

Learning from the Experience of Vertical Funds

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Vertical funds are multistakeholder global programs that provide earmarked funding for specified purposes. This brief presents a series of lessons learned from vertical fund experiences that are applicable to scaling up in agriculture and rural development. It draws on the experience of the Global Fund to Fight AIDS, Tuberculosis and Malaria as well as other funds with substantial operational programs at the country level. It also draws on the experience of the Scaling up Nutrition (SUN) movement, a multistakeholder global program without a vertical fund that is directly relevant to agriculture and rural development.

While the emphasis here is on learning from mistakes and challenges of vertical funds, it is important to note at the start the areas where they provide positive lessons. These include (i) a focus on results, in most cases outputs and in some cases outcomes; (ii) the inclusion of civil society and the private sector, in addition to governments, in governance; (iii) transparency in what they finance; (iv) innovation and adaptation; and (v) proven effectiveness in assisting developing countries to scale up. These positive lessons have already had a broad influence on international agreements for aid effectiveness.

At the same time, vertical funds raise problems in aid-dependent countries of inconsistency with the key principle of the Paris Declaration on Aid Effectiveness—support to government priorities, institutions, and the systems underlying the aid agreements. Eleven lessons for the design and reform of vertical funds in agriculture and rural development can be drawn

1. Think twice: Global action does not necessarily mean a new vertical fund. An initial, crucial, but often ignored lesson is the need to think twice—even in the face of public pressure—before launching a new vertical fund. In the past decade the great majority of additional funding for health has been through vertical funds, driven by public and political support in donor countries for narrow agendas. There has been little prior consideration, with consequent donor neglect, of broader health objectives and systems. This is now being repeated in the case of climate change. Yet the same donors who initially championed and have been the main sources of funding of vertical funds now loudly decry their proliferation and the distortions and fragmentation that they can produce. Thus, the Busan Outcome Document of the 2011 Fourth High Level Forum on Aid Effectiveness states, “We will work to reduce the proliferation of these channels [vertical funds] and will, by the end of 2012, agree on principles and guidelines to guide our joint efforts.”

What is required before setting up another vertical fund is a rigorous analysis of the “aid architecture” that already exists—including comparative advantages and weaknesses of existing relevant organizations. And that analysis should, to the maximum extent feasible, be done jointly by potentially interested funders, since multilateral funds

require, by definition, collective action. Then the analysis needs to be accorded widespread consultation and serious political and policy consideration.

2. Use existing institutional capacity. If a new vertical fund is needed, then it is important to follow the commitment in the 2008 Accra Agenda for Action that “existing channels for aid delivery are used and, if necessary, strengthened before creating separate new channels that risk further fragmentation and complicate co-ordination at country level.”

In the case of agriculture and rural development, there are existing global funding sources, primarily the International Fund for Agricultural Development (IFAD) but also others, including the Global Agriculture and Food Security Program (GAFSP). Similarly, the Committee on Global Food Security and the High Level Task Force on Food Security and Nutrition provide existing mechanisms for advocacy and dialogue.

3. Don't forget the importance of adequate funding. Even without a new vertical fund, perhaps especially so, adequate finance is important, be it external or domestic. SUN, although not a vertical fund, gives high priority to mobilizing resources from existing relevant sources.
4. Set up an appropriate governance and organizational structure. If after in-depth analysis a new vertical fund is indicated, it should have governance that is strategic and robust enough to achieve its intended objectives. When the fund is established within an existing organization, there may be no need for an additional governance structure. Conversely, as the SUN movement shows, in highly selective cases it may be desirable to establish a governance structure even when there is no vertical fund. In the rare cases where a new governance structure is indicated, appointments to boards should wherever possible be based on a person's experience and qualifications rather than constituency representation (although taking some account of stakeholder and other balance). Experience shows that this is important in minimizing parochialism, gridlock, and conflict of interest. Experience has also shown that it is far easier to get governance right at the start, rather than trying to retrofit it to a board with established constituency “rights.” The same points apply to secretariats. A new secretariat may not be needed or, as in the case of the International Health Partnership, it can be virtual and shared between two existing organizations. In the event a dedicated secretariat is needed, however, it should be adequately and predictably financed, so that it can contribute to getting the initiative off to a good, and credible, start.

5. Manage risk: Stop the pretense that major scaling up is possible without facing up to and managing risk. As the unsettling recent experience of the Global Fund shows (regarding donor recriminations over fiduciary concerns), there needs to be clear agreement between board and management—and transparency with stakeholders and publics—on the assumption and management of risk. Risk management includes positive reinforcement of accountability and transparency policies that uncover and address corruption or other serious issues. And it means facing up to needed changes in policies and even business models.
6. Have a constant focus on impact at the country level. This means avoiding a narrow view of scaling up, in which each donor goes from its own pilot project to scaling up particular (sets of) interventions. It means scaling up using the agreed upon, experience-based principles of aid effectiveness from the 2005 Paris Declaration: ownership, alignment, harmonization, results, and mutual accountability. Scaling up also must be done as part of broader sector and multisector systems. This applies to scaling up at all levels—specific interventions, broad regional programs (such as rural or community development), sectorwide country programs, and global initiatives like the Global Fund, the GAVI Alliance, or the SUN movement.
7. Match means and ends. The Global Fund aimed to maximize impact by rounds of one-off contests (challenge grants). Experience shows that contests are well suited to producing innovative research or pilot projects, but they are poorly suited to longer-run partnerships or major scaling up; they raise problems of predictability and sustainability, particularly for programs with large, continuing, recurrent costs.
8. Focus on sustainable results. Linking financing in part to results is important, but they need to be sustainable, not just one-off results. This applies whether or not there is a vertical fund.
9. Don't set exaggerated expectations for results and their time frames. Exaggerated expectation come back to bite, as the

Global Fund (including its main stakeholders) found in its five-year evaluation when it could not measure outcomes.

10. Encourage good practice but avoid top-down prescription. For example, it is reasonable to call for broad national mechanisms for consultation and the participation of key stakeholders, but it is not reasonable to impose specific new institutions parallel to those of government.
11. Align incentives to objectives. This means a sharp focus on the consistency of internal incentives with stated policies and objectives. Conflicting donor incentives often lead, for example, to fragmentation, inconsistency, and frequent changes in priorities. Analysis in the health sector shows that conflicting government incentives—mixed with weak ownership—often lead to the substitution of donor financing for country financing.

Conclusion

In sum, there are valuable lessons for agriculture and rural development—positive and negative—from the experience of existing vertical funds and other global initiatives. It would be well worth considering each of them in determining how to scale up support for agriculture and rural development. For example, the need to think twice before establishing a new vertical fund and consider the availability of IFAD and the GAFSP argues strongly against establishing a new vertical fund, although there may be a case for supplementary funding for both that focuses on scaling up.

For further reading: P. Isenman and A. Shakow, "Donor Schizophrenia and Aid Effectiveness: The Role of Global Funds." IDS Practice Paper 5, Brighton, UK: Institute for Development Studies, 2010; J. Sherry, S. Mukherji, and L. Ryan, *The Five-Year Evaluation of the Global Fund to Fight AIDS, Tuberculosis, and Malaria* (Geneva: The Global Fund, 2009); S. Lister et al., *Mid-Term Evaluation of the EFA Fast Track Initiative* (Washington, DC: Global Partnership for Education, 2010); D. Hulls, P. Venkatachalam, K. Kumar, T. Cochrane, H. Kaur, N. Gulati, and D. Jones, *GAVI Second Evaluation Report* (Geneva: GAVI Alliance, 2010); Busan Partnership for Effective Development Cooperation, "4th High Level Forum on Aid Effectiveness," Busan, Republic of Korea, November 29-December 1, 2011.

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