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INNOVATIONS IN HEALTH AND DEVELOPMENT FINANCE: LESSONS LEARNED AND THE WAY FORWARD

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in co-operation with:
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Introduction

1. Until recently the development finance industry had changed little since the 1960s and 70s. In the last five years, however, some traditional donors have begun to experiment with new approaches, such as shifting from project-based aid to programmatic funding and to pooled funding arrangements. Perhaps more importantly, several radically innovative financing mechanisms have emerged, partly as a response to an ongoing uncertainty about the effectiveness of aid. Three of the most innovative of these are the GAVI Alliance (formerly known as the Global Alliance for Vaccines and Immunization), the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund), and the Millennium Challenge Corporation (MCC).

GAVI

2. GAVI[1] is a global health public private partnership. It is an alliance of partners which includes governments in industrialised and developing countries, UNICEF, WHO, the World Bank, the Bill & Melinda Gates Foundation, civil society organisations, vaccine manufacturers from industrialised and developing countries, and public health and research institutions. GAVI was created to address the erosion of childhood immunization coverage in poor countries. It provides long-term, predictable funding for immunization programs, and at the same time works to coordinate actions by the various actors to improve efficiency. The GAVI model is innovative in a number of ways, foremost is its outcome-based focus that ties funding to results in order to accelerate the uptake and use of underused and new vaccines and associated technologies.

[1] www.gavialliance.org

The Global Fund

3. The Global Fund[2] is a foundation that supports interventions against AIDS, tuberculosis and malaria with programs in 136 countries. It draws funding from donor governments, foundations, and the private sector to fund programs are typically designed to cover five years, with two-year initial funding that can be renewable for three more years depending on performance. Having no presence on the ground, the Global Fund relies on in-country stakeholders in the form of Country Coordinating Mechanisms (CCMs) to design an intervention program which is then implemented through a Principal Recipient (PR) designated by the CCM. Programs are monitored by a Local Fund Agent (LFA) hired by the Secretariat to undertake assessments and monitor program progress.

MCC

4. The MCC[3] is a US government "corporation" created to provide foreign assistance with greater flexibility relative to other US government agencies. It was enacted into law in January 2004 with a mission to reduce poverty through economic growth. This mission is operationalized with five-year "compacts," or sets of programs and projects that target the major constraints to growth in partner countries. Eligible countries are selected based on their performance on 16 (soon to be 18) independent indicators. Funding priorities are identified by the developing country partner through a process of stakeholder consultation, and the country is then responsible for compact design and implementation. MCC currently has compacts in eleven countries, valued at over $3 billion, with several more compacts planned for 2007.

5. Despite differences in goals, funding, and country selectivity, the three new financing organizations are fundamentally similar in many ways. Country ownership is central. Beneficiaries must establish internal coordinating mechanisms with broad-based participation, and a local mechanism is used for implementation. They take performance-based funding to a higher level. Progress is highly monitored with disbursements tied to performance. Each allocates funding in multi-year commitments. All three face questions of how to accurately measure performance and act on the results, how to balance long-term and short-term results, how to define their role within the broader aid system, and how to prove their effectiveness and ensure sustainability.

Country ownership

6. Country ownership, an oft-discussed principle that historically has rarely been achieved in practice, is a central tenet of all three new organizations. There are two main motivations for demand-driven programs. First, developing country partners are best positioned to articulate their own needs. Second, for development interventions to be sustainable, countries must take control of applying for funds, determining their use, and seeing through their implementation and monitoring in order to strengthen their capacity to manage their own development strategies.

7. It is important to define country ownership. Who articulates demand? The government is often a primary actor, but civil society and other non-governmental groups can help communicate demands. It falls to governments to arrive at a national development strategy based on input from a broad range of stakeholders, including civil society. Donors can then help the country meet its national objectives by filling in the financing gap. Flexible financing by donor organizations is necessary to support such a demand-driven approach.

8. The three new organizations have 'pushed the envelope' on country-driven financing.

- To apply for MCC funding countries self-identify their primary constraints to economic growth through broad consultations with various stakeholders. Compact

[2] www.theglobalfund.org
[3] www.mcc.gov

implementation is also done by the developing country partner with MCC representatives sitting on countries' compact steering committees or Boards of Directors, typically as observers only.

- The Global Fund finances interventions identified by a CCM, an in-country steering group of broad-based stakeholders. Interventions can be based on pre-existing national strategies, and the Global Fund accepts national targets for disease interventions where they exist. The CCM also identifies a PR responsible for implementing the program using Global Fund money. The Global Fund recognizes that it is able to take such a radically passive approach to financing because organizations like WHO, DfID and UNICEF are active on the ground to provide technical assistance to PRs.
- GAVI funds support the government's immunization goals. Governments can apply for various interventions, including health systems support, based on their needs, overall health strategy, and considerations of long-term cost and delivery needs.

9. One key question surrounding demand-driven programs is how well countries' and donors' priorities are aligned. It may be possible that the existence of global programs distorts priorities. For example, Ethiopia gets a significant amount of HIV/AIDS funding from the Global Fund, but does that match the country's actual health priorities where basic health systems remain significantly underfunded? Even where countries design and implement their own programs without donor input an element of donor influence remains since donors, by offering funds and specific interventions, determine broadly what countries seek.

Developing country responsibilities for ownership

10. In addition to a hands-off approach by donors, country ownership requires discipline and commitment to implementation by the host government, especially when necessary decisions are unpopular or will not yield immediately visible benefits. Discipline and commitment require credible leadership that can ensure continued buy-in from stakeholders. Leaders must have the ability to craft and communicate long term goals by articulating what they are trying to do and, more importantly, how the country will get there. Leaders must be engaged throughout the course of the program and should be open to learning and feedback throughout.

11. Countries must also ensure internal cohesion. Turf battles within an administration can impede progress, so garnering support of all relevant ministers is necessary to scale up programs, particularly with sector-specific interventions that exclude some ministries from new funding. Leadership, particularly from a presidential level, can help achieve internal cohesion.

12. Host countries are also faced with the challenge of creating the perception of country ownership among citizens. This perception can be as important as country ownership itself. An example from Ghana illustrates this challenge. The New Partnership for Africa's Development (NEPAD)[4], a program of the African Union, has experienced some lack of credibility in Ghana because it is viewed by some as driven by the G8 and the World Bank. Instead of offering suggestions for implementation, some NGOs and members of the Ghanaian intellectual community have questioned how "genuinely African" it is. When it appears that money and effort is coming from the outside, even for good projects, skepticism and trouble with implementation can ensue.

13. Finally, a hands-off approach by donors, while theoretically reducing the in-country burden of dealing with donors, does not necessarily imply less staff time and effort for project management – in fact it can increase the administrative and management burden, particularly in the short run. Developing country staff can expect to put significant time into applications, program design, and rigorous data collection and reporting.

[4] www.nepad.org

A one-size fits all approach to country ownership?

14. Countries vary in their implementation capacity, and fragile states pose certain questions for donors about the feasibility of country ownership. In a country-driven approach the donors' role is to address the funding gap for a national strategy, but they may also need to look for a capability gap. Is it possible to follow similar demand-driven approaches in all partner countries or should donors tailor their hands-off approach based on state capacity? Low functioning states can make good decisions, particularly in the health sector, as GAVI and the Global Fund have experienced, but weaker states may still need a stronger donor presence to help formulate and implement programs. MCC uses such a tailored approach for compact development. While priority-setting is always in the hands of the country, the MCC has engaged earlier and with more persistence with some countries to ensure they can arrive at a mutually agreeable compact. Similarly, though PR selection is usually in the hands of the CCM, the Global Fund may suggest a PR of last resort, usually UNDP, when a viable local PR is unavailable.

Balancing country ownership and attribution

15. Country ownership can create a tension for donors between their desire for country leadership and capacity-building on the one hand and their need for a clear story of attribution for what they have helped achieve on the other. Attribution is particularly difficult for the donor with no presence on the ground. In the case of the Global Fund, its in-country absence means that it has no representation at meetings or at points of service delivery, making the PR the visible face of the services rendered. It is important for the host country to demonstrate its ownership and its capability to achieve results; however, donors also need to be able to show evidence of their impact as a justification to continue their funding. Countries and donors need to manage a way to achieve attribution that clearly says "this is what we have done together."

Partnerships within a country ownership framework

16. Within a country ownership strategy it benefits the government to leverage the expertise and capability of a broad range of stakeholders to generate and implement a development strategy.

Private Sector

17. In terms of risk management the private sector and donor organizations can offer complementary services. Donors are better at assessing country risk, but have less of a positive track record with project risk, while the private sector specializes in the latter. Putting the two efforts together could create a more robust risk assessment. More broadly, donors could consider providing cover for contingent liabilities to draw investment by the private sector and establish contracts with firms at favorable rates. Donor countries could look into a risk sharing arrangement where several pool small amounts of equity and use it to leverage investment while limiting their own individual exposure.

18. Public-private partnerships are useful in leveraging the expertise of the private sector. One such arrangement is a Private Finance Initiative (PFI) where a public authority contracts to purchase services or infrastructure defined in terms of output requirements over a long-term horizon. This arrangement takes advantage of the special skills of the private sector in designing, building and operating projects and can be particularly useful where the public sector has limited capacity to prepare and maintain cost effective projects. Funding is typically provided through a combination of debt and equity, and the public authority pays for the service only when it is completed and functional. This places much of the project risk with the private sector and incentivizes the contracted company to complete the project on

cost and on time.[5] Outcomes are sustainable since contracts require outputs to continue throughout the duration of the concession. Since life-of-project costs are contracted at the outset, the private sector has security of payment as well, particularly since donors, through their leverage of future grants, are well placed to act as a backstop of default by the public authority.

19. To date there is limited PFI activity in developing countries though a similar model has been used by the World Bank for certain infrastructure commitments. Expanding the model could be of interest to donor organizations and developing country partners, particularly in the health sector where PFI has a track record in building hospitals, primary care facilities, clinics, and other small health-related infrastructure in the developed world.[6] Purported benefits of PFI are that: it can offer improved value for money in the procurement of public services; it introduces contestability and choice to public service delivery; it is a long-term endeavor by design; it can improve transparency of delivery costs; and it can help overcome capital budget constraints to accelerate the pace of change in public services.

20. Countries can tap into private sector expertise in ways beyond contractual relationships. There is an increasing desire among the development industry in the developing country and from the donor side to bring business thinking, values and behavior into the development industry to increase returns. Development partners have attempted to harness this influence by involving private sector representatives on commissions or boards of trustees.

Civil Society

21. Civil society can help articulate demand and deliver services. Using civil society groups as project implementers can help prevent distribution bottlenecks in low capacity governments. The use of civil society groups as development partners can also promote sustainability, especially where government is variable. In Ukraine, for instance, an NGO was able to provide continuity with Global Fund support even through government uncertainty. Though there is some concern that bypassing the government by funding civil society organizations inhibits public sector capacity building, it is important to see civil society as a complementary partner that can help speed and smooth service delivery rather than as a competitor.

Performance-based funding

22. A second feature of recent innovations in development finance is the focus on performance-based funding. The development community has talked about performance-based aid for 15 years, but until recently, with few exceptions,[7] it has not actually been implemented. Powerful incentives not to know the real impact of their programs make donors disinclined to measure performance, and even when performance is measured disincentives to act on or communicate results can be strong. Most donor organizations design, implement, and evaluate their own programs, so they have a strong incentive to conclude they are successful (by focusing on how much money was spent and other inputs) in order to avoid facing budget or staff cuts, professional embarrassment, or political costs to the agency as a whole. There has been progress on linking payments to performance in the last few years, particularly from the Global Fund, GAVI, and the MCC, but there is still a long way to go.

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[5] In the UK, 80% of PFI projects are completed on time and on budget compared with 30% of conventional procurement projects.

[6] For a recent analysis of output-based aid and other approaches similar to PFI, see Nancy Birdsall and Owen Barder, "Payments for Progress: A Hands-Off Approach to Foreign Aid," Center for Global Development Working Paper No. 102, December 2006.

[7] For the past 20 years, the World Bank's Country Policy and Institutional Assessment has ranked countries on 24 indicators, but scores have not been published until recently.

23. Measuring performance has a variety of purposes. It provides incentives, both for countries to perform and for donors to continue giving to successful projects. It serves as an early warning system and allows for mid-course corrections. It provides information for where to better allocate resources, by highlighting the most effective projects, and it helps influence better program design in the future by demonstrating what works. The caveat is that it is very hard to design a system to achieve all these purposes at once.

Challenges of performance-based funding

24. Measuring performance is difficult and there are several concerns and challenges for donors who attempt to undertake it.

- Data are often sub-optimal. Lack of coverage and poor quality are common constraints to obtaining accurate measures.
- Are donors are measuring the right things? There is uncertainty among donors as to what and how to measure. Donors tend to pick more easily measurable performance indicators—typically short term output indicators like bed nets, antiretrovirals (ARVs), or miles of road—which are to varying degrees related to the ultimate desired impact. It is much harder to measure for example systems, institutions, or an increase in absorptive capacity, even though these more abstract outcomes are part of what donors ultimately want to track.
- There should be a greater distinction between process and results. Donors currently focus heavily on processes, partly because of the (unconfirmed) belief that good process leads to good results, and partly because of political pressure to follow set procedures. Bilateral donors tend to be particularly hampered by procedural mandates. While multilateral funding, particularly foundation funding, does allow more scope for process innovation and risk-taking, global programs still spend considerable time defining and evaluating processes. Focusing on process over results not only misses accurate measures of performance but it can also fail to account for any negative consequences or externalities that arise.
- Attribution of outcomes is uncertain. The development finance field does not have the luxury of experimental designs, so it is hard for donors to establish if and to what degree a particular intervention led to observed outcomes when other, often multiple, factors are also at play.
- Measuring performance may be insufficient if costs are not taken into account. Thus far most performance-based funding has focused on results, but how much those results cost, particularly in terms of cross country cost comparisons, is not well understood. There is a need for increased broad-based evidence that aid is both achieving its goals and doing so in a cost effective way. The Global Fund is working toward establishing cost effectiveness variables which will feature prominently in their upcoming five-year evaluation.

Performance-based selectivity

25. MCC puts a new spin on performance-based aid with public and transparent ex-ante selectivity. Good performers are identified through a rigorous analysis of countries' performance on 16 (soon to be 18) independent indicators divided into three categories: ruling justly, investing in people and economic freedom. Countries are judged relative to their income level peers, and must perform above the median on half the indicators in each group (as well as on the corruption score) to be selected for eligibility. Ex-ante selectivity can thus incentivize performance before donors allocate any money. El Salvador, for example, significantly improved its business climate indicators over the course of 18 months before a single dollar was committed by MCC. Ex-ante selectivity is more relevant where goals are broader based; it is less applicable to organizations with more focused or more humanitarian objectives like GAVI or the Global Fund. Still, other donors are picking up or expanding on the idea. The World Bank and regional banks have been using some ex-ante selectivity for several years to allocate the amount of funding to different countries (not to choose which countries would receive funding), and have recently decided to make their country ratings

fully public. DFID uses a non-public methodology to determine which countries receive budget support or basket funding. The US is expanding the use of ex-ante performance indicators as the basis of its new Foreign Assistance Framework.

Acting on results

26. Measuring performance is the first step, but will money follow the results? Performance measurements are meaningless if donors take no action on their findings, and traditionally mid-course corrections have been rare. MCC, GAVI, and the Global Fund are all committed to responding to low performing countries, and each has shown its willingness to follow through, working with governments to tackle problems as a first priority, but also adjusting support or suspending participation for countries that fail to meet set performance standards. GAVI provides supplies according to each country's performance on their annual progress reports, and makes readjustments for countries that do not achieve the targets they themselves set or offers additional rewards to countries that do meet their targets. Based on this system, GAVI disqualified ten countries from receiving performance-based payments because they were unable to raise immunization rates over three years or they could not produce externally verifiable coverage data. The Global Fund suspended programs in Ukraine, Chad, and Uganda based on questions about grant mismanagement, and the MCC suspended The Gambia and Yemen due to policy slippage on a number of governance and economic indicators.[8] Making the decision to suspend a country is always difficult, but it is necessary to make performance-based funding meaningful, both for the program in question and for the message it sends to other partner countries. Certain features of organizational design may facilitate an organization's ability to act on results.

27. Remaining apolitical helps donors make decisions about where to allocate funds and where to stop them. The Global Fund, GAVI, and the MCC have thus far all been innovative in their ability to shield themselves from political pressure. The challenge is whether the governments that fund the organizations will continue to reward their apolitical nature or if they will start to push for greater coordination with foreign policy objectives. This pressure is easier to avoid for multilaterals that have a lower concentration of any one political demand. Multilaterals like GAVI and the Global Fund, for instance, avoid political overlay by not being tied to any one government or any broader organization like the United Nations. Political pressure may be more likely for MCC since it is funded exclusively by the US government. Its use of external indicators, however, has so far served as somewhat of a shield from politicization.

28. Quick decisions can save programs. Donors have the responsibility to detect problems early and take rapid action. There is some question whether using independent monitors to track corruption or other performance failures can impede decision-making. The concern is that watchdogs can be overly cautious or demand overly-exacting standards of proof that will slow decision-making when the need for rapid action arises. This is not conclusive, however, and there may be room for both independent monitoring and fast action.

29. Distance between funding and identifying irregularities can make it easier to suspend a country. Having the same person or entity both initially commend and later condemn programs may create a disincentive for suspension for fear of looking inconsistent, or worse, mistaken for supporting a particular program in the first place. Independent evaluators, or at least an internal entity separate from the selection entity, can provide the distance that may prove helpful for decisions to suspend.

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[8] MCC's two suspensions occurred only at the eligibility level before any funds were allocated; it will be harder for the MCC to cut off compact countries after millions of dollars have been disbursed. This situation has yet to arise, but it inevitably will, and how the MCC acts will be indicative of its real commitment to performance-based funding.

Corruption and transparency

30. The issues of performance-based funding and program suspension are often closely related to corruption. Not all poor performances are a result of corruption; indeed, there are a wide variety of systemic issues like incompetancies or miscommunications that can lead to low performance, and it is important to take this wider context--looking at what goes wrong from the design phase to the implementation phase--into consideration when assessing program continuation. Still corruption is often a reason for suspension, and agencies need to better systematize how to identify and respond to it.

- Transparency should be the top priority. The more problems are concealed the more problems arise. Full transparency is always difficult, but it may be somewhat easier for multilateral organizations since bilaterals risk having political enemies use information against them.
- Improving accountability requires an established system for organizing and tracking what is happening within the program.
- Using independent monitors and watchdogs can help bring problems to light and get information to citizens in an accessible way. A free and independent media can be an effective monitor.
- Developing skills and capacity to manage is critical. Because corrupt actors take advantage of a lack of expertise, training is necessary to enable better identification of attempts at corruption.
- Including all stakeholders in resource planning, allocation, and monitoring is important to encourage a broader understanding of and commitment to a functioning system.
- Systems for planning, receiving, and monitoring should be assimilated into domestic governance systems. Parallel structures pull expertise away from the government, leaving it more vulnerable to corruption and emphasizing accountability to donors rather than to citizens.
- Detailed information about how much money is distributed, when and to whom should be published regularly.

31. Excessive or overly strict rules and operating procedures compromise country-ownership, but at the very least donors should have a defined set of standards and processes that clarify the following procedures:

- how to search for and identify irregularities
- how to document irregularities
- how to pursue irregularities
- how to get from prosecution to resolution
- how to be widely transparent
- how to structure the decision-making process.

Performance-based aid versus predictability

32. Volatile aid flows have long been an inefficiency of the aid system that hinders development. Performance-based aid by nature does not ensure aid sustainability. It does, however, address predictability, at least for the implementing agencies, in that mismanagement will lead to a cessation of aid flows. To address the harmful effects of potentially volatile aid for the client-level partners, donors can establish a mechanism to ensure continuity of treatment for individuals, a backstop that is particularly important for communicable disease interventions in order to prevent the emergence of resistant strains.

Performance-based funding versus need

33. There is also a tension between basing aid flows on demonstrated performance and allocating funds based on need. Donors do attempt to coordinate the two views, but they cannot be reconciled in all cases. The humanitarian view says funds should be directed where they are needed most. The performance-based view dictates that donors put their funds where they expect to get the highest rate of return. This may mean funding a lower-middle income country at the expense of a lower income country if funds are expected to

perform better there. This latter approach is probably more relevant for systems-based interventions like the MCC, which eliminates many needy countries through its selection process, than it is for specific health interventions like GAVI and the Global Fund.[9]

The future of performance-based funding

34. There are several suggestions for possible methods to advance performance-based funding, both within the new global programs and within the field of development finance more broadly:

- Allocate more resources to monitoring and evaluation;
- Encourage greater transparency of all donor decisions to hold them accountable to their commitment to performance-based funding;
- Create an overarching independent evaluation entity that donors can collectively use;
- Incentivize donors to measure results and take action on them, perhaps through a league committee for donor integrity or by establishing international prizes for whistle-blowing;
- Extend the idea of payments for progress to a broader level.

Sustainability: Outcomes versus systems development

35. A fundamental question surrounding the new performance-based financing initiatives is how their specific goals relate to sustainable systems development. MCC tries to reconcile these two ideas by focusing on outcome goals that are tied to the generation of growth with the overriding purpose of generating higher tax receipts and aiding longer-term systems development. But the tension between narrowly defined targets and building institutions remains. For instance, how does building a road to a rural community build longer-term institutions? For health programs, how does targeting quick-win interventions—immunizations, bed nets, or ARVs, for instance—integrate into national health systems? Should global programs dedicate themselves to systems development? The priority of short-term versus long-term can depend on country context. In high HIV prevalence countries, for example (or in countries on the verge of high prevalence), the sense of catastrophe warrants a focus on short-term ARV interventions.

36. Both GAVI and the Global Fund do invest in health systems in addition to financing specific health interventions for individual clients. For instance, around half of Global Fund money goes into generic projects like human resources, supply chain, and buildings. GAVI has recently opened a health systems funding window. However, in the longer term, the Global Fund and GAVI are not necessarily the appropriate vehicles for systems development. How to treat AIDS, tuberculosis, and malaria or how to provide vaccines is known (albeit with more to learn), and interventions are specific. The comparative advantage of global health programs is with overcoming market failures to provide these specific services; it does not lie with the long-term challenge of health systems development. Therefore the question remains: as more donors are putting money into global programs and budget support how do they ensure long run systems development? There is a need for balance between project interventions, sector interventions, and economy-wide interventions. Identifying the appropriate balance among the new organizations and their development peers will present a challenge going forward.

Aid harmonization

37. There is an increasing recognition that donors need to improve intercommunications and generate cooperative strategies that better allocate resources and avoid such pitfalls as replicating efforts, overextending in-country staff, reducing capacity by attracting top talent away from government, and crowding out existing funding, both donor and government. In this greater push for aid harmonization, where do the new programs fit in? To the extent that

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[9] The Global Fund funds both low income and middle income countries.

there is an important central objective, what comparative advantage do these new programs have, and how do they define their role in achieving broader development goals? Who determines their comparative advantage? The search for defining roles highlights a need for stronger feedback on who does what best, perhaps from client surveys.

38. The health sector is one where there is a role for different donors with different comparative advantages since, as discussed above, specific interventions may require mechanisms and approaches different from those required for long-term sustainable systems development. There is some support for the idea that organizations like GAVI and the Global Fund have a comparative advantage in focusing on catalytic interventions, and the challenge of long-term health system development should be met by organizations like the World Bank that have a sufficient in-house capacity, the ability to focus on the intellectual challenges of systems development, and a longer term mandate to support countries.[10]

39. More broadly, there are several suggestions about how to better harmonize the aid agenda in the face of a proliferating field. Fewer, larger streams of financing may help reduce competing demands (while at the same time reinforcing the need for country ownership in order to avoid the threat of a hegemonic donor). To some extent, global programs address harmonization in this way by pooling funds from various sources into one program with one set of procedures. Some, for example the Netherlands, even argue that all bilateral donors should cease individual health and education programs and instead direct funding to those sectors through dedicated global programs, though this is unlikely to happen in the near future. Even without pooling funds, joining accountability structures could also provide an improved way to identify and address areas of excessive replication.

40. Developing countries can also take certain actions to encourage aid harmonization. Ministers can work to design projects that avoid replication. To do this, there must be a set structure and process to facilitate continual communication with and among donors within the country. More fundamentally, developing countries need to take a harder line with donors to reduce the burden of replication. Donors may be willing to change their behavior under the appropriate kinds of pressure, particularly as rhetoric turns more toward both country ownership and a greater emphasis on harmonization.

Funding

41. The new global programs are innovative in terms of how money is spent, but to what extent do they represent a departure from the standard development financing paradigm in attracting new money? There are typically three funding constraints that development finance institutions face: underfunding (relying heavily on big grants from bilateral donors simply does not yield enough money); short-term funding; and volatile funding. Innovations in revenue raising are important for the sustainability of programs. The focus on multi-year commitments is a step in the right direction. The need for long term funding is particularly acute for the Global Fund since ARV treatment should continue until the death of the beneficiary.

42. Innovative new global programs are helping to energize donors with the (as yet unproven) promise that money will be better spent. Attracting new money is important for the organizations' sustainability. The question is whether they attract truly additional funds or if they are merely reshuffling the current available resources. Several new innovations by global programs—the Global Fund, GAVI, and others—seek to tap into potential new sources of funding.

[10] See Alexander Shakow, "Global Fund – World Bank HIV/AIDS Programs Comparative Advantage Study," January 2006.

- Foundation funding. New philanthropy has been a source of large sums of development money in recent years. The bulk of foundation money may continue to accrue to certain social sectors like health or education, however, with less to others.
- Levies. The benefit of levies is that they are long term and predictable. UNITAID (the French duty on airline passengers to fund an international drug purchase facility) is for a new mechanism for this type of fundraising. There is potential discussion of an additional international development levy on the banking sector, perhaps on currency transactions. Compared with a $2 billion airline industry, the $100 billion banking sector has potential to offer increased new levels of funding.
- Bond market. Bonds guaranteed by the donor market can be an efficient way to provide frontloaded, predictable financing. The International Finance Facility for Immunization (IFFIm) is a new development financing instrument that is supported by sovereign donors (currently the governments of Brazil, France, Italy, Norway, South Africa, Spain, Sweden and the United Kingdom) which will fund the GAVI Alliance. IFFIm has shown good initial market success.
- Advanced market commitments. Donor countries or organizations commit to buying vaccines or drugs if and when they become available to encourage commercial investment in the development and production of products that otherwise would not be developed. GAVI used increased interest in market commitments for vaccines to raise funds.
- Private sector commitments. The Global Fund tapped into business profitability with Product Red, a brand line sold by various merchandisers who commit a percentage of profits from the sale of Red products to the Global Fund.

43. In addition to specific efforts to generate money, global programs are attempting to build more public awareness and support which could potentially lead to higher future contributions. The Global Fund's "Friends of the Global Fund" network, the One Campaign, and the Initiative for Global Development in Seattle, a group that recruited CEOs to lobby the US Congress on issues of global poverty, are all examples of recent efforts to mobilize non-traditional constituencies to increase interest in funding.

44. In addition to new sources of funding, global programs are looking for other ways to ensure predictability of aid flows for multi-year programs. Typically, developing country partners need to be able to plan for the long term, but donors are set up with varyingly flexible annual appropriations. The new organizations must identify this constraint and implement ways to work around it. The Global Fund has a comprehensive funding policy that obligates it to have all funds for the entire lifecyle of the project in the bank at the time of signing to ensure funding. It also keeps $4 billion in cash balances which is viewed as high for a grant giving organization, but necessary for an organization that acts as a pension supplying services for a lifetime. In a highly unusual practice for the US government, MCC commits up front all funds for multi-year compacts. This ensures funds are not altered during annual aid appropriations, which increases the incentive to qualify for MCC grants.

45. Despite new initiatives to raise money and policies to ensure financial commitments, long term predictability of financing is not resolved in the new global programs nor in development finance generally.

The future of the new organizations

The need for more evidence

46. Though the new development finance structures are widely presented as innovative, they are still in their early stages. Though some initial studies indicate early successes, there is still a need for more information gathering to provide further empirical evidence that they are working, since not enough time has yet passed for sufficient evidence to accumulate definitively one way or the other. That empirical proof is thus far only preliminary does not imply that the new mechanisms should proceed slowly until further substantiation arises, as

this would have devastating effects in some cases, particularly for interventions that target communicable diseases. It does mean that there is a need for organizations to continue to build strong evidence bases as they work in order to demonstrate their effectiveness. The ability to claim evidential impact will be critical for the future of the organizations, particularly as they face leadership changes, both at the organizational level, and in the case of MCC, at the governmental level. In gathering data, particular attention should be paid to what outcomes are actually generated, both short-term outcomes and systemic outcomes, and what impact country ownership and donor absence have on development outcomes.

New global programs

47. There is some rationale for creating new global programs. There are recognized failures within the existing system, and there is some evidence of early success with the new programs. More empirical evidence of effectiveness is desired to judge better the need for new programs, but in light of the debate on the difficulties of harmonization does adding yet more donors make sense? The OECD Development Assistance Committee (DAC) is currently developing guidelines to help decision makers make choices about whether to set up new global programs. Starting a new fund is a big decision and there should be a process to determine if there is really a need for global action, and if so, whether the need necessitates a new organization, or whether an existing organization can address it. What remains undefined is the mechanism that DAC or the broader aid community could use to reach agreement on either of these two questions. Similarly, there is little consensus on what new global programs should look like. To date, they have been relatively focused, but should they focus more broadly, perhaps in an attempt to contribute to systems development in addition to specific outcomes? Futhermore, will setting up new global programs actually generate additionality in aid money or will they just cause a reshuffling of existing and finite development dollars? Global programs can potentially draw in new money because they are more marketable than bilaterals, but the extent to which they can do so depends heavily on new sources of funding, particularly new foundation funding.

Balancing innovation with risk

48. The degree to which the new and future development finance organizations can continue to innovate and the degree to which governments and foundations are willing to increase development resources to innovative ideas depend in large part on an alteration of funders' appetite for risk. Government donors typically have very low tolerance for failure for fear of political backlash. Foundations are so far less risk averse, so again, the availability of new sources of funding, particularly new foundation funding, will prove important for maintaining innovation, at least at the multilateral level. What may be needed more broadly is a conceptual shift towards thinking about development finance as venture capital. This assumes that donors will lose money on many investments, break even on several more, and have a big impact on a select few, the gains from which make the overall effort successful.

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