



The Global Fund to Fight AIDS, Tuberculosis and Malaria: Progress, Potential, and Challenges for the Future

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GLOSSARY:

Country Coordinating Mechanisms (CCMs): country-level associations that develop and submit grant proposals to GFATM, choose one or more of its members as a Principal Recipients, and monitor program implementation. CCMs are comprised of representatives from government agencies, NGOs, community- and faith-based organizations, private sector institutions, individuals living with HIV, TB or malaria, academics, and bilateral and multilateral assistance agencies.

Technical Review Panel (TRP): an independent panel of 23 health and development experts that reviews all applications for GFATM funding for technical merit and scientific rigor. The TRP rates proposals and recommends to the Board that proposals either be approved without condition, approved with conditions, resubmitted with revisions, or not approved. The TRP's recommendations are non-binding.

Principal Recipient (PR): an organization designated by the CCM to implement the programs that the CCM proposes to GFATM for funding. PRs are legally responsible for implementation, disbursing funds to and overseeing sub-recipients, program results, monitoring and evaluation, and financial accountability in a recipient country. There may be multiple public and/or private PRs in a country.

Local Fund Agent (LFA): an independent organization contracted by the Global Fund Secretariat to assess the capacity of the Principal Recipient to assume financial and programmatic accountability prior to signing a grant agreement. The LFA also provides independent oversight and verification of progress and financial accountability.

I. Introduction

The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) was founded in late 2001 to help finance the global battle against three devastating diseases that together kill more than 6 million people per year around the world. The Fund's formation was the result of growing recognition that the international community had responded too slowly and with too little financial commitment to effectively fight these diseases. The momentum for establishing a new fund began to grow at the G-8 summit in Okinawa in July 2000, where heads of state agreed to "implement an ambitious plan on infectious diseases, notably HIV/AIDS, malaria, and tuberculosis."¹ The World Health Organization's Commission on Macroeconomics and Health provided evidence of the detrimental impacts of the three diseases (and others) on economic development and poverty reduction and called for reforms within the health sectors of low-income countries coupled with massive new financial resources to combat the diseases (WHO, 2001). African leaders called for greater resources to fight HIV/AIDS, TB, and malaria at a summit in Abuja, Nigeria, in April 2001, and UN Secretary General Kofi Anan specifically called for a new fund dedicated to this purpose.² The UN General Assembly's Special Session on AIDS in June 2001 committed to forming a new fund. The G-8 heads of state, during their summit the following month in Genoa, Italy, agreed to launch a fund by the end of that year and provided an initial financial commitment of \$1.3 billion.³

The Global Fund represents a dramatic change in the international community's approach to fighting the three diseases, in two ways. First, GFATM has the potential to provide a substantial increase in financing to poor countries that could make a significant difference in turning the tide against the three diseases. Second, it could dramatically change the way that the international community delivers foreign assistance, both for health interventions and possibly for other development programs as well. GFATM's structure differs from traditional aid institutions in several significant ways, including its open and participatory approach that goes well beyond the standard donor-government relationship, its focus on recipient-driven strategies and building local capacity, its small bureaucracy, and its promised focus on performance. To the extent it effectively delivers aid that achieves documented, cost-effective results, GFATM could alter the way that other donors deliver foreign assistance in the future. The Global Fund has grown very quickly in its first two years: as of June 2004 it had approved funding for 227 programs in 122 countries – a larger country profile than almost any other donor -- with signed two-year grants totalling \$1.3 billion.

GFATM's success, however, is far from assured. It faces many challenges, including raising sufficient financing to sustain current programs and initiate new ones, speeding its disbursement process, overcoming capacity constraints in recipient countries, maintaining

¹ "G-8 Communique Okinawa 2000," paragraphs 19 and 29, www.g8.utoronto/summit/2000Okinawa/finalcom.htm.

² See the Secretary General's remarks at www.un.org/News/Press/docs/2001/SGSM7779R1.doc.htm.

³ "G8 Communique Genoa 2001," paragraph 15, www.library.utoronto.ca/g7/summit/2001genoa/finalcommunique.html.

a light administrative touch while demanding high standards, and establishing the incentives necessary to build a true performance based system. How the Global Fund and its major supporters respond to these challenges will determine the extent of its success or failure going forward.

With the Fund now two years old and preparing to face decisions later this year on renewing many of its initial grants, there is particular interest in how the Fund might be able to capitalize on its early success and introduce modifications that could further strengthen the organization and improve its future performance. This paper is focussed on that debate, and is aimed at reviewing and assessing the structure and processes of the Global Fund after its first two years. The idea is not to assess the Fund's impact on the three diseases, since it is obviously too early to undertake that kind of an evaluation. Nor is it to assess its operations from a public health point of view. Rather, the objective is to assess the Fund's strengths and weaknesses as a foreign aid mechanism, with a view to enhancing the discussions about how it could improve its performance and build on its early achievements going forward. This analysis was undertaken independently of the Global Fund, with the cooperation of the Secretariat but without financial, logistical, or other support. It aims to present an independent outside view of the Fund's progress and potential to date, as well as major challenges for the future.

The analysis presented here is subjective in nature, and necessarily so. While there are plenty of data on proposals, approved programs, and initial disbursements, there are not yet any data on the results achieved in various countries that might provide the basis for determining where systems are working well and where they are not. Instead, this analysis draws on the opinions and views expressed to me during interviews, meetings, and discussions with well over 100 people that have been involved in Fund operations from a variety of perspectives, including members of the Board, Secretariat staff, recipient country government representatives, members of Country Coordinating Mechanisms (CCMs) in several countries, Principal Recipients and sub-recipients, donor representatives (both in home offices and resident in recipient countries), Local Fund Agents, consultants, representatives of NGOs, activists, and others. Discussions were informal (i.e., there was no formal survey) and not for attribution. Participants voiced a range of views about what was working well, what was not working well, their biggest concerns, and ways in which they thought GFATM operations could be improved.

The basic conclusion is that GFATM has made substantial progress during its first two years and has come a very long way for a start-up international organization. It deserves strong international support to consolidate these gains and expand its operations further. At the same time, with some modifications the organization could be strengthened and its performance could be improved in the future. It has disbursed less funding at this point than many had hoped for. Although most of the delays can be attributed to the time necessary to establish both a new organization and new systems in recipient countries, and while GFATM's speed has improved markedly, there remains room for improvement. GFATM must find ways to create the incentives to improve the performance of Country Coordinating Mechanisms, Principal Recipients, Local Fund Agents, and other key actors on the ground. GFATM should remain a largely "hands-off"

organization that focuses on providing financing and not implementing programs, yet it should use its influence and leverage to be an agent for change to improve the operations of other actors that need to perform well if countries are to achieve significant progress in fighting the three diseases. As GFATM's Board begins to consider grant renewals later this year, it must clearly and consistently reward strong performance and reduce or eliminate funding for poor performance. With progress in these areas, GFATM has the potential to become a path-breaking foreign assistance financing mechanism that makes a significant difference in fighting AIDS, TB and malaria.

The paper is structured as follows. Section two examines some of the most common criticisms of foreign aid programs, and how the Global Fund's structure responds to some, but not all, of these criticisms. Section three briefly reviews some of the Fund's important achievements to date. Section four provides the heart of the analysis, examining seven key challenges for the Global Fund for the future. Section five explores two alternative structure for Fund operations in recipient countries, one of which proposes a reconfiguration of the roles of the CCMs, Principal Recipients, Local Fund Agents and other bodies in a way that retains (and possibly enhances) the participatory approach while streamlining the Global Fund's operations. Section six offers some conclusions and recommendations.

II. The Global Fund as an Innovative Aid Mechanism

The Global Fund was established with a very unusual structure compared to other donor agencies. The Fund's day-to-day operations are managed by a small secretariat with a staff of about 80 people in Geneva, Switzerland. It is neither a UN agency nor a multilateral organization controlled by member governments like the World Bank or IMF. Rather, it is a foundation supported by financial contributions from governments, private corporations, private foundations, and individual people. It is governed by a 23 member Board comprised of representatives of high-income donor countries, recipient countries, non-governmental organizations (NGOs), affected communities, foundations, and private companies.

GFATM takes an unusually hands-off approach compared to most donors, leaving much of the responsibility for program design and implementation to country representatives and local groups. It has no staff resident in any recipient country. Organizations and governments interested in receiving GFATM funding must submit a proposal outlining their intended program, with the proposal in most cases crafted by a local Country Coordinating Mechanism (CCM). The CCM itself is a partnership of governments, NGOs, faith-based groups, civil society representatives, researchers, and people living with the three diseases. Each proposal is reviewed by GFATM's Technical Review Panel, an independent group of experts drawn from around the world (none of whom work for GFATM) that ensures that proposed programs meet standards of scientific and technical rigor. Approval is far from automatic, with the Board so far accepting just 40% of submitted proposals. GFATM plays no role in implementing programs: the local CCMs nominate from among their members one or more Principal Recipients to receive funds and take the lead in implementing programs. GFATM sees itself as a performance-based funding program, with continued funding depending on a country achieving the results specified in its proposal.

While the Global Fund's *purpose* was driven by the imperative of fighting the three diseases, its particular *structure* resulted from the strong belief held by some of its founders that it should differ from and operate more effectively than existing bilateral and multilateral aid mechanisms. The exact contours of how it would differ were initially unclear, but there is little doubt that the major funders (including the U.S. and others) wanted a new approach. This was made clear at the G-8 Genoa summit, where the heads of state declared in their final communiqué (paragraph 16) that:

“[The fund] will operate according to principles of proven scientific and medical effectiveness, rapid resource transfer, low transaction costs, and light governance with a strong focus on outcomes. We hope that the existence of the Fund will promote improved co-ordination among donors and provide further incentives for private sector research and development.... The engagement of developing countries in the purpose and operation of the Fund will be crucial to ensure ownership and commitment to results. Local partners, including NGOs, and international agencies, will be instrumental in the successful operation of the Fund.”

The desire for something new and more effective was driven by the view that foreign aid generally, and the institutions that delivered it, had been largely ineffective in promoting broad-based development and, more specifically, in making progress against the three diseases.

Major Critiques of Traditional Foreign Aid Programs

The main criticisms of foreign aid include the following:

- Aid programs are inefficient, with large bureaucracies imposing high administrative costs on recipients (Easterly, 2002).
- Aid is misallocated. Too much aid is directed at countries that either are not the poorest countries or that do not have policies conducive to using aid effectively and enhancing development more broadly (Burnside and Dollar, 2000; Collier and Dollar, 2002).
- Donors do not sufficiently involve recipients in program design, and earmark significant funds for their own priorities, leading to a lack of local ‘ownership’ of, and commitment to, donor-financed programs.
- Donor activities are not well coordinated or harmonized, with multiple donors financing similar projects with differing design, implementation, monitoring and evaluation systems, which leads to duplication, higher administrative costs for the recipients, and less effective aid flows.
- Donors do not adapt their approach to differing circumstances on the ground in recipient countries, in effect relying on a one-sized-fits-all approach for all recipients, regardless of the quality of their governance and commitment to strong development policies (Radelet, 2004).
- Donors do not build institutional capacity in recipient countries, and instead too often go around local institutions and try to substitute for them, which ultimately undermines institutional capacity and retards development.
- Incentives are badly skewed. Donors focus on providing inputs (getting money out the door, writing reports, purchasing commodities) rather than achieving specified development outcomes, and their staffs are rewarded accordingly. Recipients know that money will continue to flow, by and large, regardless of results.
- Monitoring and evaluation systems are deeply flawed. Baseline data are rarely recorded and indicators for progress are badly chosen, so there is little systematic information about what works and what does not.

Key Differences in the Global Fund

The Global Fund was designed with some, but not all, of these criticisms in mind. Indeed, in some of the early discussions that led to the formation of the Fund, including during the early days of the Secretariat, many supporters promoted GFATM as a fully distinct alternative to traditional aid programs. This view was taken as a direct criticism of traditional programs, which in many ways it was. In turn, this created some problems, misunderstanding, and distrust between GFATM and other agencies. Eventually, however, GFATM emerged not so much as a distinct alternative that could fully replace

traditional mechanisms but as one component of *a different way to organize* aid delivery in which the Fund would provide addition financing and other agencies contribute in areas where they have specialized skills (e.g., technical assistance).

The establishment of the Fund provided the opportunity -- so far only partly realized -- to leverage its high profile, new energy, and financial contributions to streamline, better coordinate, and strengthen the operations of all the partners that are contributing to fight the diseases. Thus while the Fund will not replace traditional donor agencies, it does operate differently from them in several important ways. In particular, there are six key areas in which the Global Fund was structured to differ from traditional donor agencies and respond to major critiques of aid.

1. ***Recipient-driven, participatory process.*** The Country Coordinating Mechanism (CCM) is at the heart of the Global Fund process. CCMs include both public and private sector representatives, including the government (typically the Ministry of Health, but often also the Ministry of Finance or other ministries), NGOs, faith-based organizations, university faculty, people living with the diseases, foundation representatives, donor representatives, and private companies. Responsibility for setting priorities, designing programs, and implementing interventions lies squarely with the CCM. Recipient driven approaches require more time and patience to establish and begin implementing programs, but there are at least four reasons why a recipient driven approach is thought to be superior to a donor-driven approach:

- First, recipients are better able to set priorities in line with local needs.
- Second, recipients are in a better position to understand local constraints, resources, culture, and politics that may determine which approaches are more likely to succeed and which will not.
- Third, a recipient-driven approach should engender more local “ownership” of the activity, with stronger commitment to following through and ensuring success.
- Fourth, a recipient-driven approach should help build greater capacity and skills in recipient countries.

The CCM approach is similar to the participatory approach used in recent years in developing Poverty Reduction Strategy Papers as the basis for World Bank and IMF programs. Most other major donor programs fighting HIV/AIDS, TB or malaria (including the new U.S. Emergency Plan for AIDS Relief) do not use a recipient-driven approach, instead relying on more traditional top-down donor-driven approaches. It is important to note, however, that while a consensus has begun to form in recent years around the idea of recipient-led, participatory approaches, there is to date no empirical evidence (one way or the other) showing these approaches lead to superior development outcomes. The approach should be seen as innovative and promising at this stage, rather than based on a proven track record.

2. ***Smaller bureaucracy and lighter administration.*** The Secretariat consists of about 80 staff members, all based in Geneva. There are no field offices and no other employees. The Secretariat’s work is augmented by a 26 member Technical Review Panel (TRP) comprised of expert practitioners working in agencies around the world that meet

periodically to examine and judge proposals for their scientific basis and technical rigor. In addition, the Secretariat contracts with Local Fund Agents (LFAs) in each country to carry out certain assessment and monitoring activities. Overall, the size of the Global Fund's bureaucratic structure and its administrative costs are substantially smaller than that of traditional aid organizations. Its total budgeted administrative costs for 2004 are about \$52 million, equivalent to about 5% of the \$1 billion in grants that the Secretariat projects will be under management by the end of the year. The Global Fund sees its "light touch" – leaving much more of the responsibility for setting priorities, designing activities, and implementing interventions to local actors – as one of the key elements distinguishing it from other agencies. The Fund can be much more flexible and adaptive than other financing agencies by, for example, providing budget support, sectoral support (through Sector-Wide Approaches, or SWAs), financing recurrent as well as capital costs, or providing financing to NGOs or faith-based organizations.

3. ***Operates as one part of a "network."*** The Global Fund defines itself as a partnership between governments, civil society, the private sector, other donors, and affected communities, which operates as a financial instrument only, not an implementing agency. It sees itself as one part of a network of actors that all play different roles in fighting the three diseases. The focus on an exclusive role as a financing instrument is consistent with the country-led approach, the light administrative touch, and the decision to not have an in-country presence. In effect, the Global Fund stands ready to provide funding to fill the gaps between total needs and the financing provided by other donors, governments, and private funders. It relies on the CCM to design programs, principal recipients (PRs) and sub-recipients to implement programs, the local fund agents for monitoring, other donors to provide technical assistance and other inputs, and other actors.

4. ***Public/private partnership.*** In its Board, its funders, the CCMs, and its implementing partners, the Global Fund combines the public and private sector in a way that few other institutions do. The Fund is not a government or UN agency, but a foundation under Swiss law governed by a board comprised of donor governments, recipient governments, international organizations, private foundations, private companies, people living with the diseases, and non-government agencies from both rich and poor countries. Its funding comes primarily from donor governments, but important donations come from private agencies and individuals as well. In recipient countries, the CCMs are meant to be broadly representative of both public and private actors. While there is strong support for a combined public/private sector approach for the Fund, there are concerns about whether the Fund has yet struck the appropriate balance, with divergent views on what that balance should be.

5. ***Performance-based.*** The Global Fund claims that it will be performance-based, meaning that it will continue to fund programs that work, and that it will reduce, reprogram, or eliminate programs that do not. It is too early to tell whether the Fund will actually operate as a performance-based system, as none of the grants have yet come up for renewal. (However, the reprogramming of Ukraine's grants in January to a new Principal Recipient following the initial poor performance of the first disbursement was a

promising early indication that the Fund intends to hold recipients to high standards⁴). Many other donor agencies have pledged to be performance-based, yet very few actually are (the Global Alliance for Vaccines and Immunizations, GAVI, is a notable exception). Operating on performance-based principles would clearly distinguish the Global Fund from other donors, and would be important for three reasons:

- To provide the appropriate incentives for recipients to ensure progress,
- To provide information about what works and what does not that can be fed into the design of new programs, and
- To maintain the confidence and continued financial support of major donors.

There are many important technical questions on how to establish a robust performance based system that judges performance fairly and accurately and provides appropriate incentives. There are obvious tensions between the goals, on the one hand, of a recipient-led process with light administration, and on the other hand the need for effective fiduciary oversight, monitoring, and evaluation. Moreover, it is not clear to what extent there is a consensus view on the Board about the Fund becoming a true performance based system, and how it will react when countries achieve sub-par performance.

6. *Transparency and Openness.* In its early history the Global Fund has already distinguished itself as being much more open and transparent than most other donors. Approved proposals are posted on the web, as are details of each program, key contacts, financial information on contributions and disbursements, and other information. Public Board statements talk candidly about areas in which the Fund has failed or fallen short. The Fund has not only been willing to accept but has actively encouraged outside study and critique. The formation of the Partnership Forum, a mechanism through which Fund staff can meet with, hear from, and discuss key issues with interested groups from around the world, is but the latest example of the Fund's open approach. The Secretariat's push for indicators to track its own performance is another. The organization has shown an ability to learn, adapt and evolve during its first two years, and it will need to continue to do so to remain effective.

One Critique of Aid Rejected by GFATM: Country Selectivity

The differences describe above helped define the current structure of the Fund and are central to what sets it apart from other aid mechanisms. However, there is one area in which the Fund's method of operation did not respond to a common criticism of aid. Donor agencies are often criticized for not being "selective" enough in how they allocate aid flows across countries, with critics arguing that donors should allocate more aid to countries with a demonstrated commitment to strong development-oriented policies and good governance, and less to countries with poor policies and governance. According to

⁴ In January 2004 the Fund suspended operations in Ukraine because of "serious reservations over management issues." Several weeks later it re-launched the program and designated a new Principal Recipient for receiving funds – the International HIV/AIDS Alliance – to replace the three original Principal Recipients (the Ministry of Health, the United Nations Development Program, and the Ukrainian Fund to Fight HIV Infection and AIDS). See the press release at http://www.theglobalfund.org/en/media_center/press/pr_040224.asp

this “country selectivity” argument, too much aid goes to countries with poor policies, corrupt governments, and a record of using aid ineffectively, and not enough goes to countries with a proven record of strong commitment and implementation.

This idea makes intuitive sense to many development practitioners, and has become the consensus view in the development community. The argument is partly based on the experience of development practitioners, and partly on a line of economics research that has found evidence that aid is most effective in supporting economic growth when it is allocated to countries with better policies and strong institutions. The key findings are drawn from the work of Craig Burnside and David Dollar (2000) and Paul Collier and David Dollar (2002), which found that foreign aid is positively associated with growth in countries with better policies and institutions, and not associated with growth in countries with poor policies and institutions. The statistical robustness of the Burnside, Dollar, and Collier studies have come under attack from several directions in recent years,⁵ but they nevertheless have provided empirical support to the “selectivity” approach.

In particular, the idea that aid works better in countries with stronger policies and governance has influenced the policies of the World Bank, the regional development banks, and several bilateral donor agencies. Based partly on these ideas, the World Bank has developed a Performance Based Allocation (PBA) system as the basis for distributing its IDA funding, which in large part relies on the Bank's ratings of each country's policies, institutions, and governance (IDA, 2003). The African and Asian Development Banks use similar systems. Perhaps the clearest manifestation of the country selectivity approach is the United States' new Millennium Challenge Account, in which aid will be provided to a very small group of low-income countries with a record of strong governance, social investments, and economic policy (Radelet, 2003).

The Global Fund accepts the idea that more aid should be allocated to countries with the greatest needs (in this case, low-income countries with the greatest disease burdens). Although it does not have a specific policy to do so, in its first two years GFATM has generally approved larger grants for countries with higher disease burdens. At the same time, the Fund has rejected the “country selectivity” idea: it has not approved more money for countries with better governance and stronger overall development policies, or less money for those with higher levels of corruption or a weak policy commitment.

There are several reasons why GFATM might reject the country selectivity argument. First, the imperative of fighting these diseases makes it difficult to simply provide less funding to countries with poor governance, and instead suggests that the Global Fund and its partners should use its flexibility to find innovative ways to implement programs in these countries. Second, a weak record in past aid programs in general may not be

⁵ From one direction, several studies challenge the finding that the positive aid/growth relationship depends on good policies, finding instead that aid is positively correlated with growth (with diminishing returns) regardless of the policy environment (Dalgaard, Hansen, and Tarp (2002); Hansen and Tarp (2000); and Lensink and White (1999a, 1999b). Clemens, Radelet, and Bhavnani (2004) find a much larger and more robust relationship between a subset of aid and growth over four-year periods. From another direction, Easterly, Levine, and Roodman (2003) found that the initial Burnside and Dollar results were not robust to new data points, different time frames, varying definitions of aid, and alternative definitions of policy.

indicative of an inability to implement effective programs to fight the three diseases. For example, the Global Fund works with a wider set of development partners than most development agencies, and poor past performance by the government as a whole may not indicate potential weaknesses in members of the CCM or in specific Principal Recipients, especially non-government Principal Recipients. Third, there are problems in measurement and in making broad generalizations. Researchers do not have particularly good data about governance and policy in the health sector per se, and countries with strong or poor policies and governance for the economy as a whole may not have the same tendencies in the health sector. In other words, we do not have strong evidence about the circumstances under which aid for health programs has been effective and where it has been ineffective.

For these reasons, it makes sense for GFATM to reject country selectivity, at least in its pure form. This choice can be made to work, so long as the Fund remains performance-based and allocates money going forward according to actual performance in fighting the three diseases.

A More Differentiated Approach Across Countries?

Although rejecting the pure form of “country selectivity” makes sense for GFATM, there is one offshoot of the country selectivity debate that the Fund could consider more seriously in the future. In the past, donors have not only allocated their funds poorly, they have tended to use one basic approach in delivering aid across all countries, regardless of the quality of their governance or their past performance. Aid flows could be made more effective if donors used a range of approaches that differed depending on the quality of governance, commitment, and effectiveness of the recipient. The approaches could differ in the extent of the role of recipient countries in setting priorities and designing activities, the mix of programs (including budget support) and projects, the extent of reliance on governments or NGOs as implementing partners, the length of donor commitment, and other issues (Radelet, 2004a and 2004b).

The traditional one-sized-fits-all approach is beginning to change with some donors. For example, the U.K.’s Department of International Development implements Sector-Wide Approaches, or SWAs in some countries, but not in others. The World Bank is introducing Poverty Reduction Strategy Credits in certain countries, but not in others. The United States’ new MCA, mentioned above, will provide aid very differently than other US aid institutions.

To date, GFATM is using by-and-large the same approach across all recipient countries (with a very few exceptions where some NGOs are allowed to by-pass CCMs and submit proposals directly to the Secretariat). Moving forward, the Secretariat may want to consider modifying this approach, and consider using a fast-track, more streamlined approach in countries that achieve strong results, and an approach with more oversight and different procedures in countries with weak performance. I return to this issue later in the paper.

III. Achievements to Date

The Global Fund has come a very long ways since its formation just over two years ago. Although not everything has gone smoothly and there is room for improvement, there has been remarkable progress in many areas for an organization that literally started from scratch in late 2001. Of course, most of the progress to date is in establishing new systems and relationships, both for GFATM globally and on the ground in recipient countries. Nevertheless, in addition to these process issues, some countries are beginning to make substantive progress towards fighting the diseases, with much more progress expected during the next year. Key areas where there has been clear progress include the following:

- The organization was established and became operational very quickly. Just six months passed between July 2001 when the G-8 Heads of State pledged to support a new fund and the organization's first Board meeting in January 2002. An entirely new organization was built, including hiring new staff, identifying office space, and establishing basic procedures for the Secretariat. In recipient countries, CCMs were formed, proposals were drafted, LFAs were chosen, and Principal Recipients were identified. The Board approved the first round of proposals in April 2002 -- three months after its initial meeting, and it now has approved programs in 122 countries.
- GFATM has been successful in raising global awareness about the three diseases, and in raising substantial funding to finance efforts to fight them. Total pledges to GFATM to date total \$5.3 billion, with \$2.4 billion received. While it is very hard to determine how much of this funding is truly additional to amounts already programmed to fight the diseases worldwide, a large part of it clearly is new funding. For example, the US government contribution, which is the largest to the Fund, was clearly new money that was in addition to other existing efforts. Although some other contributions were re-programmed from existing efforts, it appears that global funding to fight the three diseases has increased in tandem with the formation of the Fund. The Fund's existence may have leveraged other efforts as well: some people believe that the Fund's early success and the attention it drew was one factor that contributed to the United States announcing its Emergency Plan for AIDS Relief.
- The Fund has brought about much greater participation from a wider group of participants in efforts to fight the disease than any other international group. The Board is a unique combination of donor country government, recipient country governments, NGOs from both rich and poor countries, foundations, people living with the diseases, and the private sector. CCMs include national government representatives (and sometimes regional and local government officials), donor representatives, NGOs, faith-based organizations, academics, people living with the diseases, and others. Principal and sub-recipients are drawn from a great variety of organizations. This widespread participation has led to fundamental changes in relationships among individuals and organizations in some countries, with groups normally left out of the process given a chance to voice their opinions, contribute to proposals, and carry out significant programs. Participants -- especially those normally excluded from donor agency deliberations -- speak very highly of the participatory process, referring to it as revolutionary, empowering, and fundamentally new and different.

- GFATM has shown itself to be flexible and adaptable in its financing arrangements. It has found ways to co-finance existing mechanisms in some countries, where appropriate (such as Sector-Wide Approaches, or SWAps), provide funding directly to government budgets, or to non-government organizations. Unlike many donors, it has been willing to finance both capital and recurrent costs, including salaries and basic supplies. It has been willing to provide funding to health systems and educational programs where they are related to fighting diseases. It has also been willing to allow recipients to adjust the amounts in specific line items in their budgets as new circumstances arise, such as to fund technical assistance where necessary.
- GFATM has shown that it is a learning organization, willing to encourage feedback and criticism and adjust its procedures as a result. It publishes much more information on its website than most international organizations, including every approved proposal and detailed financial arrangements for each country, in order to encourage debate, discussion, and feedback. The Executive Director's statements to the Board -- all public -- bluntly point out the areas in which performance has lagged and progress has been disappointing. GFATM has established a Partnership Forum, with 600 participants expected at the first meeting in Bangkok in July 2004, as a means to encourage discussion and debate about GFATM financed activities and to find ways to improve performance. The Secretariat is establishing quantitative indicators of its own progress, so it can be evaluated more publicly.
- GFATM has found ways to begin to use its leverage outside of traditional financing. For example, it recently reached agreement with the Clinton Foundation and other agencies in a partnership that will allow GFATM to use its size to procure AIDS medicines and diagnostics at very low prices. It also negotiated a "Monitoring and Evaluation Toolkit" with eight other donor agencies that establishes norms for basic indicators of progress to be used by all the agencies.
- GFATM funds are already achieving real, tangible progress in recipient countries in saving lives and making other progress in fighting the diseases. For example, in Ghana:
 - To respond to tuberculosis, in the first year of the program 1,000 health workers were trained, *ten times* the original target. 64 health centers were renovated to deliver appropriate treatment, *twice* the program target. The tuberculosis detection rate is up 16%, and the new health centers have admitted over 4,000 new tuberculosis patients for care and treatment.
 - To fight HIV, 17 new treatment centers were established with 1,600 new staff trained. 1,700 patients have so far been tested for HIV, 600 are now receiving anti-retroviral treatment, and 1,000 people living with AIDS are providing in-home care to others with the disease.⁶
 Similarly, in Rwanda, to fight HIV/AIDS:
 - 38 integrated voluntary counseling and testing centers were established and 390 peer educators were trained, both exceeding the original program targets.
 - 2,100 people are now receiving anti-retroviral treatment, already exceeding the program's two-year target by more than 40%.

⁶ See "Ghana: Results Profile," Friends of the Global Fight, May 2004, <http://theglobalfight.org/#>.

- 63% of HIV-positive pregnant visiting clinics have been given nevirapine, the primary drug used to prevent the transmission of the virus through childbirth.⁷

For a brand-new international organization, this is an impressive set of initial achievements. Very few organizations, public or private, have scaled up this quickly. Indeed, it is hard to think of any private firm or international body that has ever grown from operating in zero countries to over 120 in two years. Nevertheless, there are ways in which the Fund's operations could be improved and strengthened which could lead to even more impressive results, and we turn to this set of issues in the next section.

⁷ See "Rwanda: Results Profile," Friends of the Global Fight, June 2004, <http://theglobalfight.org/#>.

IV. Looking Ahead: Challenges for the Future

The Global Fund's promising start-up does not guarantee its future success. As with any start-up organization, some things have gone well while others have proved more difficult. Observers of and participants in the GFATM process are generally very supportive of its principles and its basic operating structures. Nevertheless, there are concerns that the Fund has not yet reached its full promise. These concerns represent challenges for the future. In this section I review seven major challenges facing the Fund going forward.

Challenge #1: Financial Sustainability

Perhaps the most prevalent concern among people working with or observing the Fund is its long-run size and financial sustainability. The specific concerns differ among participants, but these issues are high on almost everyone's mind. Recipients wonder if the Fund will be able to provide long-term financing and whether they should risk hiring new staff and expanding operations. Health experts wonder about the ability to finance purchases of anti-retroviral (ARV) drugs for HIV/AIDS patients over the long run. Advocates worry that some of the major donors will reduce support in favor of other programs or other pressures, in particular the United States. Some observers frankly wonder whether the Fund is just the latest in a long list of donor initiatives that was in vogue at the moment of its creation but might lose its ability to attract attention and funding over the long run, even if the programs it funds produce results.

The concerns about sustainability are voiced most immediately through a debate about the Fund's proposal process and its response to funding requests. One point of view (the "needs-based" approach) argues that the Fund should respond to the full size of the needs on the ground; the other view (the "donor contribution" approach) argues that GFATM does not have infinite resources to meet all needs, and like any other agency must operate under a budget constraint (determined by donor contributions) and allocate available funds to the highest priorities.

The "needs based" approach is based on the idea that the central reason that the Fund was founded was to fill the huge gaps between financial needs on the ground and current donor commitments, and thus it should encourage recipients to submit ambitious proposals based on needs. Adherents believe that since the donors have committed to providing sufficient financing to effectively fight the diseases, and they will respond (prodded by public pressure) with sufficient financing to meet the needs made apparent through the proposal process. In this view, moving to a budget-constrained approach would immediately concede that important needs cannot be met, which in turn would allow donors to provide smaller amounts of financing and would effectively make GFATM operate much the same way as other donor agencies. Indeed some go further and believe that the "donor contribution" approach is put forward by some donors under the guise of "responsible financing," when it is really just a mechanism to keep the Fund

from getting too large, either because donors don't want to spend the money or because for political reasons they want to spend it on their own bilateral programs.

Others, however, argue that a "needs based" approach is a risky strategy that could endanger the long-term financial health of the Fund. GFATM does not have now, nor is it likely to have in the near future, sufficient funds to meet all the needs for all three diseases in every country in the world. If GFATM promises to provide funding that goes beyond its financial resources, countries will be forced to cut back or eliminate programs, which would seriously erode the credibility of the Fund. Proponents of this view argue that while it would be nice to operate under the assumption that donors will provide financing to fulfill all needs, no agency, public or private (with the possible exception of the U.S. Department of Defense) has that luxury. Thus, responsible financing demands some kind of strategy to allocate funding under a constrained budget. This debate, however, is rapidly coming to a conclusion, as donor contributions to date are falling far short of the amount required for a "needs based" approach, as we see in the next section.

GFATM Budgets and Donor Contributions

Underlying the debate about sustainability is a growing recognition that contributions from the major donors to the Global Fund have been insufficient for GFATM to continue to approve all proposals recommended by the TRP. While it is well beyond the scope of this analysis to project GFATM's budget needs to fund all worthwhile proposals that it is likely to receive, some estimates reveal the approximate order of magnitude.

- The budgets for approved programs for the first three rounds of proposals total \$2.1 billion for the first two years and \$5.1 billion over five years, suggesting about \$1 billion in annual disbursements *for programs already approved* through 2008. Consistent with this figure, the Secretariat projects new disbursements on approved programs from the first three rounds of about \$1 billion during 2005.⁸
- Disbursements for *new programs approved by the Board in future rounds* must be added to that floor amount. For example, if the Board approves a new round of proposals once each year with a two-year budget of \$1 billion per round, annual disbursements would increase an additional \$500 each year starting in 2005, growing to an additional \$2.0 billion per year (from 4 new rounds) by 2008. Under this estimate, total disbursements in 2008 from existing commitments plus new commitments would reach \$3 billion per year. Slightly more ambitiously, if the Board approves 3 rounds of proposals every two years (instead of one per year), total disbursements by 2008 would reach \$4.0 billion.
- At the upper end, the WHO's Commission on Macroeconomics and Health suggested Global Fund disbursements of \$8 billion per year by 2007.

These estimates suggest disbursements levels of somewhere between \$3-\$8 billion by 2007 or 2008. Donor contributions need to approximately keep pace with this level. This is a wide range, but the key point is this: *even the lower end estimate of \$3 billion per year is twice as large as the 2004 level of donor contributions.* The conclusion is

⁸ The Global Fund's commitments and disbursements data can be found at http://www.theglobalfund.org/en/funds_raised/commitments/

very clear: *without a significant increase in contributions, the Fund will almost certainly face a significant financing shortfall in 2005*. In fact, at current funding levels, it seems very possible that the Fund will not be able to approve any new proposals during 2005 and 2006, and instead will be constrained to finance disbursements only on proposals approved through round 4. In effect, GFATM's disbursements will level off far below the both the magnitude envisaged by most of its originally founders and the amount needed for it to make a significant dent in the global fight against the three diseases.

Significantly increasing donor funding will be a major challenge. Some new innovative ideas are possible, such as the U.K.'s proposed International Finance Facility or redirecting some funds from the European Development Fund. The Global Fund is attempting to raise funds from private sources, but with only limited success to date, and these seem likely to remain relatively small as a share of total contributions. The bulk of the contributions will need to come from donor governments.

Some countries have contributed little or no funding to date, such as Switzerland, Saudi Arabia, and Kuwait. Some traditionally large donors have contributed far less than their normal share to international efforts. For example, Japan, the U.K, Germany, and Spain have accounted for less than 9%, 7%, 4%, and 2% of contributions, respectively. *These countries must provide substantially larger contributions for GFATM to finance all worthwhile proposals it receives*. By contrast, the United States, France and Italy have made relatively large contributions.

Going forward, much will depend on the contributions of the United States. The U.S. has been the largest contributor to the Fund, accounting for \$623 million of the \$2.6 billion actually contributed to date, or about 25% of the total. Unfortunately, the Bush administration's initial support for the Global Fund waned after it introduced its own new bilateral program, the Emergency Plan for AIDS Relief envisages, through which it proposes U.S. contributions to the Fund of just \$200 million per year for five years. The U.S. Congress fought hard to increase that amount to \$547 million for 2004 (over the administration's objections), but the administration again requested just \$200 million for 2005 (the final amount for 2005 will be determined later this year). This amount is far too small for the world's largest donor, especially given the strong role the U.S. played in shaping the Fund. In effect, the U.S. plans to contribute an average of just \$1.6 million per year to each of the 122 countries in which the Global Fund currently operates. By contrast, it is likely to allocate about \$2.0 billion per year to the 15 countries in its Emergency Plan, or about \$133 million per country (it will probably allocate another \$800 million or so to bilateral programs in other countries around the world). While the right balance between the U.S. contributions to the Global Fund and its bilateral programs is unclear, \$133 million per country in its Emergency Plan compared to \$1.6 million per country through the Global Fund (a ratio of 83:1) is clearly far from optimal. More broadly, assuming that U.S. contributions continue to account for 20-33% of the Global Fund's total – a reasonable assumption given the signaling power of U.S. contributions to other donors – annual U.S. contributions of \$200 million would constrain the Fund to annual disbursements of around \$600 million - \$1 billion, smaller than

projected disbursements for 2005, and far smaller than its original founders envisaged. Current planned levels of donor contributions do not auger well for the Fund's future.

Allocating Funding with a Constrained Budget

Facing these growing realities, at its October 2003 meeting, the Board approved a procedure for allocating funds in the event that available funding is less than the value of all proposals recommended by the Technical Review Panel, as it appears will be the case in 2005. The approach comes in three steps.

- First, the Board will give priority to providing funds to continue existing programs (grant renewals) over approving new grants.
- Second, if funding remains for new grants, of all the proposals recommended by the TRP, the Board will give higher priority to those that the TRP assigns its highest score.
- Third, if insufficient funds are available for all proposals with the highest score, the Board will give priority to countries with the greatest needs, calculated on the basis of a combination of the country's income and its disease prevalence.

Assuming that GFATM will soon be facing such allocation decisions, this approach is a reasonable starting point. Given priority to existing programs, highly-rated proposals, and countries with greater needs are all sensible allocation rules. *One striking omission, however, is the absence of criterion related to performance on past programs, especially given GFATM's focus on creating incentives for recipients to achieve results.* The second part of the allocation rule described above incorporates the quality of the proposal, but not the quality of past performance. Going forward, especially as CCMs build up a record of performance, the quality of that performance should be incorporated explicitly into allocation decisions along with the quality of the proposal and need.

In addition, these policies could be augmented by two more that are based on the principle of full transparency:

- First, the Secretariat should continually analyze its financial trajectories and expected financing needs under a variety of assumptions and for several years into the future and make these available to its donors and the general public. This step would help better inform public debate about appropriate donor contributions, and would provide a range of estimates (under different assumptions) of the size of any donor shortfall.
- Second, to the extent the Fund must allocate funding along the lines described above, it should make public the size and content of the programs that the TRP recommends that the Board is unable to approve because of funding shortfalls. In other words, the public should be fully informed about the types and quality of programs that are not being financed because of donor shortfalls.

Challenge #2: Balancing the Tension Between Country Ownership with a Light Touch, and Speed

One of the hallmarks of GFATM is its country-based approach in which recipients are given full responsibility for setting priorities, designing projects and programs, submitting proposals, and determining how best to implement planned activities. At the heart of the process is the CCM, an innovation that clearly sets apart GFATM from most other aid agencies. Most observers agree that without the country-driven process with something like the CCM at the center, GFATM would lose much of its originality and promise. Members of CCMs, Principal Recipients, and sub-recipients describe the process as "liberating" or "revolutionary" and clearly are both gratified and motivated by being given these new responsibilities.

Others, however, believe that this process is too slow, creates too many burdens on recipients, and runs squarely and quickly into problems of absorptive capacity. Some look at GFATM's total disbursements of \$400 million (as of late June 2004) as a measure of insufficient progress for GFATM two years after approving its first proposals. Some believe that the underlying model is inappropriate for a health emergency -- since people are dying by the thousands everyday, GFATM should find the fastest, most expedient model to get necessary information, commodities, and treatment to affected and at-risk people as quickly as possible. A slightly more common view (mainly among some traditional donors) is that the process creates too many additional burdens for recipients who do not have the time and staff to attend all the CCM meetings, thrash out proposals, and reach decisions on who should implement agreed activities. Some believe that GFATM needs in-country staff to speed the process. By contrast, while the recipients that I spoke with generally agree that the process is a significant extra burden, most of them welcome it as necessary to build their skills and capacity, as well as to give them ownership and responsibility for the program.

There is an inescapable tension between, on the one hand, the desire to engender widespread participation and build capacity on the ground in order to make programs more sustainable and more effective in the long run, and on the other hand the urgent need for speed. There is no escaping the fact that building capacity and building consensus takes time, and that in this crisis time costs lives. At the same time, however, a quick, all-out approach might achieve early results, but might not be sustainable in the absence of local capacity and ownership of the process, so in the long-run could fail to halt the spread of the diseases. Those who put a premium on speed believe that several other models have the potential to make a more immediate impact. For example, a more hierarchical top-down approach with a clear decision maker, a much stronger role for the donor in setting priorities and implementation, supported by a team of domestic and international experts, with much less focus on participation and local ownership, could speed results (many see the U.S. Emergency Plan for AIDS Relief fitting this model).

A top-down, donor led approach would risk repeating the mistakes that donors have made so often in the past, with the incentives focused on getting money out the door as quickly

as possible and not in building the systems and institutions that can make a long-term difference. It would also likely be more expensive, with a heavier bureaucracy, and engender less commitment among recipients that are told what to do rather than participate in the decision-making process. Taking the time to build capacity is central, since long-term solutions are absolutely necessary. Consider the fact that infants born with HIV today must receive treatment for their entire lives, or at least until a cure is found (which is likely to be a long way off in the future). Nevertheless, while building capacity and strengthening country ownership are important and set GFATM apart from most other donors, the Global Fund must work hard to ensure that within those parameters funds are transferred as quickly as possible to the intended recipients.

Have GFATM disbursements been too slow?

To assess the record on disbursement speed, it is important to distinguish between two separate parts of the process: the timeline between Board approval of a proposal and the first disbursement, and the timeline during the actual life of the grant contract. The record suggests that the first step -- from Board approval to the first disbursement -- indeed has been slow, especially for proposals approved in the first round. The speed of this process has accelerated sharply with each round, but there is still room for improvement. For the second part -- the pace of disbursement during the life of the contract -- the record is much more satisfactory, with disbursement speed at about the expected level. In both steps, grants to government Principal Recipients have moved much more slowly than for those with non-government PRs. The data on disbursement speed for 148 grants for which there have been at least one disbursement are shown in Table 1.⁹

1. From Board Approval to First Disbursement. The time between Board approval and first disbursement has averaged 339 days, far longer than almost anyone would deem satisfactory. However, the average amount of time needed has dropped sharply in each round, from 434 days in the first round to 266 days in round 2 to 197 days in round 3 -- less than half of the time required in round 1.¹⁰ In retrospect, the round one proposals probably were approved too quickly, since the Secretariat had not even hired staff or identified LFAs at that point. Under the circumstances, it is not surprising that the round 1 grants took so long to reach first disbursement. The sharp improvement in each round augers well for the future, but even with 197 days in round 3 (so far) there is clearly room for further improvement.

The second and third lines show that speed has improved sharply for each of the two distinct steps in this initial process: the time between approval and grant signing and the time between grant signing and the first disbursement. However, there have been sharp differences in the time required between grant signing and first disbursement for different types of Principal Recipients. This part of the process has taken an average of 72 days for grants with government PRs, 37 days for grants with the United Nations Development

⁹ As of this writing, there are 152 grants for which GFATM has made at least one disbursement, but detailed data for this analysis were available for only 148 of the 152 grants.

¹⁰ Note, however, that only the first (and thus fastest) of the round 3 programs have reached first disbursement. As additional programs reach first disbursement, this average time will necessarily increase.

Programme (UNDP) as PR, and 41 days for other non-government PRs. *In other words, on average grants with government PRs have taken about an extra month to reach first disbursement as compared to other PRs.* Although of course there is variation among government PRs, the slower pace relative to other PRs is statistically significant at the 1% level. Note that we found no such difference across PRs for the initial period between Board approval and grant signing (these results are not shown in the table).

Table 1. Grant Signing and Disbursement Speed					
		All grants	Round 1	Round 2	Round 3
Elapsed Time (days)					
Average time between Board approval and first disbursement		339	434	266	197
Of which:					
Average time between Board approval and grant signing		280	365	215	161
Average time between grant signing and first disbursement		59	69	51	36
By type of Principal Recipient:					
Government (89 grants)		72	76	69	12
UNDP (25 grants)		37	47	26	53
Other (34 grants)		41	63	24	11
Disbursement Speed					
Portion of grant actually disbursed by mid-June 2004		38%	49%	30%	29%
Portion of two-year grant period elapsed by mid-June 2004*		40%	52%	33%	7%
Difference		-2%	-3%	-3%	+22%
Difference by type of Principal Recipient:					
Government (89 grants)		-6%	-5%	-8%	+26%
UNDP (25 grants)		+6%	-2%	+8%	+15%
Other (34 grants)		+4%	+2%	+3%	+39%
Total grants with one or more disbursement		148	66	77	5

* The GFATM Board defines the start date of each two-year grant agreement as the date of first disbursement, so this indicator measures the portion of the two-year contract elapsed between the date of first disbursement and June 20, 2004.

Source: Author’s calculations, based on data drawn from the files found at:
http://www.theglobalfund.org/en/funds_raised/commitments/

2. Disbursement Speed During the Life of the Contract. The speed of disbursement once the two-year grant period begins is shown in the bottom half of the table.¹¹ By late June 2004 an average of about 38% of the value of each two-year grant had been disbursed. The proper way to gauge whether this pace of disbursements is too fast or too slow would be to compare it to the originally scheduled level of disbursements on this date as approved by the Board. Unfortunately, this information is not available. As a substitute, we can compare the proportion disbursed to the proportion of the two-year grant period that has elapsed. For example, after six months (25% of two years) we might expect that approximately 25% of the grant funds would be disbursed, and after one year we would expect around half of the funds would be disbursed.

For the 148 grants examined here, on average just less than ten months of their two-year life span – about 40% -- had elapsed by late June 2004. *Thus GFATM has disbursed 38% of the funds during the first 40% of the grant period, suggesting that the disbursement rate is roughly on track.* This is consistent with the result that disbursements have matched or exceeded the Secretariat's projections (which in turn are based on the grant agreements) in four of the past five quarters. The story is roughly the same for each of the first two rounds. Round three grants are far ahead of schedule, with 29% of funds disbursed in just the first 7% of the life of the loan. However, since only 5 grants have reached disbursement in round 3, not much should be made of these early results.

The final three lines of the table show the difference between the proportion disbursed and the proportion of time elapsed by type of Principal Recipient. Overall, grants to government PRs are “behind” schedule by this simplified measure, whereas grants to other PRs are “ahead” of schedule. For the 89 grants to government PRs, disbursements lag elapsed time by 6 percentage points, while for non-government PRs disbursements are ahead of elapsed time by about 5 percentage points (6 percentage points for UNDP and 4 percentage points of other PRs). This difference of about 11 percentage points between government and non-government PRs is equivalent to about 2½ months out of a two-year grant cycle. *In other words, while the pace of overall disbursements for all PRs is broadly on-track, the disbursement rate to government PRs lags that of non-government PRs by about 2½ months.* This difference is statistically significant at the 1% level. Taken together with the earlier finding that the time between grant signing and first disbursement is about one month longer for government PRs than non-government PRs, overall the grant process to date for government PRs lags behind that of non-government PRs by about 3½ months.

Accelerating the Process

The results in the top of Table 1 show that that the time line from board approval to first disbursement has been slow. One problem has been the sequence in which LFA assessments of Principal Recipients are undertaken only after Board approval, lengthening the time between approval and initial disbursement. Initiating important assessments only after Board approval is by definition much slower than a process in which assessments begin when proposals are submitted (and proceed in tandem with the

¹¹ Note that the two-year time clock on GFATM grants begins with the date of the first disbursement.

technical review of the proposal), with the results of the assessments made available to the Board as part of the review process. This kind of process would be more expensive (since assessments would be undertaken for all proposals, not just approved proposals) but would provide the Board with more information for its approval process and would speed subsequent disbursements.

A second, related problem is that in many countries these assessments have taken a long time. Some grant agreements have been delayed because LFAs were unable to identify appropriate personnel in a timely manner to carry out assessments of PR's procurement systems. One way to speed this part of the process would be for the Secretariat to offer financial rewards to the LFAs for speedy assessments and to impose financial penalties on them for slower assessments. In this arrangement, the slower the assessments, the less the LFAs would be paid. In addition, as discussed later in the paper, using a global pool of experts rather than LFAs would speed the assessment process in many countries.

In the next section I explore the idea of rating CCMs on the quality of their process and on programmatic results. If such a strategy were adopted, highly rated CCMs could enjoy a more expedited assessment process, which would accelerate disbursement speed in the future. More generally, as GFATM gains experience with individual CCMs, PRs, and LFAs, it should be able to use its experience with these entities to streamline and accelerate the assessment process.

It is important to point out that the figure of \$400 million disbursed by late June 2004 represents only the amount disbursed to PRs. While many of the PRs are indeed implementing programs and some early results are being achieved, the process of the PRs disbursing funds to sub-recipients in many cases has been slow and cumbersome. The contractual process between PRs and sub-recipients received very little attention in the early part of the GFATM process, and in some cases these relationships are proving difficult to work out. This seems to be especially the case with government PRs disbursing to non-government sub-recipients. In some cases government processes are simply not designed to disburse funds quickly to non-government groups; in other cases governments may be delaying disbursements for political or other purposes. The Secretariat should explore ways to introduce financial rewards and penalties to the PRs to encourage speedier disbursements from PRs to sub-recipients.

The data in Table 1 show that the disbursal process has been especially slow in grants with government PRs. (Note that I also explored an alternative hypothesis that speed might be related to the number of PRs in a country, with greater speed in countries with more PRs, but the evidence did not support that hypothesis). Speeding the disbursement process will require a fuller understanding of the reasons for the slower pace in grants with government PRs and a strategy to address the constraints. Much of the problem may stem from the larger size and generally slower pace of government bureaucracies and the time required in getting requisite approvals. In addition, governments may be less flexible and adaptive than non-governments, leading to more protracted negotiations with GFATM. In addition, government agencies may be less dependent on GFATM funds, and thus may be less motivated than non-government PRs to accelerate the disbursement

process. Moreover, as mentioned, the problems with slow disbursements to government PRs may be compounded by subsequent slow disbursements from governments to non-government sub-recipients. In any case, speeding disbursements to government PRs would have a salutatory impact on overall disbursement speed. The slower pace for government PRs provides support to GFATM's emphasis on working with civil society, NGOs, faith-based organizations, and private sector. It suggests that GFATM should require at least one non-government PR in each country, which in effect may be the same as requiring at least two PRs – one government and one non-government.

A related issue on speed is the workload of the Secretariat's Portfolio Managers (PMs), with many observers concerned that the PMs are each covering too many countries and do not have the time or the skills necessary to negotiate grant agreements quickly and effectively, both of which may contribute to slower disbursements. The 19 portfolio managers cover 122 countries and 227 signed grant agreements, an average of 6.4 countries and 12 grant agreements each. This ratio reflects the GF's light bureaucracy, and is the complete opposite of most donor agencies, which typically have several staff members working collectively on one country. While the lighter bureaucracy is an important and welcome change, the number of PMs may be too small, especially as the number of approved proposals continues to climb. With PMs covering 6 countries or more, they have relatively little time to devote to any one country, which in turn at times can lead to poor communication and unnecessary delays. I return to this issue in more depth later in the paper. Similarly, the mix of skills amongst the PMs may be less than optimal: many have implementation backgrounds, but few have legal, managerial or monitoring and evaluation backgrounds.

Although some tension between "country ownership" and speed is inevitable, especially during GFATM's start-up phase, it does not follow that a slow pace is inevitable. There are several steps that GFATM could take to speed the process:

- Require at least one non-government PR in each country, which for most countries will imply at least two PRs -- one government and one non-government. This would help avoid the problems surrounding providing funds to NGOs through government bureaucracies, eliminate the possibility of the government as a monopoly recipient of funds, and create some competition between the PRs.
- Initiate LFA assessments of recipients when proposals are received rather than after they are approved by the Board. This will be more expensive than the current approach, but will provide the board with relevant information and speed the subsequent disbursement process.
- Speed the process of LFA assessments by financially penalizing LFAs for slow assessments and rewarding them for speedier ones. In other words, the Secretariat could pay a set fee for an assessment completed by a certain date, and (say) 80% of that amount for an assessment that is two weeks overdue, etc. Alternatively, the Secretariat could draw on a global pool of consultants to carry out at least some of these assessments, rather than relying on the LFA. I return to this possibility later in the paper.

- Better equip the Secretariat's portfolio managers to negotiate grant agreements and speed the disbursement process by increasing the number of PMs and by changing the skill set of the PMs.
- Create financial incentives for PRs to accelerate their disbursements to sub-recipients.

Later in the paper I suggest an alternative structure for GFATM operations in recipient countries that provides more details on some of these suggestions.

Challenge #3: Finding the Right Balance Between an Exclusive Focus on Performance and a Focus on Process -- Especially the CCM Process

Underlying the discussion in the last section is a set of concerns about the effectiveness of Global Fund *processes* on the ground. These concerns raise a more fundamental issue: to what extent should GFATM structure its incentives, rewards, and penalties solely towards achieving *results*, or towards encouraging a general *process* that is believed to be central to achieving those results? The question is important: donors are regularly criticized for paying too much attention to process and too little to performance. By contrast, GFATM sees itself as performance-based: it will continue to provide financing to activities that achieve specified benchmarks, and will redirect or reduce funding to programs that do not. Thus, its primary rewards and incentive systems are aimed ultimately at results. There is widespread (albeit not unanimous) agreement on the importance of clearly rewarding successful performance and penalizing failure, as discussed later in the paper.

On process, however, GFATM's message is more blurred. It has some basic requirements on process: countries are expected (with a few exceptions) to form a CCM to submit proposals and nominate PRs, and the CCMs are expected to be "representative" in some broad sense. At the same time, it tries to take a hands-off approach, and is not particularly prescriptive about how the CCMs, PRs, and local institutions should operate. Importantly, it has no particular incentives, rewards, or penalties associated with CCM actions or performance.

Nevertheless, after two years of operation, many participants and observers believe that while the CCM process is working well in some countries, it is not working well in many others, and that GFATM should take a more active role in shaping this process. This view was reflected by GFATM Executive Director Richard Feachem's statement to the Board in October 2003: "CCMs are not performing as well as we would hope, whether in empowering the engagement of civil society or ensuring approaches to fight the diseases that are harmonious with other efforts to improve health or reduce poverty." There are several major concerns about the CCMs, including:

- the dominant role of the government in many countries
- the process of determining who "represents" various groups
- the under-representation of some groups (such as people living with the diseases)
- the role of international donors in the CCMs

- the role of the CCM in overseeing implementation of approved projects once grant agreements are signed, and
- bureaucratic and political infighting between members leading to delays.

At least three studies have been done or are in process on the CCM process (Brugha, et. al., 2003; GDP+, 2004; GFATM 2004). It is worth emphasizing that while these weaknesses are regularly cited, participants note that some CCMs work well. Participants and observers cite several characteristics of the more successful CCMs: an appropriate balance between government and non-government participants, a mutual regard among members for each other's inputs and expertise, a history of members working together, a positive relationship between the CCM and other bodies (like National AIDS Councils), and other characteristics.

Process is ultimately related to purpose, and a key issue underlying these debates is that different people have different ideas about the purposes of the CCMs and the roles they should play. At least three roles for CCMs are often discussed:

- develop and submit proposals to GFATM (a role played by all CCMs),
- oversee implementation of programs implemented by PRs and sub-recipients (a role that many people wish the CCM would play but that is effectively carried out in only a few), and
- a national policy making role through a connection (or even merger) with bodies such as the National AIDS Council or their equivalents for TB or malaria.

These three roles are distinct, and it is not clear that the same body should carry them all out, or that the CCM in one country should play the same basic roles as the CCM in another. Individual views about the effectiveness (or lack thereof) of the CCM are partly tied to beliefs about which of these roles the CCM should or should not play.

It is well beyond the scope of this paper to present a definitive view on which roles the CCM should play, how they should be structured, and which are the key characteristics of successful CCMs. The more important point is a broader one: *GFATM must decide to what extent it wishes either to be hands-off and only concern itself with outcomes, or to have a clearer institutional view as to how CCMs should operate, and therefore be more directive in shaping CCMs and related processes on the ground.*

If GFATM is to be truly hands-off and exclusively performance based, then it should not concern itself with the CCM process, including membership of the CCM, the extent of explicit or implicit state control over the CCM, engagement of civil society or people living with the diseases, the choice or number of PRs, the continuing engagement of the CCMs in oversight issues after grant agreements are signed, or other issues. It should only concern itself with results, with clear and consistent rewards for success and penalties for failure, and leave it to each country to determine the purposes and structures of its CCM. Countries that achieved clear results should receive continued funding, regardless of their process, and those that do not should receive less funding or no funding at all.

However, GFATM's operations to date, its Board decisions, and the issues raised by many participants and observers suggest that for almost everyone involved in GFATM the process matters. Indeed, other than the Fund's finances, few issues are discussed and debated more often than the CCM process. Moreover, many participants express a growing desire for GFATM to play a more active role in shaping that process. *If GFATM is concerned about process, it must more actively communicate what it believes are "effective" and "ineffective" processes, and create rewards, incentives, and penalties to try to stimulate the kind of process it desires.*

There are two broad ways that GFATM could approach this issue:

1. Introduce more specific rules and regulations on CCM operations. The Secretariat could require certain characteristics in the CCMs: a particular size (within a range), a certain minimum share of seats to civil society or people living with the diseases, a particular relationship between the CCMs and other bodies, a certain number of Principal Recipients among CCM members, or a target share of funding to go to non-government agencies. A recent regional meeting in West Africa, for example, suggested a very specific size and composition for CCMs and advocated that all countries follow this model. *This approach, however, is overly prescriptive and input oriented, and risks GFATM following too rigid an approach without sufficient flexibility to adapt to individual country circumstances.* Moreover, dictating a particular process through rules creates the incentives for countries to follow the letter but not the spirit of the rules, and to not internalize the process. GFATM should not move in this direction.

2. Rate the CCMs. A different and much more appealing approach, already under discussion within the Secretariat, would be to introduce a rating system for CCMs, in which they would be rated as “good,” “fair,” or “poor” on a range of key characteristics. Countries with a highly rated CCM would be rewarded with a more streamlined GFATM process, including an accelerated timetable, fewer assessments and reviews, and somewhat lighter oversight, as well as a greater likelihood for approval of proposals with more funding. In addition, when GFATM does not have sufficient funding for all new proposals recommended by the TRP, it could use the CCM rating as one factor in determining the allocation of funds (along with the quality of the proposal, need, and past grant performance, as discussed earlier). A county with a poorly performing CCM would face a more lengthy review process, an expectation of smaller amounts of funding, more detailed oversight, and more opportunities for local agencies to submit proposals for funding directly to GFATM rather than through the CCM.¹² Ratings could be compiled by a combination of objective data (e.g., the composition of the CCM) and subjective opinions of the quality of the process culled through periodic surveys of key participants and observers. The process would not be cheap, as it probably would require the Secretariat to contract with a survey firm for annual (or perhaps biannual) surveys. But it would provide a wealth of information about what kinds of structures work well and which do not, as well as providing the basis for an incentive system to encourage more effective CCM processes.

¹² Andrew Rogerson has also recommended a CCM rating system.

The rating system concept is similar in some ways to the performance-based allocation systems used by some of the multilateral development banks, or the qualification criteria used by the U.S. Millennium Challenge Account. Radelet (2004a) proposes a similar system for donors in general, in which they deliver aid to recipients in different ways depending on the quality of the recipient country's governance. It is broadly analogous to the bond rating systems produced by investment ratings agencies such as Standard and Poor's or Moody's, or the credit rating systems used by commercial banks before providing personal or commercial loans. In these systems, a borrower's history is judged by a series of criteria believed to be associated with the likelihood of achieving results (repaying loans in full and on time). Those with the highest ratings enjoy lower interest rates, access to larger loans, and more streamlined approval processes; while those with poor ratings face higher costs, lower borrowing limits, and more cumbersome oversight. The most poorly rated borrowers do not receive funding at all. The idea is to establish a "pull" process, in which countries know that if they meet a minimum number of ex-ante criteria they will be rewarded with clearly stated rewards (which would be the same across countries) rather than a "push" process in which the Secretariat would urge individual countries to undertake specific changes in order to get certain benefits.¹³

CCM ratings could divide countries into three broad groups rather than place countries in a full ordinal ranking. That is, it would assign countries an "A," "B," or "C" rating rather than ranking countries ordinally (e.g., from 1 through 150). Countries would not have to be rated highly on all characteristics to get a top rating, just as bank borrowers do not have to have an absolutely perfect credit history to get the best interest rates. Thus, a country would not have to follow a strict set of requirements on the membership and size of the CCM, its processes, etc., but it would score more highly to the extent its CCM process reflects more positive attributes. This process would leave some room for flexibility, differences across countries, and measurement error. At the same time, if there were clear benefits for having a more highly rated CCM, it would provide CCMs with the incentives to move closer to the process that the GFATM believes is most appropriate, without the Secretariat dictating specific formulas to which all countries must adhere.

Challenge #4: Coordination and Harmonization with the "Network"

The Global Fund aims to provide financing through a relatively simple process, with a light administrative touch, while retaining strong accountability. In this way it hopes to improve on the common critique of donors that they create unnecessarily heavy administrative burdens on recipients. In addition, it sees itself as a financing instrument only, providing the funding for programs in which other actors in a "network" design the programs, implement activities, provide technical assistance, and play other supporting roles. The other members of the network vary by country, but include members of the CCMs (governments, NGOs, civil society, people living with the diseases, academics), principal recipients, sub-recipients, Local Fund Agents, other donors, suppliers of technical assistance, private companies, consultants, and others.

¹³ For more on "push" versus "pull" mechanisms, see Radelet (2004b).

Although there has been much emphasis on the Fund operating with a "light touch," many participants at the country level see the Global Fund in its first two years as actually adding one more set of processes on top of many others, with its requirements for its own CCM, its own proposal, its own monitoring and evaluation system, and other issues. In effect, some see the Fund as just one more donor that is adding to, rather than easing, the burdens on recipients. This had led to broader debates about the extent to which the Global Fund's requirements are or should be harmonized with existing donor systems, and a related debate about the extent to which the Fund should be a force to move other donors towards greater harmonization and coordination.

In a fully harmonized and coordinated system, all donors supporting a country's programs on a particular disease would aim to operate through the so-called three ones: one strategy, one set of supporting mechanisms, and one monitoring and evaluation framework. In this vision, all donors would agree to a uniform set of forms, reporting requirements, procedures, and evaluation systems in order to simplify the burden on recipients and free up more of their time and resources on actually implementing programs rather than reporting to donors and setting up parallel systems.

This ideal has much appeal. But its success depends on whether all donors can agree to a set of procedures and requirements that actually lead to more effective programs and are not onerous to the recipient. Harmonization is not an end in itself, but a means toward the end of more effective, less burdensome programs. Greater harmonization around ineffective procedures makes little sense. One choice for GFATM would be to adopt the procedures and requirements of existing donors. Although this would ensure harmonization and might lift some burden off of recipients, it will only work where existing procedures and requirements are effective. In some countries that may be true, but in many it is not. In many countries, donor procedures ensure neither speed nor strong accountability. In still other countries where GFATM operates, there are very few donors operating at all, so debates about harmonization and coordination have little meaning. Thus for GFATM to simply aim as a general rule to harmonize its systems with existing donor procedures would not be an adequate policy.

These issues suggest the need for a more differentiated approach towards harmonization and coordination based on at least three different kinds of country circumstances:

1. ***Countries in which systems appear to be working well.*** In these cases, GFATM should integrate its programs into existing procedures and processes as much as possible. This may be the case, for example, in countries where donors have established Sector-Wide Approaches (SWAs), baskets, or other pooled funding mechanisms in the health sector. In some of these countries, donor discussions with recipients on simplifying and streamlining procedures are well-advanced, and there is no reason for GFATM to recreate the wheel. However, health sector SWAs are currently operating in only around a dozen countries, just 10% of the countries in which GFATM is operating. Thus, those that advocate for GFATM to integrate more fully with SWAs are talking about a very small share of its

- portfolio. More generally, by all appearances the number of countries in which systems are well coordinated and effective is very small.
2. ***Countries with very few, if any, other donors financing activities related to the three diseases.*** For example, in several South Pacific nations, Australia or New Zealand may be the only other major donor working on the three diseases. In many middle-income countries that have "graduated" from other donor assistance (such as Chile), GFATM may be the only donor funding activities in the three diseases. In these countries, the issue is not coordination or harmonization, but rather establishing effective systems that meet GFATM's needs for responsible oversight but do not create unnecessary reporting burdens. In most cases this requires working with both government agencies (the Ministries of Health and Finance) and non-government recipients. Note that in these circumstances GFATM cannot be completely hands-off: establishing effective systems requires actively working with government and non-government agencies, a knowledge of best practices in other countries, and some ideas about how those practices can best be adapted to local circumstances. This does not mean that GFATM needs to do the work directly, but at the same time it cannot be so hands-off that it simply accepts whatever system the grant recipient proposes.
 3. ***Countries in which there are several donors already financing projects related to the three diseases, but systems are not working well.*** In these circumstances, GFATM needs to actively work with other donors to collectively adopt procedures and reporting requirements that are effective in meeting the donor's needs but do not create unnecessary burdens on recipients. GFATM has recently taken a very important step forward in this direction by agreeing on a set of common reporting indicators for HIV/AIDS, tuberculosis, and malaria with the World Bank, three UN agencies, and four U.S. agencies.¹⁴

In addition to basic reporting, GFATM needs to consider other requirements and processes (such as the use of CCMs and LFAs) in light of the burden they place on recipients, and explore ways to integrate and streamline them with (not necessarily into) existing processes. In its current model, GFATM has effectively created its own network of partners that operates in parallel with other donor mechanisms, rather than forging an overarching network that encompasses current systems and partners into an effective alliance. This will remain the case so long as the CCMs and LFAs remain as bodies used uniquely for GFATM funded activities, rather than for HIV/AIDS, TB, or malaria activities more broadly. The alternative structure for GFATM operations on the ground that I describe in Section Five would move GFATM more closely, albeit not fully, towards a more comprehensive network.

In an important related issue, some partners that see GFATM as insisting on its own parallel network complain about the burden placed on them by participating in GFATM-financed programs. Some donors (although far from all) complain that they are now expected to attend many "Global Fund meetings" on top of their regular duties, and see

¹⁴ The "Monitoring and Evaluation Toolkit" was agreed between GFATM, the World Bank, WHO, UNAIDS, UNICEF, the U.S. Department of State, Department of Health and Human Services, USAID, and the Centers for Disease Control.

this as an unfunded mandate on their time. Some have been unhappy at the expectation that they would reprogram funds to provide technical assistance and other support to "Global Fund programs," drawing funds away from their own programs. Partly this is a perception problem, with some participants seeing these activities as "Global Fund programs" rather than the country's programs. This suggests some residual sense of mistrust and lack of communication between GFATM and other donors.

But it also reflects a deeper real problem. GFATM is designed to help scale up the attack on the three diseases by providing greater financial resources. But scaling up only financial resources -- GFATM's primary role -- will be insufficient. More technical assistance, locally trained staff to implement programs, and other support services will all be necessary for a full scaling up effort. It has become abundantly clear in many countries that implementation capacity rather than short-term financing is a key constraint to success. These considerations suggest three possible areas for action:

- First, GFATM could be much more actively supportive of other agencies' efforts to expand their operations when they are complementary and provide important inputs to the programs that GFATM finances. One good example of a change in this direction is GFATM's recent call for donors to provide more resources for the WHO to scale up its technical assistance operations. The financial resources needed to help other agencies expand should not come through GFATM -- to do so would seriously undermine support for GFATM from its major donors -- but GFATM should be supportive of these other agencies' efforts to scale up their complementary operations.
- Second, GFATM needs to continue to reorient both its rhetoric and actions so that other partners see GFATM as financing *national programs* towards which these other partners contribute, rather than as financing GFATM programs. Progress clearly has been made along these lines during the first two years, but there is room for much more. The goals should be to find ways that each agency can work together to support the country's approach to fight the diseases. In other words, GFATM needs to move closer to a situation in which other partners wish to provide their support because it is consistent with their own goals and in their own interest to do so. GFATM needs to be seen as less of a "tax" on other agencies and more of a mechanism through which these other partners can better achieve their own goals, aided by the financing that GFATM generates. Again, to the extent that the CCM continues to operate only as a vehicle for GFATM-funded activities, this problem will remain a challenge.
- Third, GFATM should more proactively use its leverage and resources to create incentives for greater harmonization and coordination among donors and an easier burden for recipients.

This last step, however, is part of a broader strategic issue for GFATM: to what extent it should be more than a financial instrument and act as an agent for change in broader relationships among donors, governments, civil society, and other group. I now turn to addressing that question.

Challenge #5. Moving Beyond the Narrow Role of Financing Instrument and Becoming a Broader "Agent for Change"

One of the Global Fund's basic operating principles is to operate as a financing instrument, not as an implementing agency. It relies on the CCMs to design proposals, PRs and sub-recipients to implement activities, LFAs to carry out assessments, and other agencies to provide technical assistance. The approach of playing only the role of a financial instrument is consistent with GFATM's light administrative touch, its small secretariat, and its decision to not have in-country representatives.

However, is operating strictly as a financing agent the right approach? Providing new financing to countries -- and only new financing -- will lead to success only if financing is the sole constraint to success. Clearly, however, it is not: other factors, including weak institutional capacity on the ground, poor infrastructure, lack of political leadership, and lack of technical expertise all constrain progress in fighting the diseases. Over time, additional financing is one ingredient that can help build institutional and technical capacity, and therefore help relieve some of these constraints. But in reality, additional financing alone is unlikely to achieve results either in the short-run or the long-run. These other constraints are real, especially in the short run, as evidenced by the lack of approved proposals in some countries, the length of time between approval and grant signing in others, and the slow pace of disbursements in some countries with signed grant agreements.

These constraints will affect GFATM's success or failure, since they will significantly affect the success or failure of the programs and activities that GFATM finances. There are three broad ways in which GFATM could respond to this challenge:

1. ***Leave it to others.*** GFATM could stick to financing, and leave it to others in the "network" to figure out how to resolve these issues. Although this is consistent with the "light touch" and a narrow focus on its role as a financing instrument, almost no one would accept it as the right answer, since others in the network are not stepping up to the challenge in any discernable way. To take a fully hands-off approach would be to accept that a large number of GFATM-financed programs will fail, with dire consequences for those affected by the diseases.
2. ***Take on new roles.*** Some people believe that the GFATM Secretariat should actively take on a stronger role in project implementation and directly attack some of these other constraints. Some -- mostly representatives of traditional donor agencies -- believe that GFATM should expand its role at least partially by placing staff in-country to "dialogue" with the government, help with project design, push processes towards timely completion, or directly supply technical assistance. In effect, GFATM could move to more of a "full service" aid agency that actively tries to address all of the various problems encountered on the ground. However, this approach would quickly undercut GFATM's country-led, participatory approach and would weaken attempts to build long-term capacity (by substituting for it). In effect, it would make the Fund into just another donor agency relying on a top-down approach that has not worked particularly well in the past. There are many other agencies already in existence that have residents on

the ground, can supply technical assistance, assist with implementation, and play the other roles needed to support successful programs. The challenge for the international community is to give these other agencies the incentives and resources they need to play these roles more effectively.

3. ***Become an "Agent for Change."*** This suggests a third response in which GFATM would actively use its high profile and financial leverage to be an "agent for change" in other parts of the network so that aggregate national programs can better achieve their goals. In this approach, GFATM would not take on the roles of other agencies, but would use the financing it brings to the table as a tool to create the incentives to get other parts of the system to work better. *In effect, GFATM would become more than money -- it would become the leading edge of a different way to organize foreign assistance and key domestic partners.* In some cases, this might mean pushing for fundamental changes in processes and procedures, as when the Ministry of Finance (acting as PR) has disbursement procedures for NGOs that are unnecessarily slow and cumbersome. In other cases, it may be helping other agencies receive the resource they need, as in scaling up WHO's technical assistance budget. In still others, it may be negotiating with other agencies to agree on a common set of reporting requirements or other procedures

In many respects, of course, GFATM is already operating as an agent for change. The CCM mechanism has changed the dynamics of key relationships on the ground in many countries. As discussed, the Secretariat has worked with several other institutions to agree on a common set of indicators for monitoring and evaluation. It has urged greater donor support for the WHO to scale up its technical assistance programs. It has successfully pushed for greater cooperation and communication between governments and civil society through the CCM process. And it is working with other groups (such as the Clinton Foundation) to use its buying power to influence the markets for drugs, medicines, and other commodities.

Nonetheless, to achieve success, the Secretariat should play this role more fully and more strategically. GFATM can and should use the momentum, publicity, and financing it brings to strengthen the ability of other actors to overcome key constraints to success. *But this will take a clear strategy, staff, time, and resources.* Strengthening the weak links of the chain needed for successful programs is unlikely to happen just by chance. To make it happen more successfully, the Secretariat could take several steps, including:

- devote staff to work specifically and strategically on these issues both at a global level (that is, working broadly with the WHO, World Bank, UNAIDS, and other major actors) and at the country level (CCMs, government, NGOs, etc).
- Establish clearer lines of communication within the Secretariat so Portfolio Managers wrestling with a set of issues in one country know what the experience has been with similar issues in other countries (the recent reorganization of Secretariat staffing may help in this regard).
- Develop specific, active strategies for particular countries for GFATM to use its leverage and resources to prod governments, members of the CCM, implementing agencies, and other partners to identify and then strengthen the weak links in the

system. GFATM staff are not in a position to either identify the key constraints or solve them directly, but they use their resources to stimulate change. This may involve simple transfer of information such as bringing to bear the experiences of other countries, or less conventional measures such as involving heads of state to push for progress or more actively using the press to publicize both success and failure.

Some would welcome the idea of GFATM as an agent for change, while others would be threatened by it. A big part of the challenge will be to convince other partners that the changes towards which the Fund is working are in their own interest, and that the changes will help them achieve their own goals within the country. The fact that GFATM's financial contributions are a big asset that can help other donors achieve their goals is a huge asset towards this end. There is no question that the idea of the Fund as an agent for change is already implicit in much of what it does. It should be made more explicit, and be backed up by an adequate strategy, planning, and resources.

Challenge #6: Operating on Performance Based Principles

One of the key differences between GFATM and other donor agencies is its promise to be performance based, meaning that it will continue to fund programs that achieve their goals and make progress in fighting the diseases, and will reprogram, reduce, or eliminate funding for programs that do not. It is too early to tell whether or not GFATM actually will be performance based in practice. This will become clearer in late 2004 and early 2005 as the first two-year grants come to an end and the Board considers grant renewals. One early sign that GFATM will take performance seriously was the Secretariat's decision to reorganize the program in Ukraine and designate a new PR after performance clearly went far off track early in the program.¹⁵

There are three key purposes for the performance-based approach:

- ***To create effective incentives for grant recipients to achieve results.*** After all, the primary objective of GFATM is to finance efforts that make real progress in fighting the diseases. Continuing to provide funding for activities that are not making a difference while denying it to more effective programs is obviously self-defeating, and has been a major weakness of other aid programs.
- ***To generate the basic information necessary better understand what kinds of interventions work well and what kinds do not, so that more successful activities can be expanded and replicated elsewhere.*** Information feedback from one program to another is critical to learning what kinds of interventions are successful and which are not, which in turn should help build more successful programs.
- ***To maintain the support of major donors (and their taxpayers).*** There is little chance that GFATM will continue to receive significant support from its major donors if it is unable to show that the interventions it finances are making significant headway.

¹⁵ See the press release at http://www.theglobalfund.org/en/media_center/press/pr_040224.asp

Advocates for GFATM following performance-based principles come from both donor and recipient countries. Some donors strongly support performance based financing, while others are more skeptical that results can be measured so easily or that GFATM should reduce funding for weak performers. Recipients also have mixed views, with some believing that GFATM will need to make allowances for unforeseen difficulties in implementation, and others (especially non-traditional recipients) eager to show that they can produce results if given the opportunity and the necessary resources. Only a very few of the people I met with -- mostly from some traditional donor agencies -- were outright opposed to the approach, arguing that it was not statistically or politically possible, and that it overlooked the time necessary to introduce new processes and build institutions.

Some of the concerns inherent in this approach are technical issues around proper baseline measurement, choice of indicators, frequency of monitoring, weaknesses in the data, and options for proper verification of reported results. These are important issues, but most are technical issues and there is little that I can add to the debate around that subset of issues. The Secretariat has made important progress in this area by agreeing to the “Monitoring and Evaluation Toolkit” with the World Bank, UN, and U.S. agencies, as mentioned previously.

In addition to technical measurement issues, there are two broad concerns expressed about the performance-based process, which we explore in turn:

- First, many people wonder how the Board will implement performance-based principles, with some worried that it will be too strict, and others that it will be too lenient.
- Second, many people questioned whether the Local Fund Agents (LFAs) were an appropriate instrument to make assessments and verify information for GFATM at the local level as one of the bases for measuring performance.

Board Decisions

The extent to which GFATM will operate as a performance-based grant mechanism will not become clear until after the Board begins to make decisions on grant renewals later this year. Some worry that ultimately the Board will be unwilling to reduce or eliminate funding for weak programs. The Board and the Secretariat are likely to come under significant pressure from some groups to keep funding going regardless of performance. This would be short-sighted: by funding programs with weak performance, more promising programs that could achieve stronger results will not receive funding. Moreover, grant recipients will recognize that they do not have to achieve specified benchmarks to receive additional funding, so performance will further weaken. As a result, donor support is likely to weaken, undermining the long-term strength of the Fund. If recipients begin to see grant renewals as entitlements rather than as dependent on performance, GFATM will begin to look like most other donors, losing its promise to become an innovative aid agency. These outcomes would significantly impede long-term progress in fighting the diseases.

Others worry that the Board will take too strict an approach. They are concerned that the Board will judge countries by a few indicators that ultimately are imperfectly measured and cannot tell the complete story. They fear that the Board will not take into account important factors that may have impeded recipients from achieving stated goals, or that important progress in institution building and other processes that are harder to measure will be under-emphasized. A very small number believe that the performance-based approach is simply a device imposed by the rich countries that will allow them to justify reducing their funding in the future.

It is well beyond the scope of this paper (and would be presumptuous besides) to provide detailed guidelines for the Board in how to approach these important decisions. However, one way that GFATM can avoid some of the problems faced by other donors is to avoid putting itself into the trap of being faced with a pure bi-nodal decision of either full funding or no funding. Many donor agencies operate under this kind of approach, or something close to it, and fortunately GFATM has been structured so that it does not have to do so. With most donors, if recipients achieve, say, three-quarters of specified benchmarks, the donors face a dilemma. On the one hand, approving the full disbursement sends the message that the missed benchmarks are unimportant, a signal that is noted by recipients in other countries. This is a real problem for some donor agencies, as recipients have learned over time that they do not have to fulfill their promises in order to receive full funding. On the other hand, denying the disbursement provides no reward for the steps actually taken, and risks undermining future progress. Some donors try to avoid this problem by providing "no-cost extensions" in which recipients are given more time to achieve the benchmarks, after which they receive the full disbursement, but this at best only partly resolves the issue.

GFATM can take advantage of its unique structure to operate differently from traditional donors in ways that could dramatically change the incentives facing recipients and thereby improve performance. There are at least three ways that the Board and the Secretariat could make decisions that could alter these incentives, some of which they have already decided to pursue.

- ***First, GFATM has already determined that it will have the option of approving partial rather than full disbursements where the situation warrants.*** The extent to which the Board will take advantage of this option, however, and the details of how it will operate in practice remain to be seen. If a recipient achieves three-quarters of the specified benchmarks, the Board could approve, say, 70-80% of the specified funding, depending on the circumstances. If the recipient later achieves the missed benchmarks, it could receive additional funding, but not the full amount it would have received if it had achieved all the benchmarks on time. This seemingly simple step could have rather profound consequences. It would give recipients the incentives to achieve *every* benchmark that they specified in their proposal *on time*, not just *enough* to cross some ill-defined threshold that would convince the Board to approve full funding. It would set the standard that for GFATM programs, great performance will be rewarded better than good, which will be rewarded better than fair, which in turn will be rewarded better than poor. The Secretariat has already taken some steps in this direction, and they should be encouraged.

- ***Second, when Principal Recipients achieve very weak performance, the Board has the option of approving a re-programmed set of activities with a new PR (and a smaller budget).*** Most donors cannot take this approach, but GFATM can because it approves proposals from a CCM that by definition has several possible PRs. Indeed, this approach was already taken in Ukraine. The possibility of switching to a new PR and scaling back the budget (consistent with the principle of partial disbursements for poor performance) ensures clear penalties for non-performance, since the PR is taken out of the picture and does not receive future funding. In addition, future proposals from the CCM should receive extra scrutiny and closer oversight as a result of non-performance. At the same time, it provides a way for the funding to continue so that the country can continue to fight the diseases.
- ***Third, the Board could use the proposed CCM rating system described earlier along with performance on earlier programs as explicit criteria in approving future proposals.*** Countries with a strong record of performance and highly rated CCMs would go through a more simplified proposal review process and could expect to receive approval for higher amounts of funding for new activities than those with a weaker past performance. In other words, past performance could directly affect Board decisions on future proposals. In situations where the Board can only approve some of the proposal recommended by the TRP (as described earlier), it could add to its current allocation rule (based on quality of the proposal and extent of disease burden) by explicitly incorporating past performance and CCM ratings in determining which proposals are approved for funding.

Local Fund Agents

The Local Fund Agents (LFA) are one of the most unique aspects of the Global Fund, and they have engendered much discussion and debate. The LFAs (in most cases) are accounting or consulting firms with offices in the recipient country (or occasionally in a neighboring country) that carry out certain functions on behalf of the Secretariat. Specifically, they are responsible for four types of assessments of the PRs:

- institutional capacity,
- procurement procedures,
- fiduciary arrangements, and
- substantive progress towards specified goals.

Some observers have raised concerns as to whether the cost of the LFAs is worth the value that they bring in these four assessments. The 2004 budget for LFAs is about \$22 million. This is equivalent to about 2% of the \$1 billion in grants that the Secretariat projects will be under management by the end of the year, and averages about \$180,000 for each of the 122 countries in which the Fund has approved proposals. This does not seem extravagantly expensive, especially compared to the usual donor procedure of placing an expatriate advisor in each country. (As a rule of thumb, one full time resident expatriate advisor costs between \$250,000-\$300,000, plus office support costs). Others are concerned about the incentive structure around the LFAs: they are paid for each day they work, giving them the incentive to find things to do so they can bill more time. The LFA's fee does not depend on the quality of the LFA's performance, and it is unclear how the Secretariat will judge whether particular LFAs are doing a good job. There are also

concerns about the LFAs having other contracts with the governments they are assessing on behalf of GFATM, and whether such arrangements might create conflicts of interests.

Most participants praise the LFA's contributions to one part of their activities: financial management and their role in carrying out fiduciary assessments. PRs and CCMs welcome having a private sector voice at the table that brings with it the financial skills that they often do not have. There is broad agreement that the LFA's skills in this area are a welcome addition not often found in most aid-financed programs.

The concerns are raised in the other three areas of assessment, particularly progress on substantive health benchmarks, where LFAs have much less skill and knowledge and their contributions are less clear. Many of the LFAs sub-contract with consultants or other firms to carry out institutional, procurement, or substantive assessments, which sometimes leads to delays and inconsistent quality. For example, some grant signings have been delayed while the LFAs identify someone with the skills necessary to undertake an assessment of the procurement procedures of the PR. Many people have questioned the LFA's ability to carry out substantive assessments, even through sub-contractors, since most have no experience in health issues and little background to understand the key indicators, how they are measured (or mis-measured), and their technical purpose.

These concerns have led to calls to eliminate the LFAs or modify their role. A minority argues that the underlying concept is flawed, and that GFATM needs to have a resident on the ground to carry out these functions. (Others rightly point out that this would hardly solve the problem, as no single resident employee would have the skills necessary to carry out these assessments). Others suggest that the LFAs should be a joint enterprise carried out by an accounting firm together with a public health firm.

Still others suggest that GFATM unbundle the various roles assigned to the LFA so firms that specialize in each of the four areas can carry them out. One possibility would be for the Secretariat to contract globally or regionally with several firms that specialize in the four types of assessments. Thus, it could have arrangements with several firms that specialize in health sector procurement and logistics systems, for example, and call on one of these firms when a procurement assessment is needed. Payments to these firms would be based at least partially on performance: careful assessments carried out by a specified date would be rewarded more than a superficial assessment that was delayed several times because the firm could not identify a qualified person. The Secretariat would contract with the same or a different firm to carry out the substantive assessments and verification of progress towards achieving specific health goals.

This arrangement would create additional contracting work for the Secretariat, with the Fund Portfolio Managers (PMs) involved in arranging for assessments, rather than the LFAs carrying out this role. This would create more work for the PMs, but would provide much more flexibility and probably would be much cheaper than relying on the LFAs to find their own subcontractors. This arrangement probably would rely more on international consultants than local ones, although many of the firms that specialize in

procurement or health-related monitoring and evaluation have offices around the world. It would also generate more competition, as a firm that carries out a poor or slow assessment in one country will not be called on for the next country. This element of performance incentives is missing from current LFA arrangements.

Challenge #7: Finding the Appropriate Size for the Secretariat

The small size of the Fund's Secretariat is central to its promise to be innovative, efficient and effective. The Fund is very lean, with low overhead cost (about 5% of grants under management) and a light bureaucracy. Its staff size of 80 people is astonishingly different from other donors. (The World Bank, with 10,000 employees working on 120 countries, has about 80 staff members per country!) There is widespread support for this approach among participants and observers, and it should be retained. Only a few people advocate for the Fund to place resident staff in recipient countries, and the arguments for doing so are not persuasive. Nevertheless, the Secretariat needs to strengthen its processes and performance going forward. Many observers suggested that the skill set of the portfolio managers needed to be strengthened, and suggested the idea of small teams of staff with different skills that could work across several countries, particularly during the grant agreement and renewal phases. Others suggested the need for stronger communication and improved guidelines from the Secretariat to actors on the ground. The Secretariat is already taking steps to work on some of these issues and to strengthen its performance. The recent reorganization and the anticipated introduction of a system of indicators to monitor the Secretariat's performance are both important steps in this direction.

This analysis in this paper has suggested a modest number of new roles for the Secretariat, including contracting with several global firms to carry out the assessments now carried out by the LFAs, introducing a rating system for CCMs, and strategically working with other partners to strengthen the systems necessary to support the programs that the fund and other partners support. While modest, these changes will require some additional staff and resources in order to be successful.

The 80 staff members currently work on 227 active grant agreements in 122 countries, or an average of about 3 grant agreements and 1.5 countries per person. The 19 full time Portfolio Managers cover an average of 12 grant agreements and 6.4 countries each, giving them only a few hours per week to focus on any one grant agreement. Going forward, the Secretariat is likely to soon be providing funding for over 300 grant agreements, with actual disbursements reaching \$1 billion by the end of 2004 and continuing to climb thereafter. It is hard to imagine effectively managing this portfolio with the current staff size of 80 people. Indeed, it is almost certain that the quality of the portfolio will begin to suffer significantly if the Secretariat remains at its current size.

Table 2 shows the disbursements and staff size of several foundations, aid agencies, and private banks. The final column shows the amount of annual disbursement per staff member. The largest disbursement-to-staff ratios are for the Inter-American Development Bank (4.5 million per staff), the Turner Foundation (4.4), the Bill and

Melinda Gates Foundation (4.3) and the National Science Foundation (3.5). All of the other agencies have ratios less than 3.0. As a June 2004, with the Secretariat's staff managing \$400 million in disbursements, the current ratio is 5.0, already higher than any of the other organizations in the table. More importantly, if disbursements reach their projected level of \$1 billion by the end of 2004 (and remains at \$1 billion per year thereafter) and the staff size remains the same, GFATM's ratio will be 12.5, nearly three times higher than all of the other organizations in the table. One reason for the higher number for GFATM is that they subcontract some activities to the LFAs. However, many of the other organizations in the table subcontract certain services or hire consultants, and even factoring in the LFAs the GFATM ratio will be much higher at the end of this year than for any other organization. Of course, none of these agencies is exactly like GFATM, so the comparisons should be used with caution. There are significant differences in the size of projects and program, the extent of technical support and research capacity, and the type of financial instruments that are used. Some of these agencies might be over-staffed, with more employees than they need to provide essential services. Nevertheless, the point remains that there is a vast difference between the Global Fund and the staff size of other organizations.

A radical change in the size of the Secretariat is not necessary, nor is a move to place staff as residents in recipient countries. But a *moderate* increase in size to deal with the growing portfolio and some of the key issues raised in this analysis seems appropriate going forward. Without it, disbursements will slow, quality will diminish, and the Global Fund's effectiveness will decline. The goal of the Secretariat's small size is to increase effectiveness, but going forward with too small a staff could have precisely the opposite effect.

Table 2. Disbursements and Staff Size for Selected Foundations, Private Corporations, and Bilateral and Multilateral Donor Agencies.

Organization	Total Staff	Funds Disbursed/Budget	Funds per Staff
		\$ millions	\$ millions
Asian Development Bank	2,163	5,300	2.5
Bank of America	133,944	365,447	2.7
Bill and Melinda Gates Foundation	238	1,012	4.3
Citigroup	250,000	436,304	1.8
David and Lucille Packard Foundation	160	230	1.4
DFID	2,257	3,310	1.5
Ford Foundation	600	931	1.6
International Fund for Agricultural Development	315	450	1.4
Inter-American Development Bank	1,770	7,900	4.5
International Financial Corporation (IFC)	2,000	3,100	1.6
Kellogg Foundation	205	223	1.1
MacArthur Foundation	192	180	0.9
National Science Foundation	1,300	4,500	3.5
Pew Charitable Trusts	140	230	1.6
The Open Society Institute (Soros Foundation)	500	261	0.5
Turner Foundation	16	70	4.4
USAID	6,910	8,800	1.3
World Bank	10,000	19,500	2.0
GFATM as of late June 2004	80	400	5.0
GFATM projected end 2004	80	1,000	12.5

Source: Radelet, 2003, Table 6.1. Based on information available from organization websites and personal communications with the institutions.

V. Two Alternative Structures in Recipient Countries

There are different ways in which the Fund could structure its operations in recipient countries that might help it to better achieve its objectives. Any modification should aim to retain and enhance the country-led, participatory structure of grant proposals and implementation, streamline the process of assessments and disbursements, and ease the growing administrative burden of grant management on the Secretariat. While there are inherent tensions between these objectives, it is possible that a modified structure could help improve the Fund's ability to achieve at least some, if not all of them. In this section I explore two possible ways to modify GFATM operations in recipient countries.

1. Require at least two PRs in each country, rate the CCMs, and discontinue the LFAs.

During the first two years disbursements have moved more quickly and smoothly to non-government PRs than to government PRs (as shown previously in Table 1). Most countries want the government to act as a PR, but the early evidence suggests that non-government PRs are able to initiate their programs more quickly. *This suggests that GFATM should require that there should be at least one non-government PR in each country. In most cases, this will imply at least two PRs in each country, one government and one non-government.* Establishing this requirement would have several advantages:

- It would ease disbursement and implementation bottlenecks, since not all programs would have to go through one agency, which in turn would increase the country's absorptive capacity to use funds quickly and effectively.
- By ensuring some funding would go directly to non-government groups, it would help develop greater capacity in civil society groups, faith-based organization, NGOs, and other groups.
- It would ease the logistical and political problems that exist in some countries around the government transferring funds to non-government agencies.
- It would create some level of competition between the PRs, in the sense that strong performance by one might create pressure on the other to improve its performance.
- It would make it easier for the Board to consider halting disbursements to a poorly performing PR since it would not be cutting off all funds flowing to one country.

Pushing this logic further suggests that GFATM should always encourage more PRs rather than fewer, implying that many countries might choose to work with 3, 4, 5 or even more PRs. Additional PRs could, in fact, multiply the advantages listed above. However, it would result in a larger number of smaller grants for the Secretariat to manage, which would require a larger and more complex Secretariat, with higher costs per disbursement. For example, if the 122 countries in which GFATM already has approved programs eventually operated an average of 6 grants each, the Secretariat would be managing 732 active grants, about triple the current size. This suggests that the Board impose an upper limit on the number of PRs in each country of three or perhaps four maximum. Thus, countries would be required to operate through at least two but now more than four PRs.

In addition to requiring at least two PRs, GFATM could modify the operations of the CCMs and LFAs, as discussed previously. To recap, the Secretariat could rate the quality

of each CCM to begin to distinguish the well performing from the average and the poorly performing. Highly rated CCMs would be rewarded with a more streamlined GFATM process, including accelerated timetables, fewer assessments and reviews, and somewhat lighter oversight, as well as a greater likelihood for approval of proposals with more funding. This step would provide CCMs with clear incentives to operate more effectively, with better oversight and continued involvement in program implementation, without the Secretariat dictating specific formulas to which all countries must adhere.

The third element of this strategy, also discussed previously, would be to eliminate the LFAs. As discussed previously, their four roles – institutional assessment, procurement assessment, fiduciary oversight, and M&E – would be unbundled and undertaken by different actors. The Secretariat could draw from a global pool of individuals or organizations to carry out particular assessments in any particular country. This would create much more flexibility for the Secretariat, speed the assessment process, and reduce the conflicts of interest that may affect LFA performance. It would allow for more specialized individuals or agencies to take on the different roles it now plays, which could provide significant cost savings. However, it might be more difficult for the Secretariat to manage.

This structure has many strengths, but it also has some weaknesses. In particular, it may not go far enough in giving the CCMs the legal structure, administrative apparatus, and incentives necessary for them to be sustained over time, have the incentive to oversee the PRs and ensure strong performance, and provide non-government agencies sufficient independence from the government. The multiple actors that would play the roles now carried out by the LFA would increase certain transactions and management responsibilities for the Secretariat. It also does not address the issue of improving harmonization and coordination with other donors. Moreover, by allowing up to four PRs per country, it could lead to an excessive grant management burden for the Secretariat. Nevertheless, in my judgment it would be an improvement over the current structure.

2. *Reorganize the CCMs and PRs into “Grant Coordinating Agencies.”* This option would entail a more fundamental reorganization. Instead of the current CCMs, PRs, and LFAs, the Fund could work through two “Grant Coordinating Agencies” (GCAs) in each recipient country:

- One GCA would coordinate and manage all grants going to the government. This agency would be similar to current government PRs, and most likely would be a small office in the Ministry of Health or Ministry of Finance.
- A second GCA would coordinate and manage all grants going to the private sector, including NGOs, faith-based organizations, and private firms. In effect, the private GCA would work much like a local foundation that would manage grants on behalf of GFATM.

The GCAs would perform all of the roles of the current PRs plus one role of the current CCMs (vetting and bundling proposals for submission to the Secretariat), would give a clearer legal and institutional foundation to what are now the CCMs, and would ease the administrative burden on the Secretariat.

NGOs and other private sector organizations would submit their proposals to the private GCA, much like they now do to the CCM. The private GCA would vet all proposals for activities related to all three diseases and bundle together the most worthwhile for a single submission to the Secretariat. The Board of the GCA would approve any submissions to GFATM, as the CCM now does. The Board would be comprised of representatives of NGOs, faith-based organizations, private firms, people living with the diseases, the government, and appropriate donors. *In other words, the board of the GCA would look very much like today's CCM.* Although the government should be represented on the Board, its representative should not act as Chair. Proposals would be submitted to GFATM as they currently are, reviewed by the Technical Review Panel, and approved by the GFATM Board.

If the Global Fund approved the GCA's proposal, the Secretariat would disburse funds to the GCA, which would then manage smaller sub-grants with the implementing agencies. The GCA would be responsible for assessing the capacities of the implementing agencies (before it approves the implementing agencies' proposals for submission to GFATM), making disbursements, and monitoring progress toward specified benchmarks, much the way in which private foundations operate. Implementing agencies would submit periodic reports (e.g., once every six months) and other information as necessary to the GCA, giving it a first-line monitoring role. Importantly, the GCA could receive funds from other entities besides GFATM, including other donors, private donations, or even the local government.

The government GCA would operate in a similar manner. It would coordinate and manage all grants for public sector agencies (the national government, provincial governments, local governments, and state-owned organizations). Since the government GCA would most likely be an office in the MOH, it would not have an official Board per se, but it would have to show evidence that it had seriously consulted with and received feedback on its submission from private agencies (NGOs, civil society, etc). For example, it could form an advisory Board of non-government representatives that would provide feedback to the government GCA and the Secretariat on its proposal submission. Alternatively, the Board of the non-government GCA could be consulted and provide input on the government's submission. Of course, the government and non-government GCAs could jointly implement some programs as well, where appropriate. Funding through the government GCA could be made to be consistent and harmonized with other donor activities, whether through budget support, SWAps, or specific projects aimed at the three diseases.

Overall national policies for the three diseases would be the responsibility of the National AIDS Councils (or similar body) and their equivalents for the other two diseases. The GCAs would send their bundled proposals to the National Councils under two possible scenarios:

- Give the Council the opportunity to *comment* on the proposal (and send those comments to the Secretariat), without giving the Council the right to approve or reject the proposal.

- Give the Council the right to *approve or reject* the proposal prior to submitting it to the Secretariat.

The first approach is most consistent with GFATM's current structure – the National Councils are aware of the process and often are represented on the CCMs, but do not approve the CCM's proposal prior to submission to the Global Fund. In many countries, giving the Council the authority to approve or reject submissions could be problematic, especially in countries with very poorly functioning governments or National Councils that could act as an impediment to a smoothly functioning GCA. In effect, giving the Council approval authority could give the government veto power over the private GCA's submissions. For this reason, GFATM should want to hear the views and receive the input of the Council, but should not necessarily accept its views or give it veto power.

In either case, the Council would not have responsibility for generating proposals, approving disbursements, or overseeing implementation. Its role would ensure that the GCA's submission was consistent with the country's overall policy direction. It would also help to strengthen consistency and cooperation between the government and non-government GCAs. Although the Council would not oversee the GCA's activities in a formal sense, it would receive periodic updates on its progress. Presumably, some members of the National Council would also be members of the private GCA's Board, providing another link.

What types of entities could act as the private GCA? One possibility would be for an existing foundation, umbrella NGO group, or other organization that would evolve to take on these new responsibilities. One complicating factor would be that an existing entity would have to adjust its Board to reflect the more diverse representation of the CCM, which for some organizations would represent a modest change and for others a more significant change. Alternatively, the GCA could be a new entity formed specifically as a local foundation to receive and coordinate grant funds from many different donors. This latter structure might be more desirable in the long-run, but would involve a longer start-up time. However, it would provide a much stronger legal foundation and administrative structure that could be sustained over time as compared to the current structure of the CCMs.

Under this arrangement, GFATM would not need to monitor the progress of each sub-grant. Instead, it would focus on the overall performance of the GCAs and their aggregate portfolios. GCAs could be rated annually both in terms of their process (ranked as "A," "B," or "C" as discussed earlier in the paper for CCMs) and their portfolio performance. Well-performing GCAs could be rewarded with larger, more streamlined grants. For the GCAs with the strongest track record, the Secretariat could take the further step of providing it with periodic block grants or a "line of funding" (similar to a line of credit from a bank), providing the GCA with greater flexibility to respond to new proposals or changing circumstances between the Secretariat's grant cycle. For poorly performing GCAs, the Secretariat would eliminate funding and establish a new GCA, much like it identified a new PR in Ukraine following the poor performance of the initial GCA.

In this structure, the CCM would no longer exist as a stand-alone body, and effectively would become the Board of the private GCA. Its members would also be able to provide comments and input on the government GCA's proposal. The participatory approach of the CCM would be maintained through the Board of the GCA and by the fact that any organization could submit a proposal to the GCA for possible inclusion in the GFATM submission. The lack of legal standing of the current CCM would be resolved, as would the problem of its lack of a permanent secretariat – that role would be played by the staff of the GCA. Thus, the CCM (in its new form) would have a stronger structure and stronger incentives to ensure good performance among implementing agencies.

As with the other option, the LFAs would cease to exist. The Secretariat would conduct institutional and procurement assessments of the GCAs by contracting with global consulting firms or a global pool of consultants that specialize in these specific areas. Local accounting firms could conduct fiduciary assessments, much as they periodically audit and certify the financial accounts of private firms. The major M&E task would be to verify the data submitted by the GCA on the aggregate performance of its portfolio. This verification function could be carried out by some combination of a local consulting firm that specializes in health issues, local universities or research organizations, or an international consulting firm.

This structure would have several advantages over current arrangements, including all of those listed above under the model with two PRs, plus several others:

- The secretariat would manage only two grants per country, far fewer than the 6 or more grants per country that are possible in several years under current trends. The average grant size would obviously be much larger, providing some advantages of economies of scale.
- More responsibility and “ownership” would be provided to the recipient country through the GCAs, since they take over some of the grant management functions currently the responsibility of the Secretariat.
- The proposal-vetting role of CCM would be combined with the disbursement and monitoring role of PR into the GCA, solving the current problem of inadequate incentives to keep CCMs active after proposals are accepted.
- There would be strong performance incentives for the GCAs. As long as continued funding to the GCA is contingent on the performance of its portfolio, it will have ample incentives both to submit good proposals and ensure they are adequately implemented over time.
- The current ambiguity over the roles that the CCM should or should not play (i.e., vet and bundle proposals, coordinate national policies, monitor and oversee PRs) would be resolved by more clearly assigning those separate tasks to different organizations. The CCM's would become a legal entity as the board of the GCA, with the GCA acting as its secretariat.
- Finally, by establishing two GCAs, this structure would reduce the issue of government dominance that exists in some countries, both in its role in vetting proposals and in sometimes hindering financial flows to non-government actors.

This structure has several weaknesses as well. First, by creating some separation between the two GCAs, there may be fewer linkages and less collaboration in some countries between government and non-government agencies than under the current structure. However, these linkages can be strengthened by ensuring government participation on the Board of the non-government GCA, providing civil society a role in vetting government GCAs, and through the influence of the National Councils. Of course, in some countries creating this separation will be an advantage, especially when too much government control has undermined the progress of non-government activities. Second, it would take some time to establish the GCAs, which could delay initial progress, although in the medium and long run they are meant to enhance progress in effectively fighting the diseases. Third, if a GCA performs poorly, transferring its operations to a new body would be a challenge (but not impossible). As presented here the structure may not be optimal, and could be modified or customized for different countries. Both of the proposals presented here – requiring a certain number of PRs or establishing GCAs – are presented not so much with the idea that either is the ideal structure, but rather as a way of generating additional thinking of the possibilities for restructuring that would enhance the operations of the GFATM while maintaining its unique strengths and characteristics.

VI. Conclusions

The Global Fund has the potential to substantially advance the fight against three of the world's major diseases. At the same time, it also could significantly transform the way that foreign aid is organized and delivered. GFATM's design challenges conventional aid programs in several ways and promises the possibility of better outcomes for recipients and donors alike. It moves away from the standard government-to-government model at the heart of most aid programs and instead includes a much wider circle of actors, including NGOs, faith-based organizations, civil society groups, people living with disease, private companies, foundations, and others. Its recipient-driven, participatory approach is designed to allow local groups to establish their own highest priorities, build greater capacity to design and implement programs, and engender stronger commitment among implementing partners for success. Its small bureaucracy reduces financial costs and is meant to reduce the administrative costs on recipients. GFATM is much more open and transparent than most aid agencies, which over time should help clarify decisions and policies and enhance the process of learning from and improving programs over time. Its promised focus on performance is meant to provide incentives for strong performance, ensure that funds are allocated to programs that show the strongest results, and provide continued confidence to donor countries.

At the same time, the Global Fund's experience to date has raised some important questions. Its focus on wide participation and building local capacity necessarily takes time, and many are concerned that GFATM's process is too slow. Of course, it is unsurprising that a brand new international organization built from scratch and designed to finance programs around the world would require some time to establish itself, build appropriate systems, modify them where necessary, and overcome inevitable early design flaws and missteps. In fact, the GFATM process has accelerated with each new round of proposals. Nevertheless, the concerns about speed must be taken seriously, and there are several steps that can be taken to further speed the process. In a related issue, some question whether the recipient-led approach is really the best strategy for health emergencies in the world's poorest countries, since they face significant constraints in human and institutional capacity. Others, by contrast, are concerned that GFATM structures will not lead to sufficient participation by marginalized groups, and worry that governments and donors will continue to dominate the process and at times impede results. In addition, GFATM's promise to be truly performance-based has yet to be tested, and some worry that this is more rhetoric than reality. Many donor programs have pledged to be performance based, yet few actually are.

It is too early to judge whether GFATM will reach its full promise. Early results are available for only a few programs, and while these generally are encouraging, they are not sufficient to reach firm conclusions about GFATM's efficacy. Instead of attempting to judge GFATM's impact on the three diseases, this analysis has focused on its approach as an aid finance delivery mechanism, and has examined some of the major issues and challenges facing the Fund after its first two years. Several main conclusions and recommendations emerge from this analysis.

First, the Fund has achieved substantial progress during its first two years, especially considering it started from scratch. It has established itself as unique and innovative financing mechanism that responds seriously to some of the main criticism of major aid agencies. It has stimulated larger contributions from donors to fight the three diseases, encouraged a country-owned, participatory process in formulating proposals, and established a small bureaucracy to carry out its mission. Starting with nothing just over two years ago, CCMs have been established in over 100 countries, and the Board has approved over 220 proposals in over 120 countries. Disbursements have reached \$400 million and are on track to reach approximately \$1 billion by the end of 2004. GFATM financing has altered key relationship in recipient countries and elevated the discussion on donor coordination, effective monitoring and evaluation, and other critical issues. Most importantly, GFATM financing is already beginning to save lives in affected countries. For example, in Rwanda and Ghana nearly 3,000 people are already receiving anti-retroviral treatment for HIV, with the number growing daily.

Second, the long-term sustainability of the Fund is a central issue for many people involved in the GFATM process. Donor contributions have fallen far short both of their original promise and of the amount needed for the Fund to finance programs that can seriously fight the diseases in countries around the world. Several important donors, including Japan, the U.K., Switzerland, Saudi Arabia, and Kuwait have contributed less than had originally been hoped. The United States provided some early large contributions, but the current administration is planning to reduce contributions in favor of its own bilateral initiative, with the proposed allocation between the two programs appearing to be far from optimal. The Fund may soon have to switch from its current approach of funding all proposals recommended as technically sound by the Technical Review Panel to an approach in which it must choose among sound programs because of shortfalls in contributions. The GFATM Board has recently approved a procedure – based on the quality of the proposal and disease burden -- to allocate funding in cases where available funds fall short of the total value of the proposal recommended for approval by the TRP.

These criteria could be strengthened by factoring in a country's performance on past grants and the quality of its CCM process. In addition, GFATM should make public all proposals recommended by the TRP that the Board decides not to finance.

Third, the Fund should create strong incentives to improve the CCM process in recipient countries. This will require the Secretariat to take a clearer stand on what it sees as the key characteristics of a well-functioning CCM, and introduce systems to encourage CCMs to operate more along these lines. In effect, GFATM must decide to what extent it wishes either to be hands-off and only concern itself with outcomes, or to have a clearer institutional view as to how CCMs should operate, and therefore be more directive in shaping CCMs and related processes on the ground. One option would be to establish rules on the size of the CCM, its composition, and its relationship to other bodies, but this approach probably would be ineffective and overly bureaucratic.

Instead, as is currently being considered within the Secretariat, GFATM should introduce a system in which CCM's are rated annually on a range of characteristics, including its

composition, the quality of its process, and other characteristics. This process would operate similar to an investment rating system, with CCMs rated with as “good,” “fair,” or “poor” rather than in a full ordinal ranking. CCMs that are highly rated would be rewarded with a more streamlined approval process, the expectation of higher amounts of funding, a higher priority when the Board allocates scarce funding, and less frequent reporting requirements. Poorly rated CCMs would face a more in-depth approval process, the expectation of smaller amounts of funding, and more stringent oversight.

More broadly, the Fund should begin to adopt more differentiated approaches to working in different countries depending on the quality of the process and performance in that country, including the CCM, the PRs, sub-recipients, and other actors. The approach should be lighter and more simplified in countries with sound processes and strong performance, and include more oversight, safeguards, and caution in countries with a weaker record. A one-size-fits-all approach cannot be successful in over 120 countries with widely different capabilities and levels of commitment.

Fourth, the Fund should take steps to encourage greater speed from the approval through the disbursement process. In particular, it should require at least one non-government Principal Recipient in each country, which in effect will lead to at least two PRs in each country – one government and one non-government. This would help speed the disbursement process, avoid the problems surrounding providing funds to NGOs through government bureaucracies, eliminate the possibility of the government as a monopoly recipient of funds, and create some competition between the PRs. It should financially penalize Local Fund Agents for slow assessments and reward them for speedier ones. In addition, it should better equip portfolio managers to negotiate grant agreements, either by changing the skill set of the PMs or moving to small teams (of say three people) of secretariat staff with different skills (e.g., legal, implementation, management) to accelerate the grant agreement signing process. It should also create financial incentives for PRs to accelerate their disbursements to sub-recipients.

Fifth, GFATM should consider unbundling the four assessment functions of the Local Fund Agents and have different groups carry them out. LFAs typically do not have the skills necessary to carry out all four assessments (institutional, procurement, fiduciary, and substantive performance) and their sub-contracting process has led to concerns about speed and quality. The Secretariat could contract globally or regionally with several firms or a pool of consultants that specialize in the four types of assessments. Payments to these firms would be based at least partially on performance: careful assessments carried out by a specified date would be rewarded more than a superficial assessment that was delayed several times because the firm could not identify a qualified person. This step would help speed the assessment and disbursement process, improve the comparability across countries and quality of assessments, and probably reduce costs. It would, however, entail a slightly larger management burden for the Secretariat.

Sixth, Board decisions on grant renewals must clearly reward strong performance more than average or weak performance. It will be crucial for the Board to reduce or eliminate funding for poorly performing programs and reallocate funds to more effective

programs. A strong focus on results will ensure that funds are used as effectively as possible, will provide incentives to recipients for strong performance and will strengthen donor support for GFATM. One key will be for the Board to regularly exercise the option to make partial disbursements to PRs that do not accomplish all of their benchmarks, with larger renewals for stronger performance and smaller renewals for weaker performance. The Board should create a continuum of rewards to match the continuum of performance, providing clear incentives for the PR to achieve as many benchmarks as possible. This would be a major improvement over the practices of most donors, which regularly approve full disbursements even for sub-par performance. In addition, in situations where PR performance has been especially poor, the Board should both reduce the size of the renewal grant and redirect funding to a new PR, as the Secretariat did in Ukraine. This strategy penalizes the PR for poor performance but ensures some level of continued implementation of the planned activities for those affected by the diseases. Moreover, to further improve incentives, as CCMs submit additional proposals to GFATM for new programs, the Board should explicitly take into consideration the performance of the CCM's existing programs. A country's performance on current programs should clearly and transparently influence the Board's decisions on new programs.

Seventh, the Fund needs to take stronger steps to ensure that its processes and reporting requirements are not just one more set of requirements on over-burdened recipients. On the key issue of harmonization and coordination with other donors, the Fund should take a differentiated approach depending on the circumstances in the country. In the very small number of countries where donors have established pooled or basket funding systems (such as SWApS) that have well-functioning reporting requirements, the Fund can adopt those existing systems. In other countries where there are few, if any, other donors funding activities related to the three diseases, harmonization and coordination is not an issue. In these countries the Secretariat must work closely with the CCM and PRs to establish reporting systems that meet the Fund's requirements but are not unnecessarily burdensome on recipients. There are many other countries, however, where other donors are funding programs, yet strong unified processes and reporting systems do not exist. In these countries the Fund must more proactively use its leverage to bring other actors to the table and pursue a more streamlined, unified, and effective set of procedures. It is important to remember that harmonization should not be pursued simply for the sake of harmonization – it is only worthwhile if it leads to more effective systems for both donor and recipients.

Eighth, and more broadly, for the Fund to be successful in stimulating real progress in fighting the diseases, it must be more than just a financing instrument – it must actively use its high profile and financial leverage to be an "agent for change" in other parts of the network so that aggregate national programs can better achieve their goals. Financing for recipients on the ground is not the only constraint to progress: insufficient resources for technical assistance from other agencies, cumbersome disbursement procedures from government to NGOs, duplicate and unnecessary procedures from other donors, and other problems bedevil progress even where financing is available. The Fund can neither ignore these problems nor expand its role to actively try to solve all them itself. It can, however, use its profile and financial resources to bring

about deeper changes and strengthen both its own operations and those of other actors in the system. This will not happen on its own, however. It will require a clear strategy, staff, time, and resources.

Ninth, to carry out some of the functions described here for several hundred grants in over 120 countries, the size of the Secretariat staff should increase moderately. It is difficult to see how the Fund can be effective into the future with a Secretariat consisting of 80 people. Already there are nearly three approved proposals per one person, and that number will soon increase as Round Four proposals go to the Board. By the end of 2004, GFATM will have approximately \$1 billion in disbursed funds managed by a staff of 80 people, a ratio of funds to staff that far exceeds that of all other major private foundations and aid agencies, not to mention most banks and credit agencies. There is no need for a huge expansion to the size of other donors, but a modest expansion will be required to more effectively manage grants, speed the disbursement process, strengthen CCMs, improve the assessments now carried out by the LFAs, and to implement a strategy to strengthen the ability of partner agencies to more effectively support country programs financed by GFATM.

Finally, GFATM should at least consider modifying the structure of its operations on the ground. One option would be to introduce a set of changes including (a) requiring at least two PRs in each country, one government and one non-government, (b) introducing a CCM rating system, and (c) replacing the LFAs with a global pool of firms and consultants to carry out assessments. A more fundamental change would be to establish two “Grant Coordinating Agencies” in each recipient country (one government and one non-government) as the focal point to receive funds from GFATM and other donors for programs fighting the three diseases. These agencies would perform all of the roles of the current PRs plus one role of the current CCMs (vetting and bundling proposals for submission to the Secretariat). The GCAs would give a much clearer legal and institutional foundation to what are now the CCMs, and would ease the administrative burden on the Secretariat. This structure would clarify the roles and relationships between actors on the ground, streamline the disbursement process, create incentives for stronger performance, and retain (and perhaps enhance) the participatory process for a wide range of stakeholders. This particular structure may not be ideal, but it suggests a range of possible modifications to the current structure that could lead to stronger programs and greater progress in the fight against the three diseases in the future.

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