor representation at country level. For instance, in EFA-FTI, the Lead Donor is a formal part of the country level partnership structure, promoting harmonization. In Mozambique, the Lead Donor for education has played an active role in harmonizing other donors and helping to integrate special funding from the Catalytic Fund into the education sector plan. This function can go even further to include a greater input in helping government promote a division of labor and harmonization of donors’ activities in support of agreed priorities and funding remaining financial gaps. The Lead Donor may also be instrumental in promoting SWAps, and encouraging government to improve governance and accountability; and donors to reform their practices.

3.28 Some GPFs are joining program-based approaches. The 2006 Paris Declaration Monitoring Survey found that in some countries, GFATM in particular was channeling its funding through program-based approaches. GFATM is increasingly operating within SWAp frameworks and sometimes pooling its resources in a common fund, as in Mozambique and Malawi.²⁹ In Malawi, support to HIV/AIDS is pooled for 80 percent of total funding by six out of nine contributors. As a result, GFATM has been able to pool 78 percent of its financing through the National AIDS Commission (NAC). And, the pooling arrangement has allowed more strategic and flexible allocation of resources than before under the traditional program or project approach which were most of the time not on plan and on budget. In Mozambique, SWAps in the education, health and water sectors are bolstered by resource pooling arrangements. Since GPFs generally have no direct country operational presence, they have to find ways to engage in the country based dialogue. EFA-FTI is one of the few which operates systematically along SBS principles, underpinned by sector wide strategies and plans in all the countries it supports.

²⁹ The GFATM Board has taken in March 2007 several decisions that allow greater flexibility in financing at country level, including for GFATM funding to be included in SWAps, to pool resources in a common fund with other donors and to provide a follow-on grants through the “Rolling Continuation Channel” to well performing programs. GFATM’s 2005 revised Guidelines for CCMs proposes they “be linked to broader national coordination efforts including Poverty Reduction Strategies (PRS) and Sector Wide Approaches (SWAps).”

3.29 Joint annual sector plans can help bring all funding partners and modalities on board. Governments and donors have attempted in the context of SWAs to mitigate issues of predictability by developing Annual Sector Work Plans (ASWPs) that would help detect gaps and elicit support where needed through a redeployment of previously agreed allocation of resources. Experience has shown however that such redeployment is limited to funding already on budget and most of the time within the existing envelope. The deployment of resources while mitigating marginally possible distortions it does not affect markedly the ODA overall funding picture. For programs that are off-budget, mostly in health, earmarking and lack of procedural flexibility precludes or make it difficult to reallocate resources even within the same subsector.³⁰ The issues of predictability and sustainability become particularly acute when dependence on external aid particularly from GPFs is overwhelming. Funding for HIV/AIDS is dominated by two programs, one global – GFATM, and one bilateral, PEPFAR which contribute together more than 70 percent of total disbursements for the subsector and on average over 50 percent of the flow of external funding to the health sector.³¹

3.30 Performance may be judged differently by donors according to their choice of indicators. GPF performance measurement tends to focus more on outputs³² rather than outcomes. They provide less emphasis to system building and strategic policy reforms partly because of the emergency nature of their interventions particularly in health. Potential gaps in assessments may be greatly mitigated if “vertical” and “horizontal” aid modalities leverage better their respective strengths and promote more actively their complementarities through closer cooperation as in the context of SWAs and their attached ASWPs. This is happening more often with GPFs such as EFA-FTI and GFATM, as seen in Mozambique, Malawi, Rwanda and Uganda.

3.31 Still, meeting the principle of alignment can be challenging for some GPFs. In some cases, GPFs may have legal constraints emanating from their parliamentary approval process that precludes their ability to be on budget. In other cases, GPF interventions may proceed on “operation-by-operation basis,” at the time and pace of funding rounds driven by the governance structure of the GPF, decided at the global level for specifically defined purposes and impact, and less according to country-specific characteristics. While GPF objectives can be broadly consistent with national priorities, they are not the result of a well-defined comprehensive multi-year country assistance strategy. Because of the narrow focus of some GPFs, they tend to bring new flows of resources that are externally defined, rather than filling previously identified gaps.³³ Even when their funds are provided on-budget, there is a further upstream allocative issue around the creation of an implicit earmark.

³⁰ See the discussion of “Allocative imbalance within the health sector” in the Uganda Consultation Report. Government in Rwanda and GHP sponsors for HIV/AIDS claim, however, that about 50-75 percent of expenditures under HIV/AIDS programs benefit the health system as a whole. Separate studies by USAID and DFID in Rwanda are being done to assess the real impact of these programs on the health sector.

³¹ A report by the London FT of September 27, 2007 notes that in 2006 about 75 percent of ODA to health sector is for HIV/AIDS and only about 13 percent is allocated to malaria and other child illnesses with higher mortality rate. Similar distortions have been reported in Sierra Leone and other countries.

³² The output referred to are for instance the number of children vaccinated or HIV/AIDS patients diagnosed or treated, the number of teachers trained, households served with potable water, etc. the outcome and impact of the program on the people, the overall development of the sector is not reviewed.

³³ See an example Uganda Catholic Medical Bureau: “Effects of Global Initiatives Projects on Roman Catholic Hospitals in Uganda, 2006”

Strengthening Alignment and Harmonization

3.32 GPFs should participate in both the national level and sector planning discussions. Given their impact on resource allocation within a largely fixed overall government budget, GPFs' long term sustainability is highly dependent on long term integration into sector policies. As most GPFs operate on the basis of needs, such a link should help to set the scale and pace of commitments and facilitates the flow of information to policy makers on the programs that do not flow through the public budget. This should be a major factor in assessing the role of global programs in overall aid effectiveness

3.33 When programs are managed off-budget, it is particularly important that they provide clear information to the government. While some programs may operate through private and non-profit agencies, there is a continued need to facilitate the government's ability to integrate such programs into national plans and strategies. This will help the public sector meet gaps and to ensure that public and private approaches are efficiently supporting one another without duplication of efforts and misuse of scarce resources.

3.34 Allocative alignment can be addressed by increasing fully un-earmarked aid as earmarked aid increases. The provision of aid which can be used by governments to meet the gaps and priorities they have already identified can provide complementary support to more narrowly earmarked and targeted funds, taking into account the overall resource balance and sector priorities.

3.35 Decentralized approaches to harmonization may also be relevant. The promotion of harmonization and coordination at district levels, to promote and strengthen the reform agenda at that level and at the same time develop local capacities, are particularly important in countries that rely on decentralized approaches for public service provision. It could work well with programs like PEPFAR which have decentralized representation working through CSOs. For example, in Rwanda, supporting decentralized approaches in health has been one of the objectives of the PRSC operations supported by IDA.

Managing for Results

3.36 There is need for meaningful indicators of success. Country consultations revealed that indicators used to measure results need to be broader and to incorporate notions of sustainability. This is particularly important of narrowly targeted GPFs. Specific concerns were voiced in the context of GPFs addressing HIV/AIDS. Short-term and partial indicators, such as numbers of people treated, should be complemented by indicators that show long-term progress in ultimate objectives such as reducing prevalence rates.

3.37 Donors continue to exercise considerable influence over monitoring and evaluation systems. In Rwanda, for example, each donor under GBS³⁴ can decide bilaterally with Government the elements of a comprehensive GBS implementation framework, performance monitoring indicators, and capacity building measures for tranche releases. This creates

³⁴ See the Framework for Harmonization and Alignment of Budget Support (FHABS) signed by AfDB, DFID, EC, Sweden, the World Bank and GOR. The Framework applies in principle to both GBS and SBS.

fragmentation and proliferation of donor-set conditions. It further weakens predictability of funding because of the complexities of compliance and results in higher transaction costs because this pluralistic approach multiplies the number of reviews and reporting. For HIV/AIDS, when National HIV/AIDS Commissions are in charge, monitoring and evaluation systems tend to be well structured, but input/output rather than outcome oriented. They focus primarily on amounts disbursed and numbers of patients serviced, equipments, drugs and vaccines procured to meet performance benchmarks of their financiers. Stronger effort should be made to build systems based on the same sources of information and shared evaluation mechanisms of performance.

3.38 A broader notion of shared attribution would be a step forward. In some of the country consultations, country officials were concerned about too much emphasis on attributing results to a single GPF, particularly in the area of HIV/AIDS. Officials in Uganda saw many of the positive results as coming from a variety of factors not always easily attributed to a single donor or agency. They understood that future funding from a GPF might depend upon such attribution, but they also thought a broader notion of shared attribution would be more appropriate.

3.39 Reducing the proliferation of indicators is also critical. In Mozambique, for example, the PARPA (five year plan) evaluation framework has more than 40 principal performance indicators that are to be monitored and evaluated each year. Most of the time, these indicators are output rather than outcome oriented and they tend to overlap and provide incomplete or inconsistent information. In Uganda, the emphasis on quantitative targets in the health sector has led to burdensome parallel reporting systems and may have influenced funding to focus on easier areas to monitor, such as number of patients in treatment, rather than prevention.

Mutual Accountability

3.40 Government performance is generally assessed through annual reviews. These include joint donor-government reviews of execution of the PRS progress, management of public expenditures and budgets, the pace of policy reforms and responses to the conditionality attached to GBS and SBS and the overall implementation of the aid portfolio.

3.41 Donor performance is on the other hand not formally monitored. This is the case even under GBS or SBS where performance hinges on partners respecting mutual commitments and where the vulnerability of the partner country with regard to timely execution of the budget is particularly sensitive to the predictability and actual pace of disbursement of committed funds.

3.42 Joint government-donor performance mechanisms are rare. Except for Mozambique, there are no formal mutual accountability mechanisms in place to monitor joint performance. In Rwanda discussions are underway between government and donors to design a mechanism that goes beyond the current self-assessment system which may not have the independent element that an objective review would require. In Malawi there is no system to monitor formally or informally donors' performance and there is no apparent perspective to develop one soon. In Mozambique, for budget support there is a well developed mutual accountability framework where donors' performance is independently measured against a range of agreed performance criteria drawn from the Paris Declaration.

3.43 **More independent evaluation would strengthen mutual accountability.** Independent evaluation of mutual performance of both donors and the government (as well as other implementing agencies interacting with GPFs) on two to three year basis according to agreed criteria consistent with the Paris Declaration would help strengthen cooperation and aid effectiveness. The special accountability inherent in vertical approaches should be reflected in evaluations of mutual accountability. When the choice has been made at the global level – rather than by the country – to narrowly target specific issues such as HIV/AIDS, malaria, or primary education, one evaluative question should be to revisit this prioritization and ask whether funds were appropriately targeted, both to achieve program objectives as well as national development objectives.

Section 4 Conclusions and Key Messages

4.1 Going forward to the Accra High Level Forum, a number of important messages have emerged from this work on the role of GPFs at country level. Some of these messages are relevant not only to GPFs, but also to other channels for development aid. There are three sets of messages: (i) for existing GPFs, to continue to deepen their integration into country level development; (ii) for new global initiatives leading to the creation of new GPFs, to incorporate the country dimension upfront in their design; and (iii) country capacity development as a cross-cutting need.

Existing GPFs

4.2 Most GPFs are increasingly integrating into country level development processes. During the past two years of this work, existing GPFs have evolved in important ways. The international community should welcome these changes and encourage them to continue, in line with the principles of the Paris Declaration.

- A number of major GPFs explicitly recognize the Paris Declaration as relevant to their own operations, effectively addressing the threshold question raised at the Paris High Level Forum in March 2005 of whether GPFs are part of the development aid architecture.³⁵ The consultations at country level have reinforced the view that GPFs are part of the country development finance package and need to be integrated.
- Particularly in the social sectors, where GPFs operate most independently from the existing multilateral system, they are adopting practices consistent with the country-led model for development, such as being on budget, joining SWAs and contributing through pooled funding mechanisms. As outlined in Section 3 of this report, there is much that can be done at country level to further strengthen their integration. Some of these ideas include:
 - ensuring their funding is on budget and supporting good public financial management;
 - where funding is not on budget, ensuring there is adequate reporting on commitments and disbursements to feed into the budget cycle;
 - continuing efforts at harmonization;
 - raising their country presence to engage on national strategies;
 - achieving sustainability for long-term challenges such as ARV treatment;
 - finding complementarity with other sources of development finance; and
 - meeting longer term funding and capacity gaps.
- In response to the large number of donors in health, and to stem the risks of further proliferation and uncoordinated interventions, the International Health Partnership (IHP, see Box 4.1) was launched in September 2007. It is a new partnership that promises to forge

³⁵ The report of the Global Programs Learning Group (GPLG) provides views on where GPFs exhibit strengths and challenges in meeting the principles of the Paris Declaration.

country level compacts³⁶ around broader health strategies and to work against fragmentation and narrow earmarking by bringing most of the key players, including many GPFs, into one national health program. Its objectives are to deepen the process of country level health coordination, building on the SWAp concept.

Box 4. 1: The International Health Partnership (IHP)

The IHP is a global health initiative involving developing countries, eight top health agencies (“H-8”),³⁷ bilateral donors, and civil society and private sector partners. It was launched in London in September 2007 with four main objectives consistent with the Paris Declaration:

- developing results-focused country-led compacts that rally all development partners around one national health plan; one monitoring and evaluation framework; and one review process, thus improving harmonization, alignment, focus on results and mutual accountability;
- generating and disseminating relevant knowledge, guidance and tools;
- enhancing coordination and efficiency at country, regional and global levels; and
- ensuring mutual accountability and monitoring of performance.

Thirteen countries have come forward to develop compacts: Burundi, Ethiopia, Kenya, Mali, Mozambique, Zambia, Madagascar, Benin, Burkina Faso, Ghana, Niger, Cambodia and Nepal. More are expressing interest. At least three country compacts (Ethiopia, Mozambique and Mali) should be signed by September 2008, in time for the High Level Forum in Accra.

- Specific health GPFs have evolved as well. In the case of GFATM, the flexibility to work in new ways at the country level has been the result of decisions agreed in their Board, for example, to provide the Rolling Continuation Channel for continued financing of well-performing grants in specific areas, as well as providing grants that support National Health Strategies. This flexibility will allow GFATM to take a broader and more sustainable approach to health sector finance.
- GPFs in other sectors have also changed. In the case of education, the EFA-FTI has evolved from a primarily country-driven aid partnership model to include a specialized program fund of significant scale at its center. This new funding structure, through the expanded Catalytic Fund, is providing concerted and visible external funding to primary education programs in a number of countries. If the FTI relies increasingly on the Catalytic Fund, it could raise issues of sustainability going forward, and it will be important for the EFA-FTI partners to understand the lessons learned in the health sector.

³⁶ A compact is a contract which commits the development partners and recipient countries to reach concrete, verifiable results, based on mutual accountability and benchmarks. These benchmarks represent the “teeth” to this process and will be monitored and evaluated thoroughly and transparently. The basis for a country compact are the “Three Ones” with a fourth added as the “one country based validation and reporting process”. This plan will focus on scaling-up the health, nutrition, malaria, tuberculosis, and HIV/AIDS-related MDGs. Country compacts will specify the financing gap at country level to be directly financed by multilaterals and bilaterals. There will be full engagement of civil society and private partners at country and global level. Countries are preparing their draft compacts, to be validated at country level, to be signed by all parties and subsequently implemented.

³⁷ The H8 include WB, WHO, UNFPA, UNICEF, Global Fund, GAVI, Gates Foundation, UNAIDS.

New GPF Initiatives

4.3 As new global initiatives come forward, involving the creation of new GPFs, their advocates and sponsors should consider whether a separate new channel for aid will be more effective, given existing mechanisms, and during the initial design process take into account the lessons learned from recent experience with other GPFs.

- GPFs may be most appropriate in funding the provision of global or regional public goods. Their interplay with other interventions at country level – government, public and donor – is important for generating tangible results, and the country focus should not lead to losing sight of the regional, and at times, global perspective. At the country level, the cross-border aims are not always apparent, and GPFs may be well placed to make these links more explicit. However, emphasis on numerical, quick outputs may be an impediment to thoughtful tackling of cross-border issues which go beyond country-specific frameworks. This very special role of GPFs might become most pronounced in international trade, finance, and climate change, where the cross-border, regional, and global linkages are more visible than in national health programs, the sector with currently the most GPFs.
- In the environment sector, concern about climate change is leading to several new initiatives to fund both the mitigation and adaptation agendas. Tackling questions of governance and voice will be central to the effectiveness of these new initiatives, as well be the degree of “vertical intensity” as the global community gears up to cover a broad spectrum of climate-related issues. The interplay between the provision of an essential global public good, the dependence on collective action to achieve and sustain results, and the need to fit this agenda into a country’s overall development prospects will nowhere be challenged as much as in the case of climate change.
- As evidenced from the country consultations, these new channels which are seen as specialized and additional should be designed upfront to work alongside other existing sources. This will have benefits both for the countries and for the positive achievement of the new agenda, which will suffer less start-up difficulty. New funds as they are designed should take into account the country-driven model and ensure that they are from the get-go able to fit into country systems and harmonize with other sources.
- Previously articulated agendas, such as the Three Ones, can inform decisions about new global initiatives. Just as in HIV, climate change is a multisectoral, cross-cutting agenda, wherein it may be important to consider upfront having one national strategy, one in-country governance mechanism (that is ordained by the country and not specified externally), and one framework for monitoring progress.

Capacity as a Cross-Cutting Need

4.4 Partner countries face capacity constraints, and these pose a cross-cutting challenge in achieving the Paris Declaration principles. Efforts to improve donor alignment with country systems should be complemented by increased focus on building domestic capacity and institutions. Capacity constraints reduce the government’s ability to take ownership, which is

critical to providing the policy leadership and fiduciary systems that encourage donors to align and provide confidence in harmonizing their programs. Capacity is also needed to ensure positive systems for results management and accountability.

- The special link between ownership and institutional capacity needs to be addressed. Country ownership in making allocative decisions and the ability to translate them into a coherent MTEF is perhaps the most powerful lever for ultimately achieving aid effectiveness. Progress in this dimension is critical to ensure that downstream progress on systems alignment, donor harmonization, and joint monitoring and accountability is meaningful. The creation of GPFs should not be used to appropriate the ownership and allocation decisions away from countries.
- Supporting countries institutional capacity to translate strategies into an MTEF should remain a leading priority of donor technical assistance. The new generation of PRSs is aiming at translating country priorities into budgetary decisions. Supporting this process will improve the ability of countries to integrate GPFs. But this also requires GPFs to increasingly become part of the overall budget process.
- Donors could pool resources for capacity at the sector or general budget level. Donors often provide relative small scale funding, which when aggregated could afford a more robust and coherent approach and scale up activities. GPFs should also join in these efforts, given the critical need for strong national and sector capacity to manage the flows of funds from their programs (see para 3.11 above).

4.5 In Accra, there will be an opportunity to consider the question of GPFs and their role in financing development. The Round Table on Development Aid Architecture will consider the question of the role of GPFs, and the Accra Action Agenda, subject to ministerial endorsement, contains draft language on this topic. Three general guidance principles can inform these discussions. A succinct version of these principles and the findings of the report in bullet form is provided in Box 4.2.

Three Guidance Principles on GPFs for Accra

- Existing GPFs are part of the development finance system and should be guided by the principles of the Paris Declaration. Efforts towards country level integration should continue and intensify, and existing programs should continue to adapt to the systems of developing countries. Funds should be on plan and on budget.
- New GPF initiatives should be informed by the lessons of previous experience. The creation of new channels may be most appropriate in the area of global or regional public goods. From the start GPFs should be designed to become well-integrated into the country-led model. This can mean avoiding intense verticality and including a multi-year financing framework to encourage predictability and fiscal sustainability.
- The overall development finance architecture should maintain selectivity and balance between “vertical” and “horizontal” approaches. The voices of both donors and partner countries should be brought to bear in this process.

Box 4. 2: Succinct Guidance on Global Program Funds

Guidance on Global Program Funds

When there are new initiatives...

Think twice about whether a separate new funding channel is needed.

Strengthen the voice of partner countries.

Maintain balance between vertical and horizontal approaches.

Avoid intense verticality.

Contribute to the provision of Global Public Goods.

When implementing existing or new GPFs...

Funding should be on plan, on budget.

Align to country systems and harmonize approaches.

Ensure sustainability and predictability.

Integrate into sector strategies and measure sector results.

Help bridge gaps between global/regional needs and country capacities.

Presence of GPFs in Countries Consulted
(commitments)

	Benin	Malawi	Mozambique	Rwanda	Uganda
GFATM³⁸	\$45 m For HIV/AIDS, Malaria, and TB	\$277 m For HIV/AIDS, Malaria, and Health Systems Strengthening	\$184 m For HIV/AIDS, Malaria, and TB	\$176 m For HIV/AIDS, Malaria, TB, and Health Systems Strengthening	\$209 m For HIV/AIDS, Malaria, and TB
PEPFAR³⁹	Not a Focus Country.	Not a Focus Country but receiving some HIV/AIDS funding support via USAID.	Focus Country \$158 m FY04-6	Focus Country \$134.5 m FY04-6	Focus Country \$364.4 m FY04-6
GAVI⁴⁰	\$53.5 m 2002-2015 For immunization services, vaccines, and injection safety materials.	\$116.6 m 2001-2015 For health system strengthening, immunization services, vaccines, and injection safety materials	\$38.2 m 2000-2009 For immunization services, vaccines, and injection safety materials.	\$78.0 m 2000-2015 For health system strengthening, immunization services, vaccines and injection safety materials.	\$205.3 m 2001-2015 For health system strengthening, immunization services, vaccines and injection safety materials.,
GEF⁴¹	12 national projects \$21.5 m GEF plus \$49m cofinancing	11 national projects \$15.3 m GEF plus \$9 m cofinancing.	12 national projects \$31 m GEF plus \$61 m cofinancing	9 national projects \$16 m GEF plus \$74 m cofinancing	16 national projects \$53 m GEF plus \$487 m cofinancing
EFA-FTI	Endorsed 2007. Allocated \$76m from CF in 2007	Not an endorsed country.	Endorsed 2003. Allocated \$79m from CF in 2007.	Endorsed 2006. Allocated \$70m from CF in 2006.	Not an endorsed country.

³⁸ GFATM figures show cumulative commitments based on grant agreements since GFATM inception through Apr. 30, 2007, from GFATM Trustee data. Grant agreements at country level may include some funding from regional or global grant proposals. Commitments based on country level proposals approved in each round of grants (as provided through the GFATM website) are significantly higher in some countries: Malawi: \$590 million; Mozambique: \$176 million; Rwanda: \$398 million; and Uganda: \$711 million.

³⁹ PEPFAR figures are total made available for focus country program during US FY 2004-2006, as reported in 2007 by Global AIDS Coordinator, US Dept. of State.

⁴⁰ Figures on GAVI provided by the GAVI Alliance Advocacy team. The GAVI Alliance is in dialogue with Mozambique to provide support for health system strengthening, including support for civil society, to a pooled funding mechanism in the context of the International Health Partnership.

⁴¹ Figures as of GEF inception, as provided in GEF website. All five countries have also received significant GEF funding under global and regional GEF projects; these are not included here.

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