



Report on Wilton Park Conference WP785

IMPROVING THE EFFECTIVENESS OF HEALTH INVESTMENTS IN DEVELOPING COUNTRIES: HOW IS PERFORMANCE-BASED FUNDING WORKING?

Friday 17 – Sunday 19 June 2005

Co-sponsored by:

Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)

Institute for Global Health (IGH), University of California, San Francisco (UCSF)

The Bill and Melinda Gates Foundation (BMGF)

Background

1. This was the third and final of a series of global health conferences held at Wilton Park over the past several years. The annual meetings have been co-sponsored by the Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM) and the University of California, San Francisco with support from other partners, including substantial contributions from the Bill and Melinda Gates Foundation (BMGF).

2. The series of meetings have adopted as an organizing principle the Global Fund mantra to “raise it, spend it, prove it.” Thus, previous meetings have examined: “Financing for Global Health,” and “Scaling Up.” This year’s meeting which took place on June 17-19, 2005 was on “Improving the Effectiveness of Health Investments in Developing Countries: How Is Performance-Based Funding Working?”

3. Participants from more than 27 countries – over a third of these from developing countries – and representatives from the major international development agencies including OECD, the World Bank, and the IMF, Ministries of Health and Finance, and the private sector and NGO communities gathered together to review the track record of performance-based funding in health, thus far.

4. The point of the Wilton Park conference is to provide a forum that creates a space for thoughtful reflection and debate amongst a wide-range of stakeholders that might not typically have the opportunity to interact on an informal basis. Although the discussion inevitably leads to an effort to resolve issues for which a new consensus or direction may be needed, there is no attempt made to issue joint statements to conclude the conference or to consolidate a certain point of view. Rather, the goal is to embrace the various viewpoints around the table that may not be aired in more formal settings.

5. In that spirit, the following pages do not attempt to offer conclusions on any topic discussed, but rather is an effort to represent the variety of views that were presented in response to the topics covered by the meetings.

Examples of Performance-Based Funding by the International Development Agencies

6. Performance-based funding (PBF), very loosely defined, describes a funding strategy that has as its goal to link international aid to developing country recipients to good performance. The underlying logic is to enhance accountability and ownership through carefully-crafted incentives that seek to ensure an efficient and effective use of resources to support well-defined goals. However, the specific mechanisms by which this funding principle is applied may look quite different depending on the type of assistance provided (e.g. loans or grants) and for what purpose (e.g. macroeconomic stability or broad development goals).

7. The International Monetary Fund (IMF) boasts of one of the earliest examples of performance-based funding among the United Nations' agencies through the practice of "conditionality." IMF loans are typically conditional on the adoption of policies that will address the borrowing countries' balance of payment difficulties and ensure that the loan will be re-paid. Thus, conditionality provides the means by which the IMF monitors that its loans are being managed effectively. However, the comparison of conditionality to performance-based funding within the context of development assistance can only go so far, as the IMF is not principally a development agency. Rather, "It was established to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment" (<http://www.imf.org/external/about.htm>).

8. The World Bank has launched a number of variants on performance-based funding over the years, but a recent and noteworthy example is the results measurement system created by the International Development Association (IDA). IDA was established in 1960 and is the part of the World Bank Group that provides long-term interest free loans (credits) and grants to the poorest developing countries. The results measurement system was introduced in 2002, and a modified version was adopted in 2005 in conjunction with the IDA14 replenishment negotiations. Results are measured on two levels – aggregate country outcomes, and measures of IDA's contribution to country outcomes. The set of 17 corresponding indicators were selected for their relevance to development outcomes, sensitivity to policy actions, and measurability in the 81 currently eligible IDA countries. Although highly relevant as an example of on-going efforts to adopt performance-based funding strategies for development assistance, the IDA results-measurement system falls short of the ideal in that accountability questions have not been fully address, and penalties for poor performance have not been clearly defined.

9. Finally, the United States' Millennium Challenge Account (MCA) has sought to implement a different kind of performance-based funding strategy in development assistance. First proposed in March 2002 by President Bush in Monterrey, Mexico, MCA's vision of a "new compact for global development" is to link increased financial contributions from the developed countries to greater responsibilities on the part of developing countries. The projected annual spending levels of the MCA are large. The US Congress provided \$1 billion in initial funding in 2004, and \$1.5 billion in 2005. However, in the case of the MCA, the reward criteria are established in the pre-award stage – that is, only those countries that are, in Bush's words, "ruling justly, investing in their people, and encouraging economic freedom" are eligible for selection (http://www.mca.gov/about_us/overview/index.shtml).

10. Despite these important examples, performance-based funding has been the exception rather than the norm throughout the relatively short history of international aid efforts, and has not been uniformly embraced by partners. However, interest has grown in recent years, and nowhere has this been more apparent than in the field of international health.

Performance-Based Funding in Development Assistance in Health (DAH)

11. A dramatic increase in funding available for international health over the past half decade has led inevitably to questions about how effectively the new dollars are being spent. The new spending has occurred against the backdrop of a growing awareness that the impact of international development assistance, generally (e.g., not specific to health), over the past 50 years has been less than hoped. Influential studies by David Dollar and others¹ have suggested that aid has been most effective in those countries with strong institutions and a supportive policy environment; in other contexts, aid has made little difference. A related conclusion is that progress is not possible without a high degree of ownership and accountability on the part of recipient countries.

12. Performance-based funding is a natural outgrowth of these discussions. At least conceptually, PBF promises to act as the 'invisible hand' of accountability by rewarding good performance and penalizing poor performance while avoiding the pitfalls of micro-management that may undermine country ownership and discourage flexibility and innovation. In addition, PBF and the incentives it creates may permit a more efficient means of coordinating and delivering technical assistance to countries by partners. Despite these optimistic views, some observers have expressed concern that PBF, in practice, may exacerbate tensions or directly conflict broader development goals. For example,

- *Is a system of rewards and penalties consistent with the goal of ensuring predictability and sustainability in the balance of payments?*

13. The effectiveness of a PBF system is linked to the credibility of its system of incentives for good performance. However, in the context of rapid scale-up, the 'threat' of penalty has a weaker foundation than it otherwise might. Much of the new

¹ Devarajan, S., D. Dollar, and T. Holmgren. 2001. *Aid and Reform in Africa: Lesson from Ten Case Studies*. Washington, DC: World Bank.

spending on international health engenders a presumption of future spending, in which case predictability would seem to trump enforcement of penalties for poor performance. In particular, there may be a reluctance to terminate assistance on ethical grounds, if treatment for patients on ARV therapy depends on its continuation. (The Global Fund has pledged to continue funding ARV therapy for patients already enrolled in treatment for up to two years following termination of a grant for poor performance.).

14. At the other extreme, rewards for good performance may be bounded by the need to maintain 'fiscal space' to avoid current account imbalances and inflationary pressures. This is particularly relevant for countries experiencing a massive scale up, not just in health, but around the Millennium Development Goals (MDG). What the budgetary limits are on new spending in practice has been a subject of continued debate and discussion. However, the experience of some developing countries has been that open information exchange and negotiation between the Ministries of Health and Finance over budgets can reduce the tension over this issue, and facilitate greater cooperation.

- *Are the data collection and reporting requirements of a performance based funding system compatible with the commitment of development partners to 'harmonization'?*

15. Development partners have increasingly focused on 'harmonizing' all aspects of aid delivery (including that of monitoring and evaluating progress toward common development goals) in order to reduce the burden of multiple reporting requirements on recipient countries and to encourage better focus and higher impact at the country level. The "Paris Declaration on Aid Effectiveness" signed by Ministers of developed and developing countries in March 2005 expressed a commitment to ownership, alignment, harmonization, managing for results, and mutual accountability. The framework pledges to provide coordinated support for capacity strengthening, the use of common arrangements or procedures for program funding, and shared analysis of progress, among other goals. Consistent with this effort, development partners have been working to coordinate their investments in monitoring and evaluation (M&E) systems to assess a country's progress at the project and program levels. The focus has been on reducing the number of reporting requirements on recipient countries, and to consolidate the number of indicators on which they must report. Many participants at the conference praised this effort, and remarked on milestones achieved. However, it was also noted that harmonization could make it more difficult to attribute outcomes to the specific activities of partners, thereby potentially weakening the system of reward and penalty of PBF.

- *Can a project-based financing system support program development and health systems strengthening?*

16. The Paris Declaration was significant in that it underscored a level of agreement and resolve among partners on broad development goals, but the practical challenges of implementation at the country level remain. The financing strategies, not to mention goals, of project-based funding versus general budget (or 'basket') support have seemed to posit a different underlying logic, at least historically. If PBF is structured around a project-based milestones rather than

broader health system goals, the inconsistencies between the two are easily apparent. Project-based milestones at first blush may permit more narrowly defined goals, more clearly established linkages between inputs and outputs, and greater accountability (to the degree that attribution is possible) than support for broader health systems strengthening. While differences between the two financing strategies need not be insurmountable, they nevertheless must be addressed to find a satisfactory resolution.

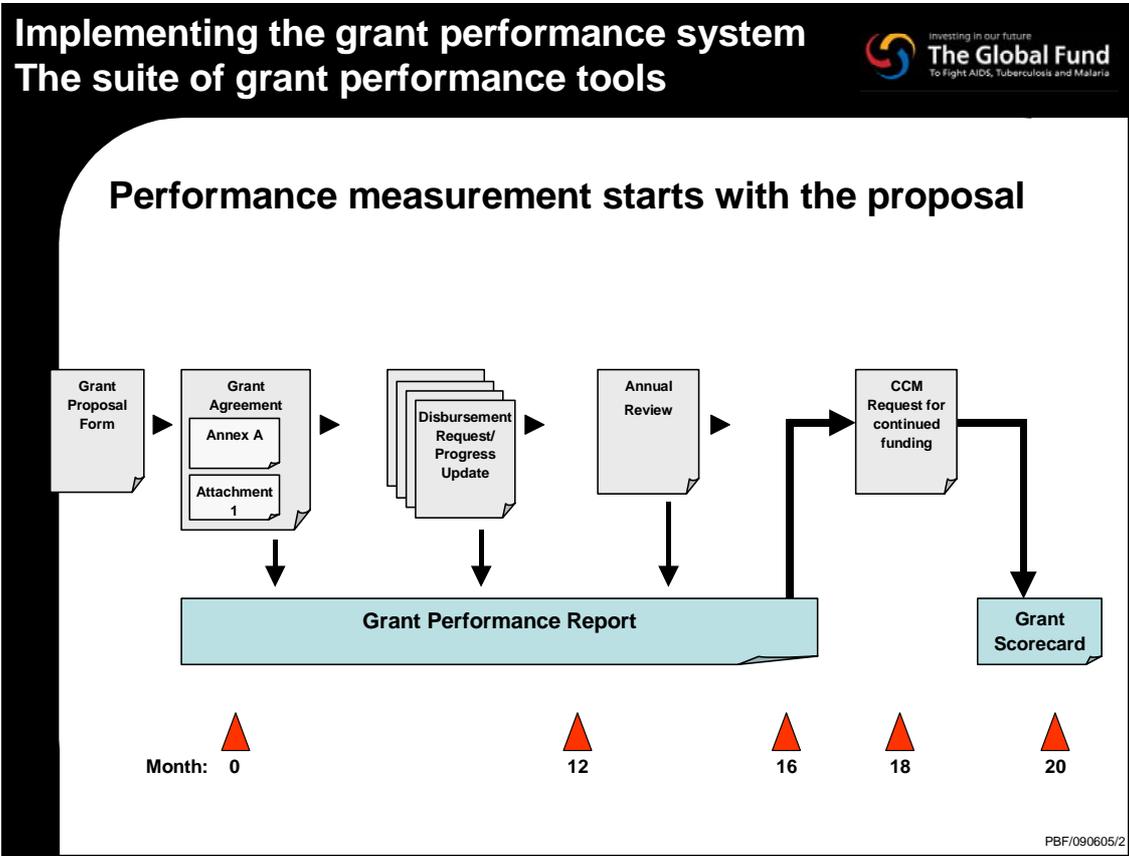
17. Related tensions may emerge around representational issues and coordination among stakeholders around planning and prioritization. In many countries, processes such as the Poverty Reduction Strategy Paper (PRSP), which represents an effort to engage civil society around a common goal of poverty reduction, and the SWAP (Sector-Wide Approach), which is designed to encourage joint or at least coordinated planning on the part of all stakeholders in the health sector, are already in place. It is thus a subject for discussion about whether and how to integrate new coordinating and planning mechanisms – such as the Global Fund's Country Coordinating Mechanism (CCM) – that may differ in terms of representation and how priorities are identified. Some have argued that the CCMs are more inclined to reach out to marginalized groups that might not be represented in a broader participatory process governing, for example, the development of the PRSP. It is also likely that involvement of non-governmental organizations (NGOs) or the private sector in service delivery would be less if all funding was directed solely toward budget support.

18. It remains an open question how severe these apparent tensions around some of these issues really are. Many participants at the conference felt strongly that the differences had been overblown, and although there might be problems at the extreme, it was important to engage in constructive dialogue to identify the middle ground. Also, in their application 'on the ground,' these mechanisms may take on a very different character than what might be supposed, conceptually, so it is important to consider how exactly the principles of performance-based funding are implemented in practice. The following section will examine the specific aspects of performance-based funding in relation to implementation by the Global Fund.

Performance-Based Funding and the Global Fund: Innovations and Challenges

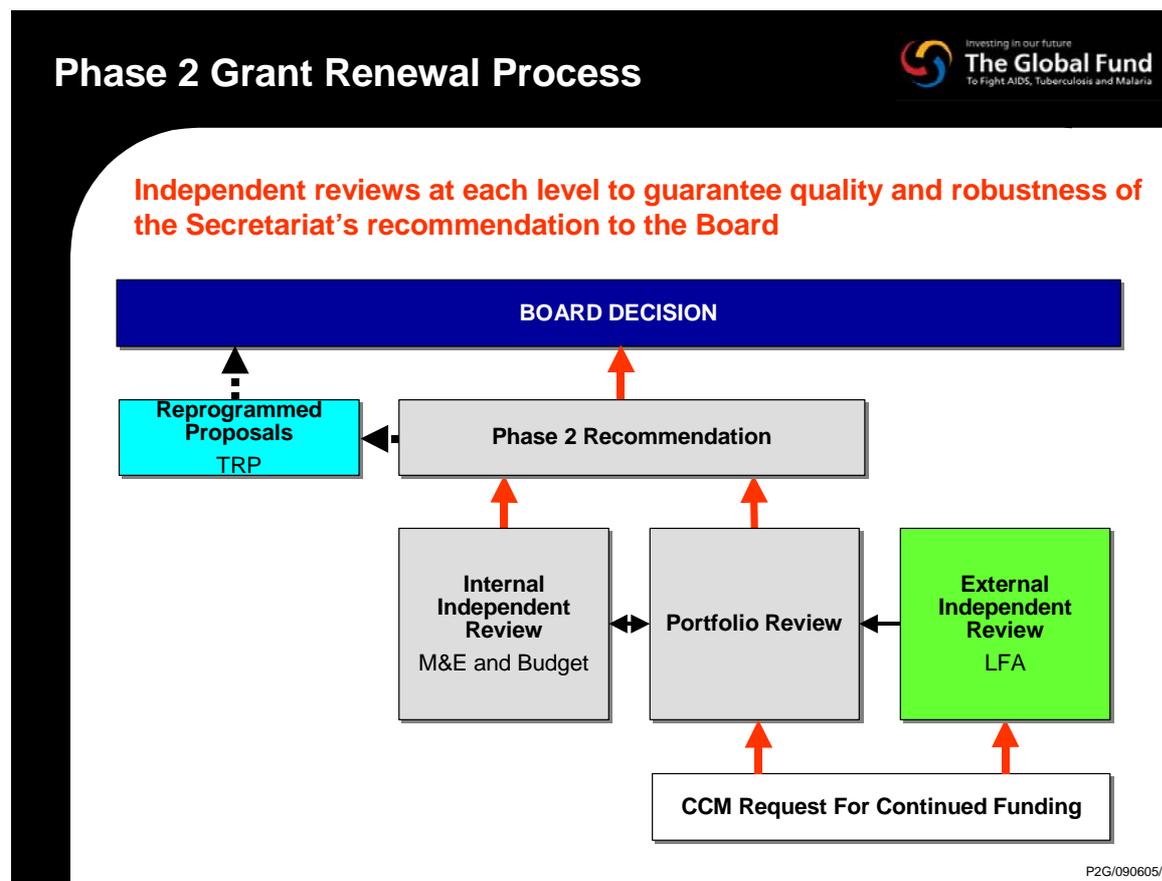
19. *Performance Based Funding in Practice.* The Global Fund approves proposals for up to five years, but funds are initially committed only for the first two years of the project period. The extension of the grant to cover the remaining years of the original proposal is referred to as Phase 2 funding. Phase 2 funding decisions are where the rubber hits the road for performance based funding as interpreted and applied by the Global Fund. PBF as it has evolved within the Fund depends, first, on a system of data collection and reporting that begins at the proposal stage and follows the grant through the first two years of implementation, and second, on a Phase 2 grant renewal process that relies on a series of independent reviews of grant performance. Continuation of funding beyond the first two years is contingent on evidence provided to the Global Fund's Board on good program performance and the availability of resources.

20. The 'suite' of grant performance tools that underpin the system of data collection and report is presented in Figure X.1. In keeping with the Fund's commitment to country-driven processes, at the proposal stage, countries are expected to develop their own targets in relation to the proposed activities. The grant agreement, signed by both parties, reflects a negotiated result of these targets. Progress updates which provide intermediate reporting on the agreed-upon key targets and indicators on a quarterly basis must accompany disbursement requests (in response to complaints that the quarterly reporting requirements are too burdensome, the Global Fund is considering a change to biannual reporting for good performers). The annual review reflects the cumulative results of these quarterly reports. The grant performance report which is required at the time that the country's CCM formally submits its request for continued funding, uses all these individual pieces of information to report on the country's progress vis-à-vis its individualized targets for the grant.



21. The Phase 2 grant renewal process is depicted in Figure X.2. At or around 18 months, the Country Coordinating Mechanism (CCM) – that is, the entity that submitted the original, Board-approved proposal – submits a formal Request for Continued Funding to the Global Fund Secretariat. The Global Fund Secretariat reviews the data and recommends to the Board whether or not to continue funding on a grant-by-grant basis. Recommendations to the Board are based on a series of reviews undertaken at several levels – including an external independent review of financial management conducted by the Local Fund Agent (LFA), a portfolio management review which is essentially an internal review by the Secretariat by the team that is most familiar with the particularities and contingencies affecting the

grant, and an internal independent review by the M&E and Budget Units within the Secretariat.



22. After reviewing these inputs, a high level decision panel of the Global Fund Secretariat makes one of four recommendations regarding the grant's funding to the Board. These are:

- **Go:** Phase 2 funding should be committed for the remaining period for the proposal;
- **Conditional Go:** Phase 2 funding should be conditionally renewed, but specific and time-bound actions must be undertaken by the Principal Recipient/CCM;
- **Revised Go:** When a Request for Continued Funding contains significant departures in scope or coverage from the proposal as it was originally approved, it must be referred to the Technical Review Panel for approval prior to the commitment of any additional resources; and,
- **No Go:** Phase 2 funding should not be committed, and funding should be discontinued at the end of the first two year period.

23. In making a final determination, both the Secretariat and the Board consider contextual factors, including governance issues, financial and program management, and program environment. In some cases, the contextual information may be used to support continuation of funding even if a straight-forward evaluation of grant performance shows poor progress in terms of programmatic results and disbursement history.

24. *Phase 2 Decisions and Progress.* As of May 15, 2005, 51 grants had been evaluated for Phase 2 funding as they approached the two-year mark. 32 received an unequivocal “go” for continued funding; 15 received a “conditional go;” and 2 grants were discontinued. (Another 2 remained under review). In all, \$368 million had been approved for continued funding. Sub-Saharan Africa received 52 percent of the total sum, followed by Latin America with 28 percent.

25. There was considerable variation in the performance of the 51 grants renewed. 18 of the grants received an “A” performance rating, signifying that they had either met or exceeded expectations. 23 received a “B1” rating for adequate performance. 8 received a “B2” rating, with inadequate results, but showing potential. 2 received a “C” for unacceptable results.

26. Interestingly, grant performance was particularly strong amongst Principal Recipients from civil society groupings, reinforcing the notion that untapped capacity for service delivery exists in the non-public sector. Differentiated by disease, TB grants performed best, followed by HIV/AIDS and malaria. Procurement was a greater problem for HIV/AIDS and malaria grants than for TB, pointing to the contribution of pre-existing TB drug procurement systems. As a region, Sub-Saharan Africa was no more likely to under-perform relative to other regions, although it did have fewer A-graded grants, which would be expected given the enormity of the crisis and its relatively weakened health care systems.

27. Further, the Global Fund reported that overall performance across the 51 grants was positive. High performing grants lifted the average, compensating for grants that had failed to achieve their targets. In terms of key service indicators, 132% of targets were met for people receiving ARV therapy, 95% for people on treatment under DOTS, 84 percent for distribution of insecticide-treated nets, and 156% for people receiving artemisinin combination therapy (ACT) for drug-resistant malaria.

28. The Phase 2 decision process is a crucial element of performance-based funding as implemented by the Global Fund. The goal is to ensure that funding continues to flow toward effective programs, and to discontinue funding for poor performing grants. From this perspective, \$23 million has been freed up by the ‘no-go’ decisions, and is available to be re-directed to more effective programs and interventions.

29. Some participants seemed ambivalent about the use of performance indicators as a key determinant of funding flows to countries. In response to data that countries had exceeded many of the targets, some participants questioned whether the targets might have been set too low at the outset. Others reacted uncomfortably to the severity of the penalty for poor performance, appearing to advocate for a more modulated response tailored to the particular situation. Related discussion focused on the appropriate use of targets – what they really measure, to what extent they can be circumvented, and whether they encourage a certain myopia with regard to health system performance. In the case of the Global Fund, in particular, there was concern that performance ratings may be skewed by too heavy a reliance on disbursement rates as a measure of progress, pressuring hasty decisions and potentially weakening performance over the long-term.

30. *What Happens When Targets Are Not Met?* In the event of a no-go decision, the “continuity of service” clause embedded in all Global Fund grants allows for two additional years of funding following discontinuation of the grant for drugs, diagnostics, and services for patients already receiving ARV therapy.

31. Ideally, however, there would be measures in place to address problems of poor performance and to turn the situation around prior to reaching this point. In fact this has happened at least once, in the case of the Ukraine. Fifteen months into a Round 1 grant for HIV/AIDS, only \$1 million had been spent out of an available \$24 million. When the evidence surfaced that the grants, managed by three separate Principal Recipients, were performing poorly, the Global Fund took action, a high level delegation to the Ukraine to assess the situation. The delegation immediately suspended the three PRs and also the CCM which was essentially non-functioning. However, it also was faced with the choice of canceling the grants outright or finding an alternate way to provide funding to HIV/AIDS activities. Typically, the responsibility of selecting and appointing new principal recipients on the grants would fall to the CCM. However, this was not a viable option in light of the conflicts of interest presented by senior CCM members who also held senior position with the PRs.

32. Following an extensive consultative process with key stakeholders, including donors, NGOs, CCM members, and others, the HIV/AIDS Alliance was selected to be the new grant steward in the Ukraine. This was an unusual step, because Global Fund guidelines clearly stipulate that PRs should be local or national organizations. However, the guidelines also state that in “exceptional cases ... the Global Fund may agree to an arrangement whereby the local office of a multilateral organization assumes PR responsibilities” (cited in Drew, 2005). Beyond this, the Global Fund criteria include competence in four areas: financial management and systems; institutional and programmatic arrangements; procurement and supply management systems, and monitoring and evaluation arrangements. As the Alliance met these requirements, in addition to having a strong reputation and proven track record, both internationally and within the Ukraine, it was selected as the new grant steward for the country. The agreement with the Global Fund was signed only three months later, in March 2005.

33. By all accounts, including that of an independent consultant hired to document and evaluate the transition, the intervention has been highly successful. Disbursement rates began to improve almost immediately, and gradually other performance indicators followed suit. Gradually the relationship between the Alliance and the government, which was initially rife with tension and mistrust, began to improve.

34. Despite these very positive findings, Global Fund staff have repeatedly emphasized that it would not be possible for it to intervene at this level in many instances of poor performance, due to the small staff size and limited resources of the Secretariat. The Ukraine was a special case, in part because of the size of its grant and the enormity of the crisis it faced. Thus, it begs the question of what response is appropriate and should be expected in other challenging cases?

35. The Secretariat's response has been to further develop and strengthen an early warning to alert partners to problems relating to poor performance before the situation deteriorates. The system, now known as the "Early Alert and Response System" (EARS), had not yet been formalized and implemented in its new structure at the time of this conference.

36. In the discussion period that followed around target setting and poor performance, no clear consensus about the merits or limitations of performance-based funding emerged, as was to be expected. While the goal of using targets to incentivize good performance seemed acceptable to many, the all-or-nothing approach in poor performance is penalized by a cut-off in funding seemed unreasonably harsh to some participants. Some of these began to advocate for a more stratified approach that would take into account the different starting points of grant recipients and other contextual considerations in reviewing grant performance.

37. *The 'Domino Effect' At Country Level?* Ideally, performance-based funding will generate downward pressure at the level of recipient countries to create incentives for good performance all the way down the chain of delivery, to the sub-national levels. However, the health systems in many developing countries have been seriously weakened by the current health crisis. Without the proper attention, they are the weak links in the chain of performance-based funding, especially if there are artificially imposed time limits for assessing how well the funding strategy is working.

38. Reports from countries which may or may not be representative of all countries' experiences are that the systems being created by the Global Fund with regard to performance based funding are a good start. However, many report that access to care remains limited and the motivation of health workers is also low. Highly weakened health systems are a major concern, and it is clear that objectives will not be realized unless capacity-building and strengthening of these systems receives greater attention.

39. In addition, a few countries expressed dismay at how highly dependent good performance is on the speed of disbursements. Capacity building and systems strengthening takes time, and there is concern that targets and timelines may not be realistic in light of the highly weakened systems in some areas. Nonetheless, these considerations did not detract from many participants' support for the basic principles of performance based funding. In some cases, these same considerations were used to justify an additional push to extend the reach of performance-based funding incentives further down the line. For example, one African Minister explained that his country was in the process of developing a financing scheme at the level of the health facility that would outline the sources of income of the facility, and the way the budget can be used, in particular to pay bonuses to the staff.

Conclusions

40. The purpose of the Wilton Park discussions is not to reach definitive conclusions, nor to issue consensus statements on the part of participants. Rather, the goal is to encourage thoughtful reflection among participants who might not otherwise have the opportunity to exchange information and share their views on

critical issues over which they may have some influence due to the positions they hold. Nonetheless, it is possible to identify some general patterns in the discussion that are suggestive of views that were collectively shared by many if not all participants.

41. First, after much discussion and debate, most participants seemed to feel that performance-based funding (PBF) need not be an 'all or nothing' strategy. It is possible that a multi-tiered approach for countries will be necessary to diminish potential contradictions between PBF and other development goals. The form that such a multi-tiered approach might take is yet another matter. Possibilities included developing a special strategy for "fragile states²," or a typology of countries that would permit different types of responses to poor performance depending on what the actual contributing factors are determined to be. There was also discussion of whether a more flexible funding tool that would permit periodic adjustments of targets and timeline would be useful. The World Bank Apls that have been widely used in Latin American health sector lending were proposed as a possible model.

42. Second, there was recognition that some of the governance structures at the country level required for the administration and oversight of Global Fund grants need careful scrutiny and attention. Some felt that the responsibilities of the LFAs could be better defined, and scaled back to serve a strictly accounting function rather than any broader role. Issues concerning civil society representation and minimizing conflicts of interest at the level of the CCM and PRs were also discussed. How these kinds of changes might intersect with renewed commitments by partners to harmonise and align aid delivery was not discussed.

43. A third broad theme had to do with expanding and/or deepening the role of the Secretariat in a few key areas. Procurement was perhaps the most obvious of these, with some participants urging the Secretariat to take on a larger role in price negotiations and purchase agreements. Others argued that the Secretariat could do more to harness the resources and capacities of the private sector, while others felt its role should be to ensure that health systems strengthening is taken more seriously by countries. In all cases, the suggestions are at least superficially in conflict with the Global Fund's commitment to country-driven processes. Nonetheless, it was felt that tinkering at the margins in these general areas should not undermine this basic principle.

44. Finally, less specific to the Fund's own particular variant of performance-based funding, participants seemed to agree broadly that the general principle of linking financial incentives to performance is sound. Despite its tenuous early beginnings, support for performance-based funding has grown, and nowhere is this more apparent than in the field of international health and in the work of the Global Fund. Yet its future remains uncertain because the prospect of increased funding over the next five to ten years is also uncertain. The incentive system upon which performance-based funding rests only works if commitments to continued funding are

² The UK Department for International Development defines "fragile states," as those states where the government cannot or will not deliver core functions to the majority of its people, including the poor, due to internal conflict, weak governance, political or macroeconomic stability, and low capacity to manage resources. See: "Development Aid in Fragile States: Is the Global Fund Model Working? Overview of a Global Fund Study" and "Why We Need to Work More Effectively in Fragile States."

secured and credible, and these are not currently in place. The year 2005, the year of replenishment for the Global Fund, may be a deciding moment in determining the future, and future evolution of performance-based funding in international health.

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Wilton Park Reports are brief summaries of the main points and conclusions of a conference. The reports reflect rapporteurs' personal interpretations of the proceedings – as such they do not constitute any institutional policy of Wilton Park or of the organisations associated with the conference, and nor do they necessarily represent the views of rapporteurs.

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