

## **Report: Experts meeting on Vertical Funds 26 June 2008**

On 26 June 2008, Eurodad hosted a meeting to discuss the effectiveness and direction of global vertical programs. The meeting was timely as the development world has been characterized over the past decade by a proliferation of new players such as private foundations, non-DAC bilateral donors and sector-specific vertical programs. According to some estimates, there are currently over 230 international organizations, funds, and programs – more instruments than the number of developing countries they were created to assist.<sup>1</sup>

### **The phenomenon of vertical programs**

Global vertical programs have been an important part of this proliferation, and account for about ten percent of Country Programmable Aid for the period 2003-2006.<sup>2</sup> In a draft issues paper for the upcoming Accra High Level Forum, the OECD and the World Bank define vertical programs as “international initiatives outside the UN system which deliver significant funding at the country level in support of focused thematic objectives”.<sup>3</sup> Examples of vertical programs include the Global Fund to Fight AIDS, Tuberculosis and Malaria, Global Alliance for Vaccines and Immunization (GAVI), the Education for All-Fast Track Initiative (EFA-FTI), and the President’s Emergency Plan for AIDS Relief (PEPFAR), all of which date from the last decade.

The rise of vertical programs has led to a range of responses within the development community. Critics claim that they contribute to the fracturing of aid, a lack of donor harmonization on the ground, and the weakening of in-country systems. Proponents argue that the emergence of vertical programs has resulted in unprecedented amounts of money and attention for needy causes, and that such programs have already proven to be effective, focussed financing vehicles with impressive results.

The purpose of the meeting was to analyse the current status and direction of vertical programs. Are vertical programs truly beneficial to the global causes they seek to support, or are they simply the path of least resistance which avoid some of the more difficult complexities of sustainable development? How do these new mechanisms compare against aid effectiveness principles?

### **Sector-specific considerations**

The meeting was divided into three parts: a panel discussion on vertical programs in the health sector, a panel discussion on vertical programs in the education and agriculture sectors, and an NGO discussion on how to develop

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<sup>1</sup> IDA 2007

<sup>2</sup> OECD and World Bank 2008. See <http://www.oecd.org/dataoecd/37/20/40636926.pdf> for definition of Country Programmable Aid. This percentage also includes PEPFAR, which is a bilateral initiative as well as a vertical program.

<sup>3</sup> Ibid.

consensus on the topic of vertical programs, and what our recommendations should be.

The health sector provides a good starting point for the discussion, as it is there where the proliferation of vertical funds has been the greatest. Further, this sector is being considered as a “tracer” sector in the lead-up to Accra to review aid effectiveness. The diverging views of the panel, which included two members of the NGO community and one aid official, were an indication on the lack of consensus on vertical funds and how far the thinking has to go on this topic. While the aid official considered that vertical funds are becoming more Paris-friendly and that the current debate needs to evolve, the NGO members focused more on the worrisome trends of fragmentation, lack of harmonization and whether vertical funds distort national priorities. For example, oftentimes funding for HIV/AIDS can dominate the health sector, regardless of whether HIV/AIDS mortality and morbidity rates are very high in that particular country. In several cases, malaria deaths greatly outnumber those caused by HIV/AIDS, yet funding for malaria is insignificant compared to HIV/AIDS funding.

Most agree that the addition of vertical funds has increased overall health spending. But upon closer analysis, the numbers raise numerous concerns. For example, if health sector spending has increased, why hasn't total ODA increased accordingly? Has the spending on certain diseases marginalized and diverted resources from other diseases?

Box 1 provides an overview of sector-specific trends in aid alongside the trends in overall ODA.

### Box 1: Additionality

The level of additionality of vertical funds, or the amount of funds generated in addition to pre-existing funds, is difficult to quantify. Figure 3 shows trends in aid by sector, with a clear uptick from 2000. In contrast, Figure 4 shows total ODA, minus debt relief. The rise in total ODA (Figure 4) is less impressive, particularly over the past two years. Are vertical funds responsible for the sector increases, or would these funds have been channelled through existing organizations such as the World Bank and the United Nations organizations? More importantly, why hasn't total aid increased overall?

Figure 3: Trends in Sector-Specific Aid

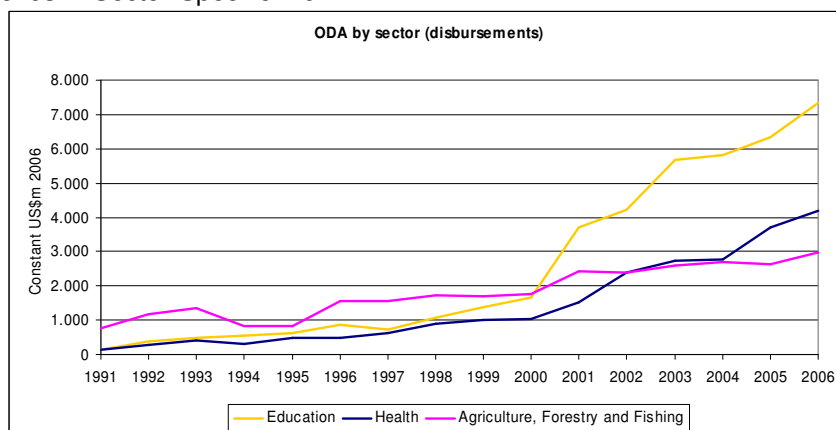
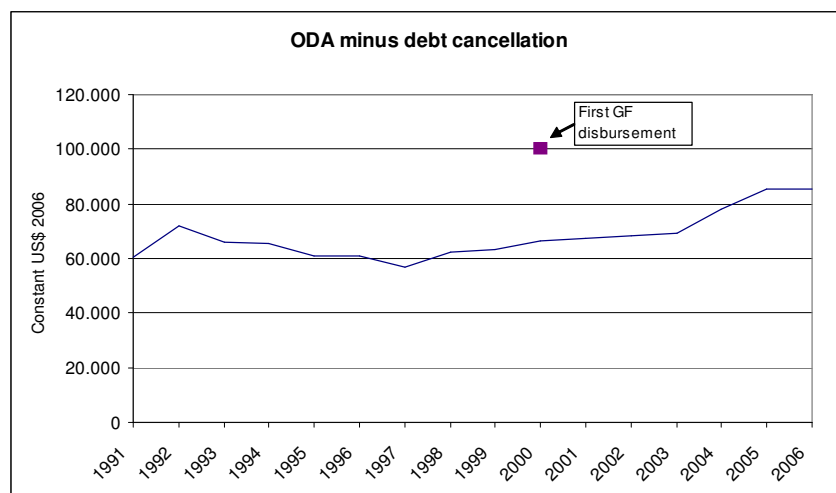


Figure 4: Trends in Total ODA



Source: OECD

The agriculture and education discussions provided interesting comparisons to the health sector. Agricultural aid can be very effective and has high returns, yet funding to this sector has almost collapsed. Agriculture is complex as it involves numerous other sectors such as health and education and aid to it is oversimplified. Further, the current agricultural institutions, such as the FAO as well as local ministries of agriculture, are generally weak.

In light of the current food crisis, attention has been refocused on this sector, and the proposals on how to proceed and what to fund are multiplying. Jeffrey Sachs has famously called for a new agricultural global fund, and

others consider the World Bank best placed to take the lead in agricultural funding. Clearly, the situation requires strategic thinking on how best to increase funding to this sector while allowing partner countries to dictate their own priorities.

Education presents a more straightforward sector in terms of funding, and the Education for All – Fast Track Initiative has incorporated many aid effectiveness principles into their operations. Whilst this has been a global initiative, it has been quite responsive to and aligned with country education strategies. That said, the fundraising has been disappointing, particularly where partner countries have kept up their part of the deal and produced the required education plans. And the growing importance of the FTI “catalytic fund” which provides an infusion of cash to assist in the development of education plans and which can be considered a vertical fund, risks skewing the balance away from supporting a country-led model.

### **Evolving debate**

Given the variations by sector as well as the variations between donors, it is clear that global programs cannot all be fit into the same box. More and more, people are talking about methods to harness the benefits of vertical funds while avoiding some of the more problematic aspects. The World Bank concludes that: “...neither global programs nor country programs alone are a panacea to development assistance issues – they have to be conceived, designed and implemented in tandem”.<sup>4</sup> Some even consider the terms “vertical” and “horizontal” to no longer be relevant in discussing the current state of development actors.

Many vertical programs are openly aware of the criticisms and problems associated with the vertical approach, and are taking steps to better integrate with country systems and become more “Paris-friendly”. The Global Fund, who is part of the Global Programs Learning Group, and the GAVI Alliance have both signed the Paris Declaration and can be considered among the more enlightened global programs when it comes to evaluating their practices against aid effectiveness principles. The EFA-FTI expressly focuses on alignment, harmonization and mutual accountability; as such it has fostered country ownership of plans and encouraged coordination amongst donors in-country. Finally, the International Health Partnership, a health coordination initiative launched in September 2007, appears so far to give more than lip service to aid effectiveness, by requiring donors and partners to comply with certain principles to prevent health programs from becoming too fractured and un-harmonized.<sup>5</sup>

### **Still things aren't quite right**

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<sup>4</sup> World Bank 2006

<sup>5</sup> Yet some consider that the even these coordination efforts are too numerous and contribute to the overall fragmentation and harmonization problems. *Healthy Aid Action for Global Health*, June 2008

These initiatives are welcome and applauded, and more should follow their example. Unfortunately, there are still too many global programs out there that operate in a vacuum. Further, the tendency to add more programs, without fixing what already exists, is still too prevalent.

One of the biggest and most controversial programs out there is PEPFAR. Announced in 2003 by U.S. President George W. Bush, by 2004 it had already disbursed US \$8 billion, more than the amount disbursed by the Global Fund since its 2002 inception (US \$5.6 billion). Besides the fact that PEPFAR openly prioritizes the policies and values of the United States government over that of the needs of partner countries, it generally side-steps existing country systems, restricts the information on its funding available to the public and, although it also funds the Global Fund, most of its funding is channelled through NGOs and parallel institutions.

In 2005, PEPFAR disbursed 54 percent of its funding to faith-based organizations, non-governmental organizations and private contractors, compared to 23 percent to the host government. <http://www.state.gov/s/gac/progress/other/data/partners/60363.htm>

For such a large donor, these failures have serious repercussions on country health systems around the world, and detract from PEPFAR's notable accomplishments.

In 2006, the Center for Public Integrity sued the U.S. Department of State to gain access to PEPFAR's funding data, at that time unavailable. Upon being granted access to this data, CPI noted several instances of erroneous accounting whereby the amount granted to the primary partner was less than ultimately received by the sub-recipient, which in effect inflated the total grant amounts and rendered the data almost useless.

Another trend that continues to be worrisome is the knee-jerk reaction of announcing a new fund, initiative or other such development mechanism for PR value or other less-than worthy incentives. One participant argued that all too often, vertical programs play to the worst instincts of public figures, including politicians, and do not include the long-term strategic thinking that is required for effective and sustainable development. There was general agreement that in response to the ongoing global food crisis, Jeffrey Sachs' call for a global agriculture fund<sup>6</sup> is not the direction to take on the issue given the complexity of the sector that must be coordinated holistically at the country level.

### **The future of aid**

Vertical programs are a reality of the development aid field, and their benefits should not be too quickly discarded. The following are some areas where participants in the meeting generally agreed that the vertical approach appeared appropriate:

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<sup>6</sup> See <http://blogs.iht.com/tribtalk/business/globalization/?p=712> and <http://www.eurodad.org/whatsnew/articles.aspx?id=2266>

- The provision of global public goods, or goods that the public sector by nature under-provides, such as clean air and infectious disease prevention.
- In one-off situations, such as a rapid vaccination campaign.
- For fundraising and public awareness-raising at the global level.

Still, the question remains: why, when so many new programs are being created, are none being closed down? The advice from the World Bank and the OECD to those who are considering a new vertical program is to “think twice” whether such a new initiative has any value added.

Meeting participants made a more direct suggestion for new funding initiatives: for every new initiative, two existing, malfunctioning ones must be shut down. We have long reached saturation point and, in order to rationalize the system, we must critically review the existing structures as well as call for a moratorium on additional funding mechanisms that do not meet any of the three criteria listed above.

In the lead-up to Accra, Doha and the MDG Summit, there is still more thinking to be done on vertical funds. How do we get more aid money without another vertical fund? It is a complex question that ultimately revolves around messaging. Participants recognized that vertical funds provide a “neat” message for politicians, the media and the public alike. But that we need to closely look at the alternatives to vertical funds, how to reinforce these and make them attractive. These alternatives, which may involve incremental steps and systems strengthening with not such a narrow focus on results or outputs, need to be presented to the public as a viable and sustainable option for development.

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