

# The Role of Global Funds in a Post-2015 Development Framework

## Frequently Asked Questions (FAQs)

Issue Brief

Prepared by the SDSN Secretariat

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*The recently released SDSN Working Paper [Financing Sustainable Development](#) reviews the experience of Global Funds, particularly in the health sector, and draws lessons on their role in financing the Sustainable Development Goals (SDGs). These FAQs summarize key findings from this research. References and supportive evidence of the answers are provided in the Working Paper. Citations of this Issues Brief should refer to the Working Paper.*

### I. WHAT ARE GLOBAL FUNDS?

Global Funds are multilateral, pooled financing mechanisms that tend to either focus on a specific set of investment needs (“vertical funds”) or a broad range of investment needs (“horizontal funds”). The central principle of Global Funds is that they receive funding in the form of grants or loans from a large number of providers and invite recipient countries or organizations to submit funding proposals. In this way Global Funds reduce the number of interfaces a recipient government has to deal with (see also Question II). Notable examples of the vertical funds include the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM) and the Global Alliance for Vaccination and Immunization (Gavi). Examples of horizontal funds are the International Development Association (IDA) and certain concessional windows of the Regional Development Banks.

### II. WHAT ARE THE ADVANTAGES OF GLOBAL FUNDS?

Well-designed Global Funds, notably Gavi and the GFATM, have proven highly successful in promoting rapid improvements in development outcomes. The health sector would not have achieved the same rates of progress without these two financing institutions. The key advantages of Global Funds relative to large numbers of fragmented bilateral and multilateral programs include their ability to:

- 1. Promote national ownership and effective country-led programs.** Large-scale funding that is provided competitively on the basis of country-led programs developed by national governments, will improve the organization, quality, and national ownership of such country programs. Experiences in the health sector and elsewhere show that when countries can apply for large-scale pooled funding, the responsible line ministry becomes a potential source of significant volumes of predictable funding, which can in turn foster effective cooperation with finance and other ministries. Open and competitive processes of 'demand discovery' can mobilize unprecedented efforts on behalf of governments as well as civil society to ensure the success of these programs, particularly when national multi-stakeholder mechanisms, such as the GFATM Country Coordination Mechanism (CCM), mobilize and coordinate government and non-government actors. The large number of current and former government leaders who have signed up as Global Fund Advocates is a powerful testament to the GFATM's success in fostering national ownership. Such country leadership and ownership simply cannot be mobilized through a series of small-scale aid programs – as remains the dominant practice in education, water, and many other sectors.
  
- 2. Ensure technical integrity, rapid learning, and efficient knowledge transfer.** Global Funds can develop robust systems to ensure independent high-quality technical appraisals of funding proposals. Well-designed funds have also proven to be very effective at ensuring rigorous Monitoring and Evaluation (M&E) and provide excellent fora for rapid learning and knowledge transfer across countries. Countries whose proposals do not meet transparent technical standards can learn from successful programs. Since this learning is tied to the prospect of mobilizing adequate resources to implement programs at scale, the operational knowledge and high technical standards can propagate very quickly. For example, before the GFATM was established not a single African country had an effective national-scale malaria control program in place. Now virtually all malaria-endemic countries do, thanks to the tremendous learning and knowledge transfer made possible through large-scale funding by the GFATM. Similar progress has been achieved in other infectious diseases and immunization, thanks to Gavi. Such learning has not happened at the required scale and pace in many sectors that lack effective Global Funds. Efforts to develop systems and strengthen capacity that are not tied to mobilizing the resources needed for large-scale implementation tends to be much less effective.
  
- 3. Empower goal-based strategies.** Closely related to the previous two points, Global Funds, when able to mobilize significant resources, empower stakeholders at local, national, and global levels to shift from a focus on the marginal expansion of infrastructure and services towards goal-based development strategies that can "shift the needle". They can help an entire sector focus on working backwards from ambitious goals to outline specific strategies, resources, and systemic infrastructure needed to achieve those goals. Where such mobilization has occurred, pooled financing mechanisms have typically played an important role.
  
- 4. Reduce transaction costs and minimize duplication across funding sources.** By reducing the number of funding sources and their associated interfaces, reporting requirements, and financial flows, Global Funds can reduce fragmentation and transaction costs on provider and recipient sides alike, which in turn improves aid

effectiveness. The alternative is that recipient countries have to deal with dozens of aid programs from bilateral and multilateral donors, South-South Cooperation, foundations, and other development partners.

- 5. Improve the allocation and predictability of aid.** Multilateral funding mechanisms are less influenced by political considerations in the allocation of funds than bilateral mechanisms. This allows Global Funds to better allocate funding according to countries' needs and ability to spend, rather than based on historical and geopolitical relationships between donor and recipient countries. In addition and in contrast to many bilateral aid programs, most Global Funds provide predictable funding over several years. Such predictable funding is critical for the effective programming of resources and public financial expenditure management, particularly in the social sectors where recurrent salaries and other operating expenditures require visibility over available resources, so that policy-makers can be confident in strengthening and expanding delivery systems.
- 6. Promote transparent use of scarce resources.** Well-designed Global Funds have a strong track record in promoting rigorous monitoring and evaluation to ensure transparent and effective use of scarce domestic and international public financing. They track and evaluate disbursements and their impacts to promote learning, reduce the risk of fraud, and ensure funds are used efficiently and effectively. Such transparency is much harder to achieve through large numbers of poorly coordinated bilateral programs.
- 7. Mobilize civil society and become an important global advocate for increased domestic and international financing.** One of the greatest strengths of Global Funds is their potential to mobilize local and international civil society around shared objectives. The funds and supporting civil society organizations thereby become major global advocates for increased financing from domestic and international sources. Global Funds in the health sector have established explicit standards for domestic resource mobilization and have mobilized additional resources from donors and other providers. Other pooled financing mechanisms can play a similar role by helping raise the global visibility of the issues, demonstrating the feasibility of rapid progress, and establishing a clear ask for additional resources. Without such sustained advocacy it may not be possible to increase international and domestic resources to the levels needed to achieve the SDGs.
- 8. Engage business to accelerate innovation and mobilize private finance.** Implementing the SDGs will require financing for technology research, development, and diffusion. Global Funds can provide an effective interface for business to invest in innovation and new technologies. For example, Gavi has successfully worked with businesses to create new markets for vaccines that would otherwise not exist. Similarly, GFATM has enabled the rapid development and deployment of new health technologies through business. Such progress would not have been achieved through large numbers of small aid programs. Partly as a result, sectors such as education that lack a large-scale Global Fund have not been successful in mobilizing businesses around technological innovation.

### III. WHAT ARE COMMON CRITICISMS OF GLOBAL FUNDS?

As explained in response to Question IV, Global Funds do not work in every area. Moreover, some Global Funds are poorly designed (c.f. Question V) and have therefore rightly come under criticism. General criticisms that are leveled against Global Funds typically fall into six broad categories:

- 1. Global Funds add a layer to the global financing architecture, creating additional transaction costs.** However, the opposite will be true if providers agree on a small number of well-designed multilateral pooled financing mechanisms. The transaction costs of passing through a single or minimal number of mechanisms are vastly lower than dealing with dozens of bilateral and multilateral arrangements. Large numbers of often inadequately funded Global Funds – as is the case in the area of climate finance today – are not advisable. They should be merged into a smaller number of mechanisms. A related concern is that Global Funds add additional institutions, but in almost all cases existing mechanisms can be scaled up to become the Global Funds of choice. As one example, the Global Partnership for Education (GPE) offers a mechanism for pooled funding that can be scaled up to become the Global Fund for Education.
- 2. Vertical funds promote overly specific programs at the expense of systemic change.** In particular, the GFATM's focus on three major diseases has been criticized for undermining the strengthening of horizontal health systems. This important criticism can be addressed in two ways. First, well-designed vertical programs are critical for mobilizing stakeholders, sharing experiences, and sharing lessons on scaling up. Many disease-specific programs have been highly successful in saving lives. Second, several independent evaluations have shown that the GFATM has made very positive contributions towards the strengthening of health systems. The Fund would like to do much more through its health systems financing window, but it lacks the resources to support health system strengthening at scale. So this criticism should really be leveled at providers instead of the GFATM, some of whom are promoting the creation of new health financing mechanisms instead of scaling up what works to ensure greater coherence.
- 3. Global Funds work only for purchasing international commodities.** The success of the GFATM and Gavi has led some to conclude that Global Funds only work for procuring international commodities, such as vaccines and HIV/AIDS treatment, but cannot support operating expenditure in health systems or education. Yet, this criticism misunderstands the experience of the GFATM and Gavi, which have been very successful in supporting system-wide innovations in health delivery, including operating expenditure. There is no reason why Global Funds cannot support systems delivery beyond commodities.
- 4. Global Funds cannot raise more funds since provider countries prefer bilateral mechanisms.** Parliaments in provider countries often find it easier to mobilize taxpayers' resources if the funds are disbursed through national institutions, which afford greater control over the use of resources and allow aid to be tied to specific foreign policy and commercial interests of the provider country. This preference for bilateral mechanisms is a

reality in many provider countries but in itself it is not a case against Global Funds. Fortunately, the GFATM and Gavi have shown how the strong track record of Global Funds backed up by rigorous monitoring and evaluation can give governments and their tax-payers greater confidence to channel more resources through pooled mechanisms. A powerful illustration of this shift in the attitudes of governments and the public is the positive reaction of the British media, which can be highly critical of development assistance, to the UK's 2013 announcement to more than double its previous GFATM pledge.

5. **Global Funds are vulnerable to corruption.** This particular argument has been raised against the GFATM following media reports of fraud and misuse of funds in a handful of recipient countries. However, independent evaluations have found that the GFATM is highly transparent about the fraud it uncovers, that it has effective control mechanisms in place, and that the scale of corruption was exaggerated. While losses from corruption will always be a risk, no case can be made that well-designed Global Funds have poorer oversight than a larger numbers of small-scale mechanisms. In fact, the opposite is surely true because the transparency and reporting conditions tend to be higher.
6. **Global Funds shift the focus away from domestic resource mobilization in recipient countries.** The motivation for Global Funds is not to replace domestic resource mobilization, but to increase the effectiveness of international financing where it is needed. Large Global Funds can strengthen domestic resource mobilization by insisting on adequate domestic co-financing. For example, the GFATM's new funding model includes mandatory counterpart financing requirements and uses 'willingness to pay' as an important criterion in determining the volume of funding a country can apply for. So Global Funds are a promising mechanism for strengthening domestic resource mobilization and allocation.

#### **IV. WHEN ARE GLOBAL FUNDS APPROPRIATE AND WHEN ARE THEY NOT APPROPRIATE?**

Global Funds are not adapted to all contexts and financing needs. Global Funds are most likely to be effective mechanisms when:

- **Funding is needed for national programs or systems, rather than for projects.** Helped by their ability to make available macro-economically significant volumes of financing, Global Funds are an effective mechanism for focusing attention on the design and implementation of national-scale programs such as malaria control, and supporting domestic resource mobilization. Conversely, Global Funds are poorly suited to fund individual projects that are highly site-specific, as tends to be the case in infrastructure. In such cases, institutions with a banking license and other specialized financiers are better able to provide the full suite of financing services required.

- **ODA needs are substantial, particularly for operating expenditure.** The purpose of Global Funds is to pool concessional and, where possible, non-concessional finance. So they work well in areas and countries where substantial international co-financing is required around national programs. Examples are health, education, smallholder agriculture, and access to basic infrastructure. In contrast, areas that are dominated by technical assistance, such as governance and public financial management systems, are less suited to Global Funds. Similarly, standing Global Funds have not proven successful as a tool for supporting emergency operations.
- **A broad range of stakeholders need to be mobilized, including the private sector.** As demonstrated in the health sector, Global Funds can effectively mobilize business, civil society, and other stakeholders around global initiatives. They offer tremendous benefits in areas where significant technological progress is possible and can be delivered in part through business, or where civil society must be mobilized to improve public awareness and understanding (e.g. to address the stigma surrounding sexually-transmitted diseases).
- **The international development finance architecture needs to be harmonized.** The proliferation of both bilateral and multilateral financing mechanisms, as is the case in climate mitigation and adaptation financing, is inefficient and counterproductive. By offering governments a 'single number to call,' well-designed Global Funds can support national ownership, a focus on results and greater coherence to the global finance architecture. This can be achieved by absorbing existing funds into a single mechanism.

## V. HOW SHOULD GLOBAL FUNDS BE DESIGNED?

To be effective Global Funds must be well resourced and well designed. Key design criteria include:

- **An independent multilateral organization with a diverse, high-profile, multi-stakeholder board** comprising provider and recipient governments, civil society organizations, and the private sector. Board members should be high-profile individuals or representatives of major institutions to provide effective guidance and support to the mechanism.
- **Clearly defined funding windows** to mobilize key constituencies, promote comparability of country proposals, and thereby enhance learning and reduce transaction costs.
- **A 'demand-discovery' approach and independent technical review of programs.** Global Funds should select country proposals on a competitive basis through an independent technical evaluation process. The evaluation of proposals needs to be based on sound, transparent technical criteria, so that countries learn quickly how to improve their programs and are driven to innovate. Of course such competitive processes should take into account countries' different needs and abilities to provide high-quality programs, e.g. through dedicated windows for fragile countries or countries experiencing conflict.

- **Transparent and rigorous monitoring and evaluation** processes to identify lessons learnt, ensure sound use of public resources, and track results achieved. The success of Global Funds in health is in significant part attributable to their data-driven orientation and the resulting availability of hard data substantiating their effectiveness.
- **Multi-annual replenishment**, to provide predictable funding. Ideally, replenishment rounds should be coordinated with other pooled financing mechanisms.
- **Innovative delivery mechanisms**, notably by allowing the disbursement of funds to a broad range of partners. National and local governments, civil society organizations, and possibly businesses should be eligible for funding if they demonstrate effective use of resources and innovation. Intermediate recipients, such as international organizations, should be avoided where possible to reduce transaction costs and delay.
- **Effective private sector windows** to help mobilize private co-financing and business expertise in developing and rolling-out improved technologies.

## VI. WHAT IS THE ROLE OF GLOBAL FUNDS FOR FINANCING FOR DEVELOPMENT (FFD)?

The Addis Ababa conference on Financing for Development (FfD) should adopt a financing framework to support the achievement of the Sustainable Development Goals. To this end the Monterrey and Doha principles for FfD must be updated and expanded – the current focus of the negotiations. However, Addis must also launch concrete financing initiatives to demonstrate that the international community is serious about implementing the SDGs. In several areas only Global Funds can ensure the focus and organization needed to mobilize adequate volumes of international financing to complement domestic resources and to promote the learning needed to scale up complex national investment programs. For this reason the SDSN recommends that Financing for Development consider three priority Global Funds that do not require the creation of any new institutions:

- **A Global Fund for Education.** Building on the Global Partnership for Education, a Global Fund for Education is vital if the world is to achieve the ambitious education goals enshrined in the SDGs. Just like the MDGs have supported a step-change in international support for health, the SDGs must do the same for education. In order to help close the international financing gap of \$22 billion for early childhood, primary, and lower-secondary education, the Global Fund for Education should aim to disburse some \$15 billion per year by 2020.

- **A Global Fund for Health Systems** building on the GFATM and Gavi. Having made great inroads into fighting infectious diseases and promoting vaccines under the MDGs, the SDGs have rightly shifted the focus towards strengthening health systems. This broader focus will require increased international resources for health systems of perhaps \$10 billion per year by 2020 to be disbursed through a Global Fund for Health Systems that builds on and could be combined with the GFATM and/or Gavi.
- **A Global Fund for Smallholder Agriculture and Nutrition.** The scale of available public-private financing is insufficient and too fragmented to support smallholder farmers, fishers, and pastoralists to increase their productivity and improve market access. Greater emphasis is needed to promote the adoption of sustainable farming systems that are nutrition-sensitive and climate-smart. The International Fund for Agricultural Development (IFAD) or the Global Agriculture and Food Security Program (GAFSP) should therefore be transformed to become a Global Fund for Smallholder Agriculture and Nutrition, with a substantial increase in annual outlays to some \$10 billion per year by 2020. The fund should partner with the private sector to create effective public-private initiatives.

Of course the FfD agenda is much broader and must address many other issues as well. Yet, it should also focus on launching these and other Global Funds during 2015 in order to lay the foundation for goal-based financing in support of key SDG priorities. Without such mechanisms it is difficult to see how the underlying SDGs can be met.