

VERTICAL FUNDS: LESSONS FOR MULTILATERALISM AND THE UN

Stephen Browne and Roberto Cordon

The World Health Organization (WHO) has been criticized for its slow response to the Ebola epidemic. Were the new funding mechanisms for health created to compensate for the shortcomings of UN organizations in the health field? Are vertical funds effective channels for assistance or distortions of multilateralism? Can the UN learn from them?

“Vertical funds” are development financing mechanisms confined to single development domains with mixed funding sources.¹ An early example was the Global Environment Facility (GEF); established in 1991 under World Bank management, it had the UN Development Programme (UNDP) and the UN Environment Programme (UNEP) as original implementing partners. More recently, two more vertical funds were created in the field of health: the Global Alliance for Vaccines and Immunization (GAVI) and the Global Fund for AIDS, Tuberculosis and Malaria (GF). This briefing looks at the lessons for the UN development system from these two health funds, which were created in parallel with existing UN organizations to work on some of the same functions.

The GAVI Alliance and the GF were both conceived in 2000. Inspired by UN experience, the GF, designed to tackle the world’s most prevalent infectious diseases was first mooted in the World Health Organization (WHO); and the idea gained momentum at a G8 summit in Japan. Established soon after, it was not to be managed by the WHO, nor by the World Bank as some donors would have preferred, but as an independent entity in Geneva with a governing body including public and private partners.²

The GAVI Alliance sought to give a boost to the vaccination campaigns that had been conducted for many years in developing countries by WHO and UNICEF; it was launched with a donation of \$750 million from the Bill and Melinda Gates Foundation (BMGF). The founding members of GAVI were WHO, UNICEF, the World Bank, and the BMGF; like the GF, its governance system is mixed.

While GAVI and the GF were built on UN foundations, they rival the world organization with programs that fall squarely in the domain of UN organizations. At a time when the system’s development organizations have come under increasing resource constraints, moreover, substantial amounts of new donor money—

from sources that also provide a large proportion of the UN’s operational budgets—have been channelled into these new organizations. Between them, GAVI and the GF have attracted more than \$40 billion in 15 years.

So, why were these new funding mechanisms for development assistance created in preference to expanding existing UN organizations? Have they been effective? What can the UN learn?

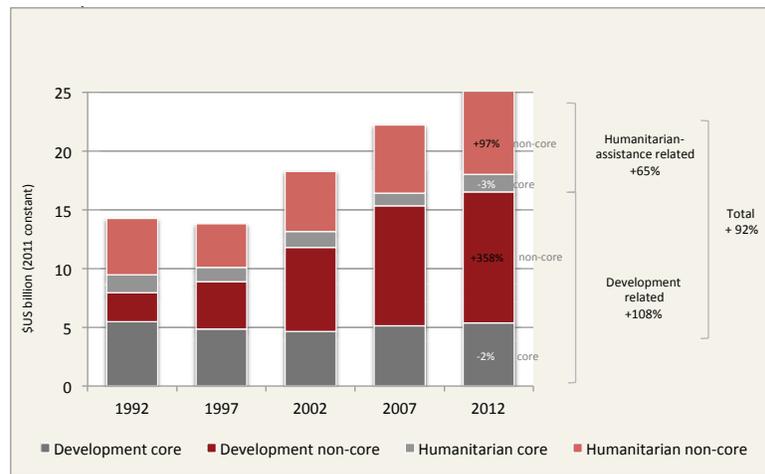
FUNDING RATIONALE

Vertical funds are a scaling up of the growing practice among major donors of earmarking non-core resources for specific purposes. In the UN system as a whole, programs tied specifically to a development domain or to a region have increased rapidly while core resources have stagnated. Non-core resources now account for two-thirds of total operational resources (Figure 1).³ Earmarking is favored by donors because it funds distinctive and narrowly defined programs.

WHO is a typical UN organization with almost three-quarters of its 2012-13 funding earmarked and provided by relatively few donors. Although WHO’s earmarked contributions in 2013 were provided by 120 member-states and more than 300 additional sources (public entities, universities, foundations, private companies, UN and other multilateral organizations), no less than 40 percent of total earmarked resources were provided by three governments (the United Kingdom, the United States, and Canada) and by BMGF, the single largest contributor of voluntary funding for several successive years (Figure 2).⁴ Such earmarking has been called “Trojan multilateralism” because it creates “the illusion of multilateral intent” while “covertly introducing bilateral goals.”⁵

The two vertical health funds have even more concentrated funding patterns. From its inception in 2000 to 2015, GAVI has been pledged a total of \$12.1 billion.⁶ Of that amount, the four largest

Figure 1: Core and non-core funding of development and humanitarian assistance through the UN system, 1992-2012



contributors—the United Kingdom (\$3.2 billion), the BMGF (\$2.5 billion), Norway (\$1.3 billion), and the United States (\$1.2 billion)—accounted for over two-thirds of total funding (Figure 3).

Since 2001, contributions to GF had reached over \$29 billion by the end of 2013, almost two years’ development expenditure by the entire UN development system. The largest donor by far has been the United States with over \$9 billion, 31 percent of the total (Figure 4). The top seven country donors contribute 75 percent. Thus both GAVI and GF are in important respects typical of earlier multilateral funding patterns dominated by a small number of the richest donors.

INNOVATIVE FUNDING

Continuity in funding has always been a challenge for multilateral development agencies, which have become increasingly dependent on voluntary contributions. GAVI provides examples of innovative long-term funding schemes. The Advance Market Commitment (AMC) launched in 2007, is designed to fund the research and development of new vaccines by private pharmaceutical companies. The funds are a guarantee against market failure and act as an incentive to produce new vaccines for pneumococcal disease (a major cause of meningitis and pneumonia) by compensating companies for the absence of a proven market demand in poorer countries. The International Finance Facility for Immunisation (IFFIm) began in 2006 and is a mechanism that also helps to guarantee long-term financial security for GAVI. The purpose of the mechanism is to front-load assistance and provide long-term financial security. The IFFIm issues “vaccine bonds” on global capital markets, which are backed by guarantees from participating governments to maintain future aid flows that can be used to buy back the bonds on maturity. By the end of 2013, the mechanism had attracted \$4.5 billion from investors.

Another innovative funding source is UNITAID, which raises two-thirds of its funding through a small levy on airline tickets. WHO hosts UNITAID and already benefits, as does the GF. Another non-traditional source that benefits the GF for AIDS eradication in Africa is Product RED. When consumers buy from one or other of several well-known brands,⁷ half of the proceeds go to the fund. It is important to note that vertical

funds have borrowed business-sector funding strategies to achieve fund-raising objectives.

FOCUS ON RESULTS

For health, the two vertical funds have facilitated the growing dominance of traditional rich-country donors, with the addition of the BMGF. These donors focus on visibility and results, and the two funds provide both. GAVI and GF can also point to statistics of reduced morbidity and numbers of lives saved. GAVI is narrowly focused on the purchase and distribution of ten vaccines.⁸ GF targets the three most prevalent infectious diseases in developing countries. Both funds can justly claim to have contributed directly to saving lives. For donors, and especially governments that need to justify aid before parliaments and public, the funds provide hard evidence of identifiable results.

Yet because GAVI and GF programs are so narrowly targeted, their managements maintain no earmarking by any donors. Neither governments nor other funders are able to prescribe specific activities, in contrast with the WHO that has a much broader health mandate but has become increasingly supply-driven by the interests of individual donors. To that extent, the vertical funds are less of a “Trojan horse” than the WHO.

IMPACT ON PROGRAMMING

The vertical funds represent innovative multilateralism. In addition to the limited number of donors, their governance systems are mixed and selective. Given the growing importance of partnerships in development, the inclusion of civil society and for-profit interests on their boards is to be welcomed. Experience shows that consensual decision-making is sometimes hard-fought but is more expeditious than in the UN’s inter-governmental forums. Lacking full representation of developing countries, moreover, does not make them unresponsive to needs. Both funds clearly respond to outstanding global challenges of immunization and disease eradication in which they have had a decisive impact.

However, distortions arise from their sheer size and the top-down nature of their operations. The substantial donor resources are matched by domestic human and financial counterpart resources in recipient countries but can draw funding away from other areas

of health. A frequent criticism has been the neglect of capacity-building.⁹ Lacking a local presence, vertical funds should also rely more on UN organizations that are based in program countries.

Extensive earmarking in WHO, however, also creates distortions and is problematic for multilateral principles and practice. While the organization—like the rest of the UN—has the merit of universal membership and affords every country a voice in the World Health Assembly, the donor domination of its program increases the risk that WHO is even more supply-driven than

the vertical funds. The earlier abandonment of an Ebola program and overall slowness in reacting to the pandemic in West Africa in 2014 may be symptomatic of such a distortion and have led to criticism of Director-General Margaret Chan.¹⁰ WHO has attempted to adjust to the mismatch between demand and supply by drawing up a consolidated program budget that provides information on all core and non-core programs.

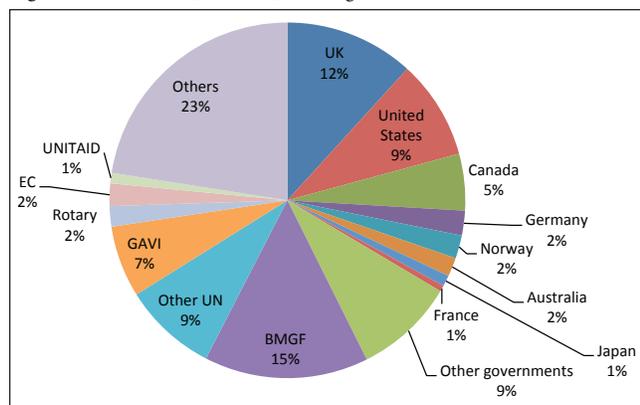
A further concern is more practical. WHO’s project managers have told the authors that a major proportion of their time is spent on managing the relationships with over 400 donors, which is directly deducted from their availability for professional health work. Soliciting donations is only part of the task; most donors also require separate reports to be written on the use of their funds, adding substantially to the administrative burden. When it comes to transparency and accountability, more can mean less.¹¹

The vertical funds are not similarly burdened by donor solicitation. They have a reputation for rapid delivery and have maintained solid reputations for transparency and accountability. Indeed, their reporting and monitoring of funds provide examples that UN organizations should emulate. Most UN organizations operate on the basis of automatic eligibility for assistance, using criteria of apparent need rather than performance. The rationale for the UN’s designation of “least developed countries” (LDCs) is emblematic: irrespective of development performance—only 4 developing countries out of 52 have graduated in the last 40 years—the LDCs remain as primary targets of assistance from the UN and bilateral donors.

Vertical funds are not as constrained by political and diplomatic imperatives as the UN, and their approach is very different since performance and the use of funds is a major determinant of eligibility. There is a much stronger correlation between recipient performance and additional funds. While graduation is encouraged, poor performance can lead to reduced funding and even cancellation of future projects, irrespective of the income level and development status of the country. The GF is—by the standards of most multilateral organizations—unusually transparent. Its discovery of misuse of funds in four African countries in 2010, for instance, led to revamping its already comprehensive oversight and auditing capacity.

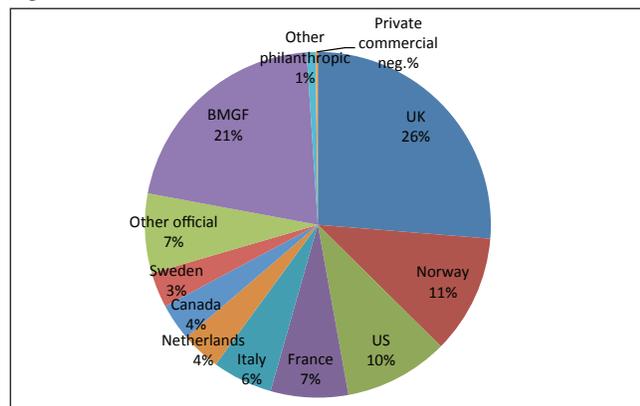
Universality is a fundamental UN principle, but how well has it served development when applied to its operational functions? Hitherto, eligibility for UN assistance has left performance criteria almost entirely out of account, with the consequence that UN organizations continue to channel resources to countries that make poor use of aid. The repetition over many years, even decades, of “capacity-building” in the same countries and development domains is symptomatic of poor uptake. UN organizations should examine the experience of the vertical funds. While not precisely the same performance criteria, more consideration should be given to less supply-driven “cash-on-delivery” approaches, which compensate for outcomes, rather than pre-paying inputs, and which permit program countries greater freedom in choosing their own goals.¹²

Figure 2: Earmarked (non-core) funding of the WHO, 2013



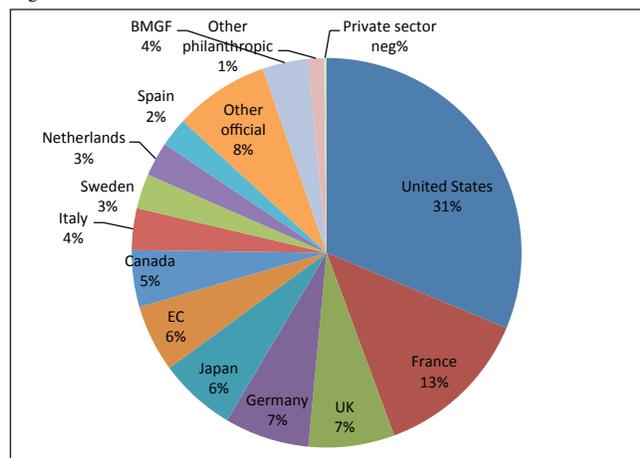
Source: WHO database, 2013.

Figure 3: Contributions to GAVI Alliance, 2000-2015



Source: GAVI, Investing Together for a Healthy Future (Geneva: GAVI, 2014).

Figure 4: Contributions to the GF, 2001-2013



Source: Global Fund, “Core Pledges/Contributions,” 2013.

CONCLUSIONS: CAN THE UN AND THE VERTICAL FUNDS LEARN FROM EACH OTHER?

UN development organizations have several functions, including norm-setting, information dissemination, advocacy, humanitarian response, and country operations. Their universality is the basis of their legitimacy, but in its operations, the UN's universal inter-governmental structures have contributed to bureaucratic and cumbersome performance. Moreover, UN operations increasingly compete with other sources and mechanisms of technical assistance; and the creation of the vertical funds was in part a response to the UN's widely perceived operational shortcomings, which successive FUNDS surveys have confirmed.¹³ There is even a case to be made for the UN to abandon its operations entirely.¹⁴

Inertia makes this outcome unlikely, and so it may be more instructive to summarize four learning opportunities.

Governance: The vertical funds have boards of limited and rotating membership, including civil society and private sector representatives. While formal approval and oversight of their operations continues to be the responsibility of member states, UN organizations should consider establishing advisory boards of limited size with mixed state and non-state membership.

Innovative funding: UN organizations have been successful in enlarging the range of funding sources, although the traditional donors remain dominant. They should endeavor to attract more

innovative multi-year and multi-donor funding mechanisms to provide more programming continuity and security, while diluting the influence of individual donors.

Program performance and transparency: While the narrower operational mandates of the vertical funds are more amenable to establishing clear performance metrics, UN organizations should nonetheless elaborate better criteria for success in creating longer-term sustainable capacity in developing countries. These criteria should be drawn up—or at least agreed to—by program countries themselves; and they should determine program success or failure as determined by independent evaluations. Because they are present in all program countries and well connected to local counterparts, UN organizations could be used more extensively by vertical funds for implementation and oversight.

Program orientation: There are serious distortions in both vertical funds and UN organizations. The former divert substantial funds into narrow, albeit critical, fields of health-care, drawing resources and personnel in program countries away from other areas. The operations of the WHO and other UN organizations are driven in directions that reflect as much the priorities of donors as recipients. Correcting these distortions requires closer collaboration between vertical funds and UN organizations in country programming, and strengthening the capacity of recipient countries in strategic sector planning.

Stephen Browne is Co-director of the Future of the UN Development System (FUNDS) and Senior Fellow of the Ralph Bunche Institute for International Studies, The Graduate Center, The City University of New York and former Deputy Executive Director of the International Trade Centre. He is the author of several books on development, including *United Nations Industrial Development Organization* (2012) and *The United Nations Development Programme and System* (2011). He is co-editor with Thomas G. Weiss of *Post-2015 UN Development: Making Change Happen?* (2014).

Roberto Cordon is Professor of Management and International Relations at Franklin University Switzerland. Previously he served as manager of training programs in market analysis at the International Trade Centre and worked as a senior consultant in the development practice of PricewaterhouseCoopers in Washington DC. He has also taught at the Pontificia Universidad Católica de Chile and at The Wharton School. His academic interests focus on the institutional efficiency of international organizations and their relationship to the private sector.

This briefing draws in part on research undertaken by both authors during 2013 and 2014 as part of a Swiss Network for International Studies (SNIS)-supported multidisciplinary project on non-traditional financing of public health programmes in Africa.

NOTES

1. 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 et al., *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, 29 November - 1 December 2011.
2. The first private contribution to the Global Fund was made by Kofi Annan in 2001, then UN secretary-general. He donated \$100,000 as the recipient of the 2001 Philadelphia Liberty Medal.

3. Silke Weinlich, "Funding the UN System" in *Post-2015 UN Development: Making Change Happen?* ed. Stephen Browne and Thomas G. Weiss, (London: Routledge, 2014), 75-94.
4. BMGF reduced its funding to the WHO in 2014.
5. Devi Sridhar and Ngaire Woods, "Trojan Multilateralism: Global Cooperation in Health," *Global Policy* 4, no. 4 (2013): 326.
6. The figures are paid-in contributions up through December 2012, plus pledges for 2013-2015. Approvals for country programs (excluding HQ costs) up to the end of 2015 were \$6.7 billion.
7. American Express, Apple, Bugaboo International, Converse, Dell + Windows, GAP, Giorgio Armani, Hallmark, Motorola Foundation, Motorola Inc. & Partners, Starbucks Coffee, Media Partners and (RED) Supporters, and Motsepe.
8. Pneumococcal, Pentavalent, Rotavirus, HPV, Measles-Rubella, Yellow Fever, Typhoid, Cholera, Meningitis A, and Japanese encephalitis.
9. Keith Bezanson, Paul Isenman and Alex Shakow, "Scaling Up in Agriculture, Rural Development, and Nutrition: Learning from the experience of Vertical Funds," *International Food Policy Research Institute Brief* 18 (Washington DC: June 2012); 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).
10. Somini Sengupta, "Effort on Ebola Hurt WHO Chief," *New York Times*, 7 January 2015.
11. Richard Golding, "Making the UN system more transparent and accountable," FUNDS Briefing 19, July 2014, <http://www.futureun.org/media/archive1/briefings/FUNDSBriefing19-Transparency-Golding.pdf>.
12. Nancy Birdsall et al., *Cash on Delivery: A New Approach to Foreign Aid* (Washington DC: Center for Global Development, 2011).
13. See <http://www.futureun.org/Surveys>.
14. Robert Picciotto, "The UN Has Lost The Aid-Effectiveness Race: What Is To Be Done?" *FUNDS Briefing* 14, February 2014, http://www.futureun.org/media/archive1/briefings/FUNDS_Brief14_Feb2014_D5.pdf.

