

**Information Only  
Background Papers**  
*(Supplemental to Part 2 of document GF/B12/5)*

**STRATEGY SITUATION ASSESSMENT BACKGROUND PAPERS  
(VERSION REFLECTING THE PRIORITIZED FRAMEWORK OF STRATEGIC ISSUES  
PRESENTED IN PAPER GF/B12/5)**

**Outline:** This document contains a revised version of the strategy situation assessment background papers developed for and presented to the PSC's 2-3 November meeting. These papers – together covering all key strategic issues – aim to review each issue's relevant factual background and contextual information and to surface the pertinent strategic challenges and opportunities. This information was used to develop a robust set of key strategic questions for each issue (which is presented in document GF/B512/5). The revised version of the set of background papers in this document is a reorganization of the original version that reflects the ordering and additional points derived from the "prioritized framework of strategic issues", which is detailed in Part 2 of document GF/B12/5.

## Part 1: INTRODUCTION

### A. *Structure and approach of the strategy situation assessment background papers*

1. Starting point: The document uses as its starting point the prioritized framework of strategic issues developed by the PSC at its meeting in November 2005. It is a graphical framework in the shape of an edifice, comprised of a roof, three pillars and a base. This “edifice” framework is reproduced on page 4 below. Further explanation on the development of the framework and how to read it is given in Part 2-B of the document GF/B12/5.

2. Content: This document contains the set of situation assessment background papers for the strategic issues corresponding to the edifice framework of strategic issues

- i. This document presents the background papers in the order of the prioritized framework of strategic issues. There is one background paper for each of the issues. They are organized as follows:

*Part 2: Situation assessment background papers for the issues in the roof of the edifice*

- A. Global Fund strategic positioning
- B. Global Fund size

*Part 3: Situation assessment background papers for the issues in the first pillar: “ensuring impact”*

- A. Funding the right things
- B. Ensuring grant performance
- C. Leveraging civil society and the private sector at global/institutional level
- D. Influencing market dynamics

*Part 4: Situation assessment background papers for the issues in the second pillar: “improving alignment and harmonization and reducing transaction costs”*

- A. Optimizing the Global Fund financing model and architecture

*Part 5: Situation assessment background papers for the issues in the third pillar: “ensuring Global Fund financial sustainability”*

- A. Optimizing Global Fund resource mobilization

*Part 6: Situation assessment background papers for the issues in the base*

- A. Measuring impact and ensuring accountability

- ii. The background paper for each issue contains the same elements. The structure is as follows:
  - (a) *Situation*: Describes the issue’s relevant factual background and context.
  - (b) *Challenges and opportunities*: Highlights the pertinent tensions and promising avenues related to the issue that the strategy should focus on addressing.<sup>1</sup>
  - (c) *Key considerations for strategy development*: Outlines – as pertinent – any ongoing work or important starting point for strategic reflection on the issue and additional points to be considered during the course of option development.

3. Sources: The background papers draw upon an extensive range of pertinent sources, including:

- i. The Global Fund’s Framework Document;
- ii. The PSC meeting discussions of 18 July, 7 September and 2-3 November 2005;
- iii. The strategy discussion at the 11th Board meeting;
- iv. Evaluations conducted by the Global Fund and external entities;
- v. Relevant Board decisions and prior Global Fund work (e.g., the Futures Project work);
- vi. Key external reports, such as the Report of the Global Task Team on HIV/AIDS;
- vii. Ongoing work and evaluations (e.g., the TERG Five-Year Evaluation, the ongoing effort on increasing the effective involvement of civil society in the Global Fund);

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<sup>1</sup> Note: These challenges are not in any way meant to be *challenges to developing a strategy on the particular issue*.

viii. Input from key Secretariat staff with relevant expertise and experience.

4. Overall approach to the background papers:

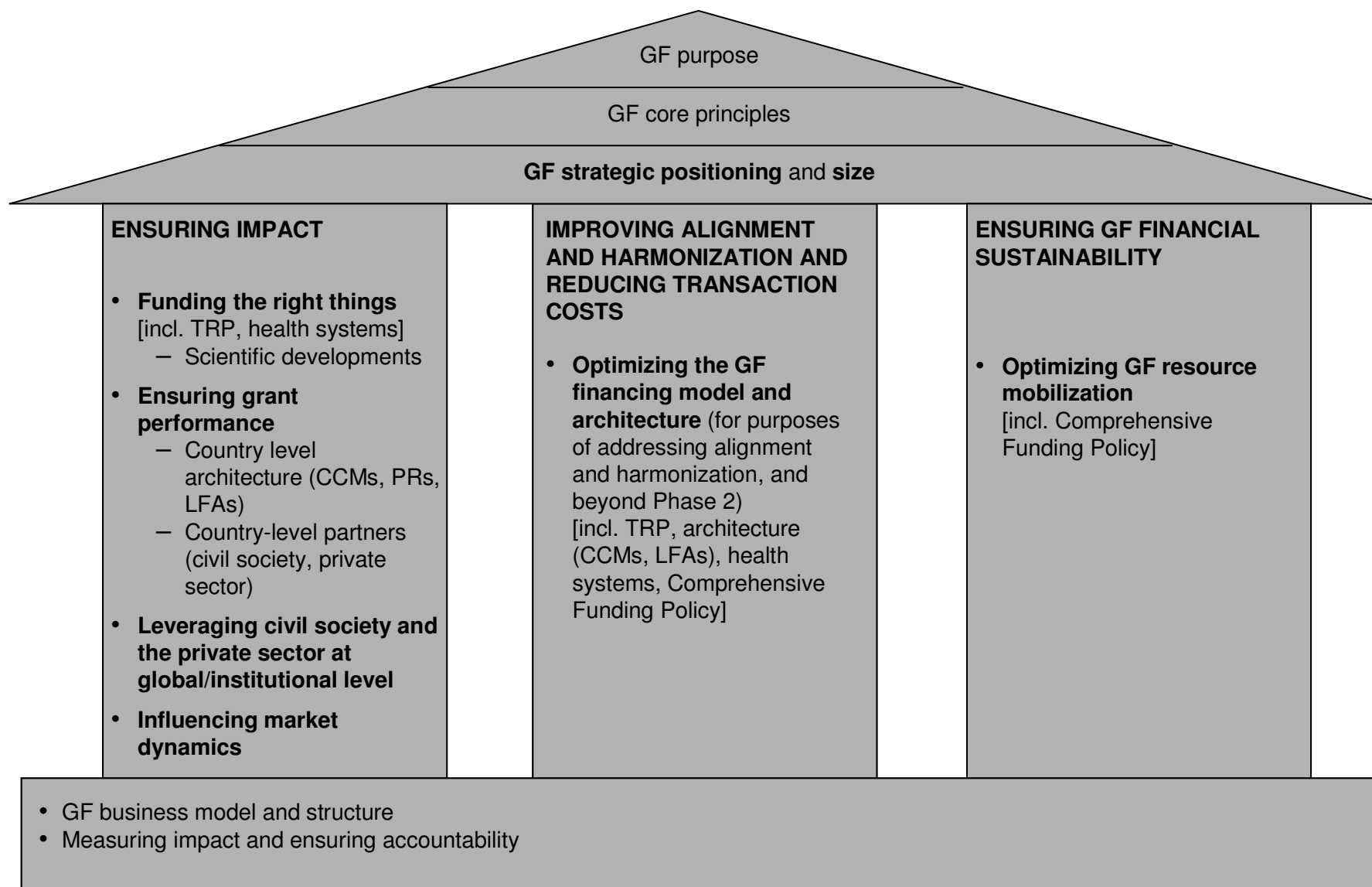
- i. Wherever relevant, the Global Fund's Framework Document is used as the starting point for the issue background papers.
- ii. The papers systematically draw upon any earlier work on the issue considered. In this regard, it is important to note that, while some of the evaluations and reports raise relevant points, a majority of them are either out-of-date or currently less relevant. This is due to a number of possible reasons related to the rapidly evolving nature of the Global Fund and the overall landscape in which it operates: for example, the situation may have changed, many of the findings and recommendations from the reports may have already been incorporated, or the underlying issues may by now already be addressed.
- iii. As requested by the PSC Chair, special attention has been given to making the relevant linkages in the appropriate issue papers to the recommendations of the UNAIDS Global Task Team on HIV/AIDS. The table in Annex 5 of document GF/B12/5 shows in which of the background papers in this document each Global Fund-relevant recommendation that is of a strategic nature has been taken up. It also mentions, for the recommendations of a less strategic nature, the corresponding ongoing operational work.
- iv. In line with the pure strategy focus of this effort, the background papers attempt to make a clear distinction between the strategic and less strategic elements of each issue.
  - (a) Over the course of drafting these papers, it has become clear that some of the issues – or certain elements of them – are more in the realm of operational improvement or policy than of pure, long-term, forward-looking strategy. (An illustrative test for issues of a more 'operational improvement' nature is whether it is within the Fund's current management mandate to address the issue.)
  - (b) These less strategic issues are clearly important and are either currently being pursued within the scope of current management mandates by the Secretariat (for those issues of an operational improvement nature), being worked on by other Board committees (as per their mandates) or may need to be taken up in a separate policy stream of the PSC's work. The additional safeguards policy is an example of this latter case. For completeness, those issues which are currently being addressed by other Board committees are highlighted as such.

**B. Overall Consideration for Strategy Development**

5. There is a need to ensure a "big picture" view of the strategy as a whole, and not to treat each issue as discrete. This is in order to:

- i. Take into account the Global Fund's structure as an integrated system (e.g., the Secretariat, country structures, partners, etc.). Considering this, it is critical to examine how all the pieces work together;
- ii. Prevent the creation of silos where issues are considered in isolation, which leads to a risk of trying to artificially solve each issue on a standalone basis resulting in negative impacts on other parts of the broader Global Fund system.

6. It is in recognition of this consideration that the graphical prioritized framework of strategic issues was developed. Part 2-B of document GF/B12/5 explains the overall logic of this framework and particularly the links between the different issues.



## **Part 2: SITUATION ASSESSMENT BACKGROUND PAPERS FOR THE ISSUES IN THE ROOF OF THE EDIFICE**

### **A. BACKGROUND PAPER ON GLOBAL FUND STRATEGIC POSITIONING**

#### **Situation**

1. The fight against the three pandemics – the ultimate purpose of the Global Fund – is a challenging task that no single entity can hope to achieve on its own. For maximum impact, it is desirable that each entities' actions be well thought-out and as complementary as possible with those of others working toward the same goal.

2. The Global Fund is a relatively young organization in its field, but one that brought with it from day one considerable amounts of financing and a 'business model' that was striking in a number of ways, including:

- i. A clear focus on being a financing mechanism, not an implementing or technical agency;
- ii. Direct targeting of the three diseases;
- iii. A performance-based funding approach;
- iv. A country-driven (or demand-driven) approach;
- v. A structure as a public-private partnership<sup>2</sup> at global and country levels, both for governance and implementation;
- vi. A high degree of transparency;
- vii. A desire to bring to bear additional resources and to complement existing programs and mechanisms.

3. The Fund exists within a complex ecosystem of other actors in this field.<sup>3</sup>

- i. This ecosystem encompasses very different types of organizations (e.g., donors – bilateral and multilateral organizations and private foundations; technical agencies; governments; NGOs; implementing agencies; advocacy groups), each with different focus and scope (e.g., fight against some diseases only, all three diseases, broader development, broader health), working within different geographic footprints (e.g., global, regional, and country-specific) and with different 'toolkits' and means (e.g., grants vs. loans vs. provision of technical assistance; local presence vs. no local presence; etc.).
- ii. Some of the key actors in the same field as the Fund that are especially active against the diseases include: the World Bank, WHO, UNAIDS, the Stop TB and Roll Back Malaria Partnerships, PEPFAR, DFID and other bilaterals, the Gates Foundation and others.

4. This is the first time that the Fund will engage in a rigorous strategy exercise, and therefore the first time it will strive to explicitly articulate its strategic positioning within the broader landscape of actors in the field.

- i. The fundamental purpose of defining its strategic positioning is to enhance the Fund's effectiveness in working with its partners in the global fight against the three diseases.
- ii. Particular elements of an explicit strategic positioning might include, for example: sources of possible comparative advantage and particular role or "niche" within the global architecture;

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<sup>2</sup> This includes a focus on the inclusion of civil society, communities living with the diseases and the private sector at both country and global governance levels.

<sup>3</sup> In fact, the recent Paris Declaration on Aid Effectiveness is rooted in the recognition of the complexity of the current aid ecosystem and its ensuing negative effects, such as limited effectiveness of aid and reduced benefits to developing countries. The declaration, agreed to by all OECD/DAC members and by the Fund, pledges to correct this situation. Means to achieve this include actions of cooperation and collaboration, harmonization of policies and practices and clearer divisions of labor and specializations.

areas of interface, dependency, possible overlap and complementarity with partners; optimal structure of working arrangements or relationships with partners.

### **Challenges and Opportunities**

**5. Country programs supported by the Fund are critically dependent on the Fund's partners for success;** this is inherent in the Fund's model and has also been reinforced by its experience to date:

- i. The Fund's model as a financing mechanism only means that the success of the programs it finances is determined by much more than the Fund itself – specifically by the involvement of other actors that bring complementary forms of support.<sup>4</sup>
- ii. The Global Fund's experience to date has highlighted a number of areas where partners play an absolutely critical role; for instance in:
  - (a) Helping to identify areas of need in country and assisting with proposal development to fill them;
  - (b) Helping to identify grants in difficulty;
  - (c) Providing technical and management assistance to Fund grantees;
  - (d) Making available complementary financing;
  - (e) Integrating the Fund's support with national priorities.
- iii. It is important to highlight that, while Fund-supported country programs depend on other, often technical agencies for the areas listed above, donors have a key role to play in helping to provide a supportive financing context for these activities. The issue of funding technical agencies for the provision of technical assistance to Global Fund grants is a good example of this.
- iv. The strategic challenge is thus to make the complementary pieces of the model work together better in complementary fashion.

6. The **partner landscape has evolved in significant ways** since the creation of the Fund – including the emergence of new partners and new multi-party strategic initiatives like the Global Task Team (GTT).<sup>5</sup> This naturally raises questions about the implications of these developments on the Fund's work and relationships.

7. In addition, the work of the GTT has suggested that the Global Fund and the World Bank “increasingly seem to finance the same types of goods and activities in the same countries, without any clear sense of their respective comparative advantages or complementarity with the other.” In its recommendations, **the GTT explicitly requested that “the Global Fund and the World Bank [...] evaluate and clarify areas of overlap, comparative advantages and complementarities between the two** to establish a more functional and clear division of labour in order to more effectively support countries.”

8. The remarks above emphasize the importance of the Fund **ensuring an up-to-date, optimal and clear choice of its strategic positioning within the broader landscape of actors.** Such a strategic positioning will enable the Fund to:

- i. Appropriately adjust its internal focus, priorities and activities to be optimally consistent with its strategic positioning;

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<sup>4</sup> The Fund's Framework Document spells out that the Fund is a financing mechanism, not an implementing entity and that “technical support for preparing proposals and developing country level partnerships could be provided and funded by partners active in the country, such as bilateral donors and UN organizations.”

<sup>5</sup> Global Task Team on Improving AIDS Coordination Among Multilateral Institutions and International Donors. “Final Report.” (14 June 2005).

- ii. Work toward clear and well-functioning interfaces, working arrangements and relationships with its partners.

### **Key Considerations for Strategy Development**

#### **Ongoing work**

9. As a follow up to the specific recommendation mentioned above from the GTT report, work is currently being conducted by an independent consultant jointly engaged by the World Bank and the Global Fund to address the question of the relative roles of these institutions. A report is expected by end of year 2005 and should provide useful guidance in clarifying the World Bank-Global Fund facet of the overall issue of the Fund's strategic positioning.

10. There is also ongoing external work on the roles and effects of global health partnerships within the broader landscape of actors.<sup>6</sup>

#### **Additional considerations**

11. From a strategic and pragmatic perspective, the primary focus of this paper is on the Fund's strategic positioning as compared to that of its key international partners, with the purpose of developing a global, cross-cutting strategic positioning. At the same time, recognizing the existence and importance of in-country particularities, they should be factored in by ensuring the appropriate level of flexibility and adaptability to varying local circumstances. (This issue is further analyzed as part of the background paper on "Alignment and Harmonization").

12. The concepts of "division of labor" and "comparative advantage" are the subject of some debate. In both cases, the point is made that these concepts are only useful to the extent that they can be made operational, so the concern is to avoid an overly theoretical treatment and ensure a sufficiently pragmatic approach to developing a strategic positioning.

13. Developing a strategic positioning for the Fund is not a one-time exercise: as pointed out above, the landscape evolves and learnings occur over time. For this reason, the Fund may wish to periodically reassess and refine its strategic positioning.

14. The Fund's strategic positioning may need to consider the actual, real and practical features – strengths, gaps, and learnings – related to the way in which the Fund currently functions. In addition, the above factors may need to be set in the context of other actors and their features.

## **B. BACKGROUND PAPER ON GLOBAL FUND SIZE**

### **Situation**

15. The Global Fund's founding vision was that it be a significant financing mechanism mobilizing massively increased resources in the fight against the three pandemics.

- i. The Fund's purpose, as defined by the Framework Document, explicitly calls for the Fund's resources to "make a sustainable and significant contribution to the reduction of infections, illness and death, thereby mitigating the impact caused by HIV/AIDS, tuberculosis and malaria in countries in need, and contributing to poverty reduction as part of the Millennium Development Goals."<sup>7</sup>

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<sup>6</sup> See, for example: Druce, Nel *et al.* for the DFID Health Resource Center. "Mapping and Assessing the Effectiveness of Aid Architecture for Health" (September 2005); Bill and Melinda Gates Foundation and McKinsey & Company, for the High Level Forum on the Health MDGs. "Global Health Partnerships: Assessing Country Consequences." (November 2005).

<sup>7</sup> The Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria.

16. Early discussions about the Global Fund indicated that the scale required to make a significant impact against the pandemics was of the order of US\$ 5-10 billion per year for AIDS alone.<sup>8</sup>

17. The Fund's trajectory to date, its current size and its anticipated future trajectory are far from this aspired scale.

- i. Since the creation of the Global Fund, the availability of resources has increased only moderately from about US\$ 1 billion per year in 2002 and 2003 to US\$ 1.5 billion in 2004 and 2005. These figures have allowed the Fund to have an average funding "share" to date of global external resource needs of approximately 20% for HIV/AIDS, 66% for tuberculosis and 45% for malaria.
- ii. The Fund's future financial trajectory has only been explicitly discussed for the horizon of the next two years. It is set by the figures put forward during the Fund's first replenishment cycle: "Participants reviewed the estimates of Global Fund resource needs for 2006 and 2007 that had been prepared for the meeting – US\$ 3.5 billion and 3.6 billion, respectively. [...] They agreed to consider the 2006 and 2007 targets in the context of the further review of the implementation of the Fund's current programs."<sup>9</sup>

### **Challenges and Opportunities**

**18. Opportunity to fully leverage the Fund's potential:** The Global Fund has proven its ability to rapidly expand and disburse large amounts of new resources to the fight against the three diseases. Although relatively light in comparison with other funding mechanisms, the Global Fund's model only becomes meaningful if the resources flowing from the Global Fund are of a certain size.

- i. The model is flexible and can accommodate significantly larger resource flows, although with substantial further growth, some parts of its architecture will need modifications.
- ii. While more work needs to be done to look at comparative cost-effectiveness of different financing deliverers, initial results indicate that the Global Fund's model represents high value for money.
- iii. To the extent that Global Fund resources become a significant share of international funding for the three diseases to a country and this flow becomes predictable and sustainable, the investments made by the country (in its CCM, its Principal Recipients and its monitoring and evaluation systems) will be seen as economical. It will also allow countries to devise and execute long-term strategies for fighting the three diseases. The two core elements of the Global Fund model – multi-stakeholder involvement and performance-based funding – which are highly valued by all stakeholders will increase in importance within health sector planning and implementation in each country.
- iv. The recommendations of the Global Task Team and the underlying principles of country leadership, harmonization and aid effectiveness, argue for a rationalization of development financing focusing on a small number of cost-effective, focused funding mechanisms with a clear division of labor. With the investments already made in its development, the Global Fund provides a ready and available tool for such donor rationalization.

**19. Opportunity for increased clarity:** An agreed, appropriately ambitious aspiration for the target size of the Fund would be useful in a number of ways, and could in fact have a powerful effect.

- i. It would give partners clarity as to how the Fund fits in to the global picture of the fight against the diseases. (And it would of course be developed based on considerations of – and

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<sup>8</sup> Organization of African Unity. Abuja Declaration on HIV/AIDS, Tuberculosis and Other Related Infectious Diseases (OAU/SPS/Abuja/3). (April 2001).

<sup>9</sup> Global Fund. "Chair's Summary of the First Replenishment Meeting." (15-16 March 2005).



discussions with partners about – the Fund’s appropriate fit within the global health architecture and into the broader development framework.)

- ii. It would allow the Fund to work strategically toward a more explicit, longer-term target than it currently has, enabling it to fully consider, plan for and address the long-term implications and requirements of meeting this objective.
- iii. It would create the opportunity for a frank analysis of existing and potential development funding and an examination of other sources of funding (e.g., innovative funding mechanisms) that could realistically be expected to fill the gap.

**20. Challenges in setting and reaching target size:** Given the persistent challenges for the world community to provide anywhere near the resource estimated as needed to effectively fight the three pandemics through development aid, a target size for the Global Fund could lose its relevance in guiding actual pledges. Mitigation of this challenge would lie in an effective and explicit division of sources of funding that highlighted the portion expected from ODA and that expected to be raised by other means.

### **Key Considerations for Strategy Development**

#### **Ongoing work and starting point**

21. The resource needs estimate for the Global Fund presented in March 2005 will be updated on a regular basis. A revised estimate of the Fund’s resource needs is already planned for early 2006 in advance of the mid-2006 replenishment meeting. These resource estimates are based on the Fund’s current business model and therefore are only projections of the current model using estimates of future demands within the ‘rounds’ system.

22. The responsibility for the future of the replenishment process lies with the Finance and Audit Committee (FAC).<sup>10</sup> It should be noted that on current experience, the replenishment process will only be able to provide a portion of required funding.

23. An appropriate strategic reflection on this topic will need to consider the variety of factors of a different nature that might determine and influence the Fund’s target size. Such factors might include the following:

- i. Demand-side drivers potentially affecting target size of Global Fund, such as:
  - (a) Key international commitments goals for fighting the diseases (e.g., Millennium Development Goals, universal access etc.).
  - (b) Appropriate Global Fund “share” of overall funding for each disease (as determined by its role and comparative advantage);
  - (c) Expected grant volume (from new rounds, renewals, etc.);
  - (d) Country absorptive and distributive capacity;
  - (e) Changes to Fund architecture (such as moving away from project-based funding).
- ii. Supply-side drivers to be potentially considered in relation to target size of Global Fund, such as:
  - (a) Availability of donor funding;
  - (b) Emergence of new aid channels (e.g., bilateral programs, etc.)

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<sup>10</sup> Per the decision taken at the 11th Board Meeting.

## **Part 3: SITUATION ASSESSMENT BACKGROUND PAPERS FOR THE ISSUES IN THE FIRST PILLAR: "ENSURING IMPACT"**

### **A. BACKGROUND PAPER ON FUNDING THE RIGHT THINGS**

#### **Situation**

1. As stated in the Framework Document, the Global Fund was founded with the explicit purpose to "make a sustainable and significant contribution to the reduction of infections, illness and death, thereby mitigating the impact caused by HIV/AIDS, tuberculosis and malaria in countries in need, and contributing to poverty reduction as part of the Millennium Development Goals." It was also charged to "operate in a balanced manner in terms of different regions, diseases and interventions, [...i.e.] prevention, treatment, and care and support", as well as to "balance its resources by giving due priority to areas with the greatest burden of disease, while strengthening efforts in areas with growing epidemics." Furthermore, the Global Fund is committed to the "substantial scaling up and increased coverage of proven and effective interventions."<sup>11</sup>

2. Currently the Global Fund portfolio is entirely demand-driven and (beyond simple eligibility guidelines and criteria) there is no top-down, proactive shaping of the portfolio:

- i. An open process accepts country proposals meeting country eligibility criteria and a set of broad guidelines (e.g., a focus on prevention, care, and treatment of the three diseases or health systems strengthening). Funding decisions take into account the recommendations made by the Technical Review Panel using the criteria of technical merit and feasibility of the proposals. Proposals are considered on a standalone basis (as opposed to within the context of the current portfolio composition).
- ii. Country eligibility criteria are based on World Bank classifications of poverty level, and for some country types, on considerations of counterpart financing, target population and disease burden.<sup>12</sup> (In addition, new CCM eligibility criteria were added from Round 5 to ensure representation from all stakeholders and transparent processes.)<sup>13</sup>
- iii. A prioritization scheme (based on poverty levels and demonstrated disease burden) exists for situations where the available funds are not sufficient to cover the full number of TRP-approved proposals.
- iv. The composition of the Global Fund grant portfolio has been discussed by the Global Fund Board at various junctures<sup>14</sup> and the sense to date is that, on an aggregate level, the composition of the Global Fund portfolio "seems right enough" e.g., based on a comparison to geographic distribution of disease burdens.

3. The success of the Fund and its grantees is also critically dependent on scientific and 'health technology' tools, namely medicines (ARVs, ACTs, TB drugs, etc.) and other commodities (bednets, etc.) that can help prevent and treat the three diseases. Close to 50% of aggregated Global Fund grant funds currently go towards the purchase of such essential medicines and health products (41%

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<sup>11</sup> The Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria. Sections II and III. Section III also states that the Fund "will support proposals which give due priority to the most affected countries and communities, and to those countries most at risk".

<sup>12</sup> Low-Income countries are fully eligible and Lower-Middle Income countries can apply if they secure progressively increasing counterpart funding and can demonstrate that the proposal will focus on poor and vulnerable populations. Upper-Middle Income countries must be facing a very high disease burden as well as meeting the same requirements as Lower-Middle Income countries.

<sup>13</sup> Global Fund. "Revised Guidelines on Purpose, Structure and Composition of Country Coordinating Mechanisms and Requirements for Grant Eligibility." (April 2005).

<sup>14</sup> E.g., "Report of the Technical Review Panel and the Secretariat" after each round, such as GF/B8/5 and GF/B11/6. See also "Report of the Replenishment" (GF/B11/5).

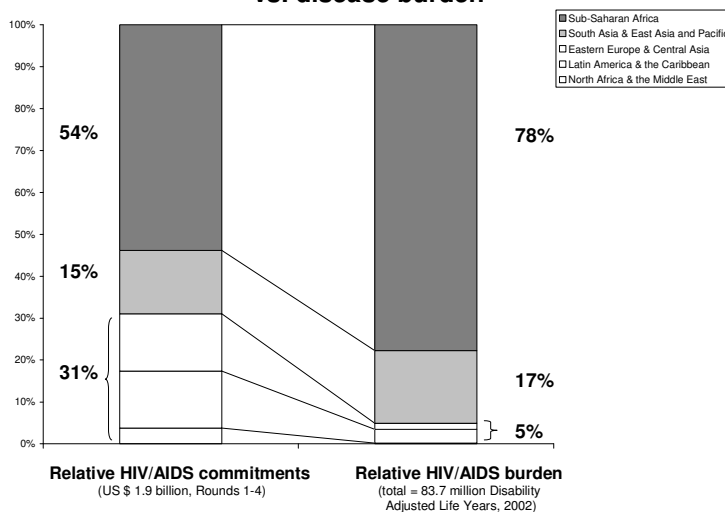
for the TRP-approved Round 5 proposals).<sup>15</sup> As these new scientific and technological developments become available, there is a moral imperative to assess and make use of them as quickly as possible. In this regard, it must be recognized that efficient deployment of new technologies is often a significant challenge, and one that requires sometimes substantial prior planning.

**Challenges and Opportunities**

4. The following points have been raised in relation to the Global Fund’s portfolio:

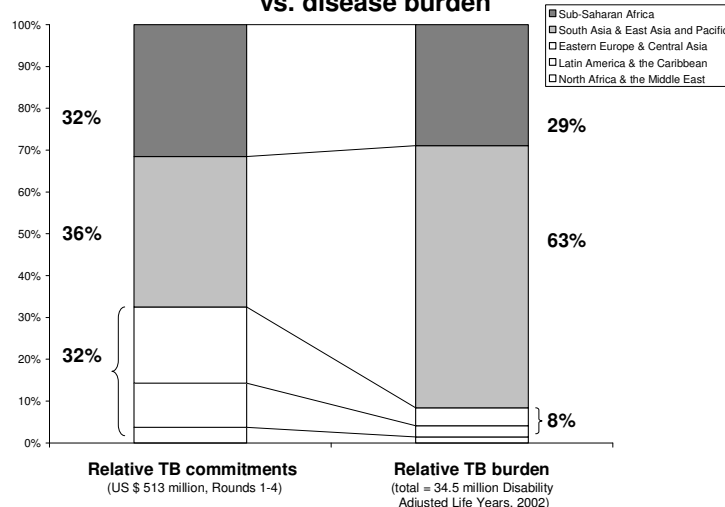
- i. **To what extent the current eligibility criteria enable the effective targeting of funding** toward the most affected countries and communities as well as the countries most at risk (see footnote 11). A particular concern has been whether the eligibility criteria allow the Global Fund to support those affected communities in middle income countries that receive little government or donor support.
- ii. The possibility **of applying additional specific criteria to individual proposals**, for example to ensure a sufficiently comprehensive approach in terms of focus on prevention vs. treatment.
- iii. The value and feasibility of the Fund **developing a point of view as to what a “balanced” portfolio looks like over time**. Based on this perspective, the Fund might then decide whether or not to play an active role in correcting major portfolio imbalances, if any are deemed to arise, or in encouraging new or emerging needs (e.g., sufficient focus on ‘2nd wave’ geographies for HIV/AIDS).

**Figure 1 – HIV/AIDS: Global Fund commitments vs. disease burden**

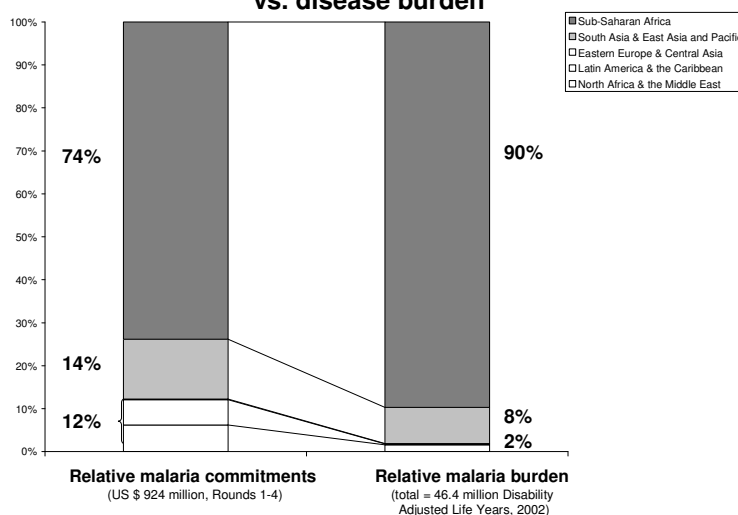


<sup>15</sup> Global Fund Annual Report (December 2004); TRP Presentation to the Board (September 2005).

**Figure 2 – Tuberculosis: Global Fund commitments vs. disease burden**



**Figure 3 – Malaria: Global Fund commitments vs. disease burden**



5. These points raise some very fundamental issues, such as:<sup>16</sup>

- i. Developing an agreed perspective on the fundamental question of what exactly the Global Fund should try to balance: the portfolio of projects it funds taken in isolation of other programs in country or its portfolio as considered in the context of existing programs and national strategies in country? (e.g., does it matter if the Fund's portfolio invests less in malaria in a given geography if other funders are very active there in that precise segment?) This is a particularly critical question given the Global Fund's stated intent to complement existing programs in country and to help fill national and global gaps. At the same time, the analysis required to understand this complementary view is likely to be quite complex to conduct;
- ii. Reconciling conflicting donor preferences (and in some cases strict funding constraints) on the prominence of the poverty eligibility criterion;

<sup>16</sup> Note: These fundamental issues are detailed here to help make explicit the ramifications of this issue. They are not in any way meant to deter from consideration of the issue.

- iii. Balancing the Global Fund's commitment to a country-driven approach with ensuring the right overall portfolio balance or focus (including investing in areas with the greatest disease burden);
- iv. Developing an objective view as to what a "balanced" portfolio looks like<sup>17</sup> without becoming enmeshed in political struggles;
- v. Dealing with the intrinsic limitations of the data that would be used to develop a rigorous picture and assessment of the portfolio. For instance, there are sometimes long lag times (e.g., 1-2 years) in the acquisition of data, which could lead to serious concerns if major, potentially controversial decisions on the portfolio balance are to be taken on the basis of this data;
- vi. Assessing the institutional implications (e.g., on the TRP) of the Global Fund playing a more active role in shaping its portfolio;
- vii. Mitigating the possibility of unintended consequences from more active management of portfolio, such as the risk of creating warped incentives or of countries "gaming the system."

6. On the issue of scientific and technological developments, there are questions about the sufficiency of the Global Fund's current capability – within the constraints of its financing role and necessary reliance on partners – to appropriately deal with new such developments. The main questions revolve around:

- i. **Readiness:** Whether the Fund is sufficiently active and effective in working with its partners to anticipate and be ready to respond to key developments;
- ii. **Flexibility:** Whether the Fund and the way that it works with its partners on these issues are sufficiently flexible to respond rapidly;
- iii. **Adequacy of the toolkit:** Whether the Fund has the appropriate 'toolkit' of mechanisms, instruments and policies to keep abreast of potential opportunities and respond adequately. Examples might comprise:
  - (a) Appropriate principles or policies to deal with tough trade-offs such as long-term sustainability issues;
  - (b) Suitable channels or processes for country input on new development identification and response;
  - (c) Additional financial instruments (such as a country top-up fund to cover expenses arising from addressing new developments).

### **Key Considerations for Strategy Development**

#### ***Starting point and ongoing work***

7. Recently the Portfolio Committee (PC) convened a sub-working group to explore the issues around expanding the eligibility criteria to include Upper Middle Income Countries. The sub-working group briefed the PC at its meeting on 24-25 October on work to date, and is in the process of conducting further research and analysis with the help of the Secretariat. . It will report to the PC at its next meeting.

8. There were early considerations at the inception of the Fund (e.g., during Transitional Working Group) of the pros and cons of an active versus passive approach to portfolio balance. For example, some stakeholders raised the idea of earmarking funds for certain regions or diseases.<sup>18</sup> More recent suggestions include having rounds targeting specific interventions.

#### ***Additional considerations***

9. Responding to scientific and technological developments is an area that carries significant potential as well as significant responsibility, so there may be a need for an **appropriate degree of deep**

<sup>17</sup> This will require difficult trade-offs between different possible factors, acknowledging that it is practically unfeasible to balance across all legitimate dimensions (e.g. geographies, diseases, vulnerable populations, etc.)

<sup>18</sup> Report of the Second Meeting of the Transitional Working Group, Annex 1. (November 2001)

**reflection and caution about moral and cost implications:** As a financing instrument managing a large amount of resources, the Fund can play a major role in impacting the speed and scale of uptake and implementation of new treatments and protocols. At the same time, there are significant costs (financial, transactional, reputation-wise, long-term sustainability, etc.) – both for the Fund and at the country level – of changing norms and treatments. The mechanisms and partners that the Fund chooses to rely upon will be critical.

10. Strategic reflection on potential further mechanisms might, if useful, take into account the following ideas:

- i. It may be helpful to distinguish between two levels of changes:
  - (a) The managerial level: Developing or improving mechanisms/tools within the current framework (not all of this is entirely of a strategic nature);
  - (b) The architectural level: Modifying elements of the Fund's architecture to allow flexibility and better response.
- ii. Mechanisms and approaches may need to be different according to whether one is dealing with incremental improvements to existing norms, treatments, products, or rather with "game-changing" breakthroughs.

## **B. BACKGROUND PAPER ON ENSURING GRANT PERFORMANCE**

### **Situation**

11. The Global Fund's Framework Document lays out in its principles that the Global Fund is "a financial instrument, not an implementing agency." For this reason, the Fund has no local presence and relies heavily on the support of its partners, including for the provision of implementation assistance to countries. The Fund is also committed to a performance-based funding model, where resources are linked "to the achievement of clear, measurable and sustainable results."<sup>19</sup>

12. Eighty percent of the Global Fund's grants demonstrate good performance at the time of Phase 2 review.<sup>20</sup> However, as would be expected, many grants inevitably encounter challenges during the course of implementation. A number of studies have examined the issue and point to obstacles in grant implementation as a key factor that impedes better grant performance.

- i. The Global Fund Tracking Study, which assessed the roll-out of Global Fund-funded projects in a variety of countries, consistently pointed to identifying and engaging the appropriate assistance as a problem for many recipients.<sup>21</sup> This point was echoed in other external and internal reports<sup>22</sup>, the 1st Partnership Forum, and the Fund's periodic regional conferences which bring together a broad variety of country stakeholders.
- ii. The most common implementation challenges cited by countries are to do with procurement, the management of sub-recipients and the overall project, financial budgeting and planning, and technical health issues (e.g., treatment protocols).
- iii. These types of issues usually become evident to the Fund only 4-6 months after grant signing (at the time of first reporting). It is common that at that stage these problems have taken the

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<sup>19</sup> "The Framework Document of The Global Fund to Fight AIDS, Tuberculosis and Malaria."

<sup>20</sup> As measured by as measured by the 74 grants evaluated for Phase 2, with grants rated A (met or exceeded targets) or B1 (adequate performance) in the Phase 2 evaluation considered as good performance. See Global Fund. "Sustaining Performance, Scaling Up Results: Third Progress Report 2005." (August 1, 2005).

<sup>21</sup> London School of Hygiene and Tropical Medicine. "Global Fund Tracking Study: Country Summaries and Conclusions." (August 2005).

<sup>22</sup> E.g., Global Fund. "Progress Report on Collaboration with Partners for Accelerated Implementation: Seven Country Case Studies." (June 2005); UNAIDS. "Technical Support Division of Labor." (August 2005).

form of a major bottleneck which significantly impedes the progress and performance of the grant.

- iv. The Board, in particular through the work of its Ad-Hoc Committee on Technical Assistance, has recognized the importance of technical support from the proposal development stage through the lifecycle of a grant.<sup>23</sup>
- v. The types of approaches that have been considered or implemented to address problems include: remedial support on specific technical matters (e.g., technical health issues, procurement, finance and budgeting), “management assistance” (e.g., advice and support on general planning, administration and organization), the proactive provision of guidelines and training, and preventive measures such as upfront insistence on (or incentives for) rigorous planning and capacity assessment.

13. To supplement the previous process of problems being identified by LFAs or Fund Portfolio Managers (and in fact hardly ever by CCMs or PRs), and to proactively manage risk by spotting problems early on, the Global Fund has recently developed an Early Alert and Response System (EARS). EARS works with partners to identify grants in need of assistance and to mobilize the appropriate resources and support.<sup>24</sup> EARS is still in its early stages of implementation, but it already has identified 33 grants in 20 countries for further support, with additional grants being added to the list monthly.

14. As of Round 5, funding for technical assistance (TA) and management assistance (MA) is now a separate line item in proposal budgets, with recipients being encouraged in the proposal guidelines to set aside money for this purpose. If, over the course of grant implementation, further funds for assistance are required, recipients can request to reprogram their budgets in order to free up the money.<sup>25</sup>

15. At the global level, there are a large number of organizations that provide TA: multilateral (UNAIDS, WHO, etc.) and bilateral agencies (USAID, DFID, GTZ, etc.), international NGOs (FHI, PSI, MSH, MSF, etc.) and local organizations. At the country level, the organizations present differ greatly in number and type.

### **Challenges and Opportunities**

16. The studies on grant performance mentioned above, together with the Fund’s experience to date, point to a number of issues related to ensuring improved grant performance. Some are related to the Fund’s specific architecture, while others are systemic in the current public health and development landscape.

#### ***Architectural issues:***

17. **Late identification of implementation bottlenecks:** Implementation issues are often identified only once they have become major bottlenecks. EARS is beginning to help in this regard, but it is unreasonable to expect it to be a ‘cure-all’. There are a number of significant factors that likely contribute to the problem of late identification; these include:

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<sup>23</sup> “Report of the Ad-Hoc Committee on Technical Support.” (GF/B9/13).

<sup>24</sup> The process is as follows: (1) Grants are identified for the EARS list through data collected by the Secretariat (late disbursements and reports, low financial burn rates, poor LFA ratings, etc.) as well as through more qualitative information such as reports from Fund Portfolio Managers and partners. (2) After communicating its concerns with the PR, the Secretariat works with CCMs and PRs to identify the types and sources of assistance needed – technical, managerial, or Global Fund-related. (3) The Secretariat then works with partners to identify the necessary technical and financial resources to mobilize an appropriate response at the country level.

<sup>25</sup> Global Fund. “Report of the Ad-Hoc Committee on Technical Support.” (GF/B9/13).

- i. The short timelines for proposal development and evaluation inherent to the current Global Fund system;<sup>26</sup>
- ii. The Fund's model of grant management from a distance (without a country presence), with Fund Portfolio Managers covering a large number of grants and often strongly focused on disbursements, Phase 2 renewals and dealing with crises, with only ad-hoc, relationship-based systems to gather and respond to real time feedback from the field
- iii. Inconsistent levels of CCM engagement in monitoring grant progress in practice, despite this being part of their mandate;
- iv. The general low level of systematic pre-empting of implementation bottlenecks by countries: Currently, many PRs do not conduct a thorough review at the start of a project to identify the type of assistance they may require at the different stages of implementation.<sup>27</sup> Also, despite the specific allowance for TA and MA in grant budgets, many countries never make this allocation.

**18. Questions about the limits of the Fund's mandate in facilitating assistance:** Being a financial mechanism, the Global Fund has been the focus of a long-standing debate about how far it ought to go in contributing to address grant implementation issues. Some argue that it is part of the nature of any financial mechanism (especially one operating in difficult conditions) that it must not only provide funding, but also the appropriate oversight and corrective functions to be able to adequately manage its grant portfolio. Without implying that the Fund itself should provide assistance to its grantees, this school of thought argues for a clear and proactive facilitative role for the Fund in identifying needs, making them known, and enabling an adequate third-party response. In contrast, others worry that the Fund risks overstepping into implementation and that it needs to work more on effectively activating its partner network. The Board's endorsement of EARS as a proactive mechanism has moved the debate along and implicitly provided some degree of clarity, but any discussion of grant performance inevitably runs into this issue.

**19. Low level of use of international TA/MA by Fund grantees:** Even when countries make the allowed grant budget allocation for TA and MA, they often do not in practice spend the funds. The reason is often that they are reluctant to pay the high cost (in relative terms) of international assistance; this is the case even when there is no national expertise available.

**Systemic issues:**

**20. Inadequate funding for TA/MA:** The state of funding for planning and implementation support is a major systemic problem. There are a couple of dimensions to this:

- i. Though most multilateral agencies and NGOs agree that it is within their scope of work to provide assistance in-country, they claim that they have not received the additional resources necessary to appropriately respond to the increased demand from the volume of Global Fund grants.<sup>28</sup> There have even been requests for direct funding support from the Fund for this purpose.<sup>29</sup> However, the Fund's country-focused nature makes such direct financial transfers to partners practically impossible and there are questions about whether this model is appropriate anyway.

<sup>26</sup> The World Bank spends an average of 24 months between proposal preparation and loan negotiation, compared to the Global Fund's average of 12 months between proposal preparation and grant negotiation.

<sup>27</sup> It has been pointed out that the proposal development phase holds the potential to be used to systematically and rigorously identify clear gaps and support needs, as part of developing a viable proposal. (At the same time, it needs to be acknowledged that a number of problems start small and are intrinsically hard to pre-empt.)

<sup>28</sup> Global Task Team. "Final Report." (June 2005).

<sup>29</sup> WHO Stop TB and Roll Back Malaria Partnerships. "Converting Funding into Clear Results: Global Cooperation to Support the Scale Up of Tuberculosis and Malaria Control." (August 2005). UNAIDS. "Making the Money Work through Greater UN Support for AIDS Responses." (August 2005).



- ii. Further, as explained by Bezanson, “the availability of overall funding for technical assistance is not the [main] problem; too large a proportion of bilateral aid (about a third) is allocated to conventional technical assistance. The problem is that much of the available funding remains tied to the use of donor country consultants and is donor-driven, that the patterns of financial allocation are severely sub-optimal, that accessing it requires slow and burdensome processes and that the overall approach to technical assistance is unsystematic and uncoordinated. While ideas have been put forward on how to revamp long-standing technical assistance practices, vested interests and the dependency of donor consulting firms and consultants on bilateral aid budgets continues to make reforms an uphill proposition.”<sup>30</sup> Because of this, a solution cannot be found by the Fund alone.

**21. Limited accountability of international agencies for the provision of support:** For agencies whose mandate includes the provision of TA to countries, there is often an inherent lack of clarity concerning the level of responsibility, priority and resources that needs to be accorded to responding to these requests (especially since these agencies have their own ongoing work and so face an issue of competing priorities). Also, local offices may not be fully aligned with headquarters on any expectation of support to Global Fund grants. As such, there are often limited incentives and accountability for responding in a timely and effective manner to country requests and ensuring that the necessary assistance is provided at the right level.

**22. Complex support landscape:** Once a problem is identified, the large and confusing landscape of specialized and generalist TA providers at global, regional and local levels means that countries often face difficulties in identifying the right type of assistance and the best-suited provider of it. This is even more true for MA, where the problems to be solved can be innately more amorphous and there are typically fewer providers of assistance and less clarity as to which might be most appropriate.

**23. Insufficient use of less traditional sources of assistance:** Today, the vast majority of TA and MA is provided by multilateral/bilateral agencies and international NGOs. In contrast, other potential providers of assistance such as local NGOs, the private sector (both businesses and foundations) and local academic institutions are often overlooked.<sup>31</sup> This is so despite the unique advantages they can bring (e.g., solid knowledge of local context, solid procurement skills, lower cost than international providers, ability to respond quickly).

### **Key Considerations for Strategy Development** **Ongoing work**

24. As part of EARS, a risk model for grants is being developed as a tool to guide grant management. Also the Fund is participating in the Global Implementation Support Team (GIST). This is an outcome from the Global Task Team (GTT) work that has created a forum for the Fund to engage with key UN partners and to quickly mobilize the necessary support for countries identified by EARS.

25. To help improve procurement efforts, often cited as a major bottleneck in grant implementation, the Fund and its partners have instated procurement training at the regional level, developed tools like the online Price Reporting Mechanism for drugs and medical products, and is exploring new mechanisms such as the Global Electronic Marketplace to consolidate and streamline country

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<sup>30</sup> From Bezanson, Keith. “A Situation Assessment of the Global Fund.” (September 2005).

<sup>31</sup> As a result, it is argued, some of these local sources remain under-resourced, and thus less visible, and so a vicious cycle is set up, which does not allow the sufficient development of local support capacity.

procurement. In addition, as part of the GTT recommendations the Global Fund is working with UNAIDS to identify procurement and supply management bottlenecks.

26. As part of the Global Task Team effort led by UNAIDS, there is ongoing collective work across the range of relevant multilateral partners on the provision of TA for AIDS. Some of the ideas being pursued (through specific GTT follow-up recommendations) include a common entry point for countries to access all AIDS-related services through the UN system and calls for increased funding for technical support, particularly via the expansion of UNAIDS' Program Acceleration Funds to "enable the UN system and others to scale up the provision and facilitation of technical support based on requests by countries."

### ***Additional considerations***

27. There are clear sensitivities around grant implementation issues, with countries often fearing – as has become acutely evident with EARS – stigmatization and the possibility of funding being discontinued. Paying the right degree of attention to these sensitivity concerns, while underlining the positive value of being proactive about implementation issues will be an important consideration in option development.

## **C. LEVERAGING CIVIL SOCIETY AND THE PRIVATE SECTOR AT GLOBAL/INSTITUTIONAL LEVEL**

28. Recognizing the unique particularities of civil society and the private sector, this issue is split into two background papers, one devoted to each. Also, it should be noted that the issue of the participation and contribution of civil society and the private sector at *country level* is addressed in the background paper on "ensuring grant performance."

## **C1. BACKGROUND PAPER ON LEVERAGING CIVIL SOCIETY AT THE GLOBAL/INSTITUTIONAL LEVEL**

### **Situation**

29. The Framework Document explicitly calls for the Global Fund to "focus on the creation, development and expansion of government/private/NGO partnerships" as well as to "strengthen the participation of communities and people, particularly those infected and directly affected by the three diseases."<sup>32</sup>

30. As such, civil society participation has been integral to the design and development of the Global Fund. Civil society participation occurs at various levels and in various ways:

- i. At the global and institutional level:
  - (a) Civil society has played a crucial role in advocacy, by raising awareness of the Global Fund, and ensuring that governments and bi-lateral organizations support the Global Fund's role as a financing mechanism responding to AIDS, tuberculosis and malaria;
  - (b) Civil society is a key contributor to the Global Fund Partnership Forum, where critical feedback is provided to the Fund on its functioning;
  - (c) Civil society is represented and active on the Global Fund Board alongside governments, donors and private foundations;
- ii. At the country level:

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Note: Substantial portions of this background paper are based on the work of Fortier, E. "Improving the Effective Involvement of Civil Society within the Global Fund: A Framework for Action – Situational Analysis." (October 2005).

<sup>32</sup> The Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria.

- (a) Civil society plays an important role in the CCM model, whereby all stakeholders are represented and engage in proposal development and well as grant oversight;
- (b) Civil society organizations serve as PRs and Sub-Recipients on many Global Fund grants, and provide technical and capacity-building support on the ground over the course of grant implementation.

### **Challenges and Opportunities**

31. A significant amount of work to date has examined the participation and contributions of civil society in Global Fund processes and structures from a variety of perspectives. A large number of studies have been focused on civil society participation and contributions at the country level, in particular on CCMs. Others have examined other aspects of the Global Fund relevant to civil society.<sup>33</sup> Additional feedback has been gained from the 1st Partnership Forum and civil society participants at regional conferences. These have highlighted the following points concerning civil society participation and contributions at the global and institutional level:

**32. Ensuring the creation and proper use of participatory mechanisms:** Given the Global Fund's "hands off," country-driven approach, figuring out how to best guarantee that country-level Global Fund structures are appropriately inclusive and participatory can be challenging. Currently, guidelines and regulations are used to ensure that Global Fund structures and processes are not abused or misused by those looking to benefit from involvement with the Fund at the expense or exclusion of other groups.<sup>34</sup> Concerns have been raised about the effectiveness of such top-down requirements, with the argument that requirements alone cannot guarantee the effective participation and contribution of civil society, including marginalized groups, in all Fund processes. This issue has been raised in particular in reference to compliance with the Revised CCM Guidelines outlining new procedures intended to increase civil society participation on CCMs, but may need to be considered more generally as well.

**33. Expanding the range of participation and contributions by Southern civil society partners:** In recent years, the emphasis has been on the comparative advantage of Southern civil society partners in implementation – and less so on the crucial role that this voice can play in advocacy efforts.<sup>35</sup> The Southern civil society constituency can use its strong influence to demand Global Fund performance and accountability – with positive consequences for program implementation and perhaps also for resource mobilization. Increased recognition and contributions by Southern civil society at an institutional level would help the Fund further fulfill its aspiration as an inclusive public-private partnership and would also help maximize the impact of civil society contributions at the global and institutional levels.

### **Key Considerations for Strategy Development**

#### **Ongoing work**

34. There is an ongoing effort by the Civil Society Team of the Global Fund to develop a framework to increase the effective involvement of civil society, in order to further maximize the contributions of civil society. This has the aim to:

- i. Institutionalize the role of civil society as equal stakeholders in the Global Fund;

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<sup>33</sup> For examples, see: International Center for Research on Women. "Civil Society Participation in Global Fund Governance: Recommendations and Actionable Items." April 2005; International Council of AIDS Service Organizations. "NGO Perspectives on the Global Fund." June 2004; Global Network of PLWHA. "A Multi-Country Study of the Involvement of PLWHA in the CCM." October 2003; Christian Connections for International Health/Ecumenical Pharmaceutical Network. "Global Fund Responsiveness to Faith-Based Organizations." Jan. 2003.

<sup>34</sup> E.g., CCM Guidelines and Revised CCM Guidelines

<sup>35</sup> Southern voices were active in the beginning stages of the Global Fund, but are currently not quite as active

- ii. Maximize the 'Greater Involvement of People Living with HIV/AIDS' (GIPA) recommendations,<sup>36</sup>
- iii. Increase the role of malaria and tuberculosis-affected communities.

35. The issue of NGO access to resources was highlighted by the TRP in its report to the 11th Board meeting. As such, the Board directed the Portfolio Committee to examine the issue. The Committee decided at its meeting in October to re-examine the issue when the findings of the TERG study on the proposals process were available, and to then provide recommendations for the 13<sup>th</sup> Board meeting.

### ***Additional considerations***

36. In terms of increasing access to funding for civil society, several mechanisms have been proposed in previous Board discussions. One particular model to accomplish this aim is the creation of dual funding windows for civil society and government.<sup>37</sup> Currently, the World Bank employs a similar model where 50% of resources are earmarked for civil society. The implications of this kind of mechanism for the Global Fund needs to be explored further.

## **C2. BACKGROUND PAPER ON LEVERAGING THE PRIVATE SECTOR AT THE GLOBAL/ INSTITUTIONAL LEVEL**

### **Situation**

37. The Framework Document states that the purpose of the Global Fund is “to attract, manage and disburse additional resources through a new public-private partnership that will make a significant contribution to the reduction of infections, illness and death and [...] contribute to poverty reduction.”<sup>38</sup>

38. The private sector – consisting of corporations, foundations<sup>39</sup> and individuals – has made a wide range of contributions across Global Fund structures and processes, consisting of cash and non-cash contributions at both global and country levels.

39. While the contributions made to date point to a great deal of future potential, the full value of private sector contributions has yet to be realized. Therefore, the Global Fund is looking to explore broader engagement with the private sector.

### **Challenges and Opportunities**

40. Historically, there have been few formal evaluations of the private sector's participation in the Global Fund. However, several recent documents and initiatives<sup>40</sup> have raised a number of issues in relation to private sector participation in the Global Fund, which are highlighted below.

41. **Recognition of the potential of private sector contributions:** There appears to be limited recognition within key Global Fund structures (e.g., Board, TRP, CCMs) and the Secretariat of the potential value of private sector contributions. As a result, few concerted efforts have been made to leverage the full potential of the private sector.

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<sup>36</sup> Paris AIDS Summit for Heads of State. “Resolution on supporting the greater involvement of people living with HIV/AIDS.” (December 1994).

<sup>37</sup> “Report of the Board Consultation.” (GF/B10/12).

<sup>38</sup> The Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria.

<sup>39</sup> Private foundations is a categorization that encompasses a wide range of different types of organizations. At one end, there are those that primarily serve to provide resources, while at the other there are foundations that are quite closely involved with implementation. Private foundations are addressed in this paper, but the links to civil society, where relevant, are highlighted.

<sup>40</sup> Private Sector Delegation to the Global Fund. “Mobilizing Additional Resources for the Global Fund: A Planning Guide for the Private Sector.” (August 2005). Global Fund. “Private Sector Partnerships Strategy.” (2004)

- i. **Availability of internal resources for mobilization:** This viewpoint has had an impact on the resources available within the Secretariat and its partners to invest in developing partnerships with the private sector. Since private donors' contributions usually require significant investments to mobilize, there has been a lower level of participation of the private sector in the Global Fund than originally envisioned.
- ii. **Valuation of non-financial contributions:** Due to the lack of a formal process to facilitate, value and recognize operational contributions offered by the private sector – of both a management and an infrastructure nature – such contributions remain scarce. In addition, when they are offered, they often are not utilized to the fullest extent possible.
- iii. **Distinguishing between the corporate sector and private foundations:** There also appears to be a lack of recognition of the distinctive contributions made by the Corporate Sector (represented by the Private Sector Delegation on the Board) and the Private Foundations Sector (as represented by the Private Foundations Delegation). An understanding of the different types of resources that each offers and the tailored approaches necessary to tap into them is not currently well-developed.

42. **Fit between Global Fund architecture and private sector donor preferences:** Often, elements of the Global Fund architecture – both as designed and as practiced – limit the engagement of the private sector to the fullest extent possible.

- i. **Allowance for targeted contributions:** The private sector prefers to fund specific programs where they can see the “results” of their contributions. However, the current Global Fund model only accommodates the limited targeting of contributions from private donors (e.g. to a region, disease, or type of intervention). As a result, cash contributions from the private sector have been limited to date.
- ii. **Development of direct and/or global partnerships:** The current Global Fund architecture is an unintentional obstacle to the development of direct partnerships or multi-country/global partnerships with the private sector to support Global Fund grants. Today, it is incumbent on each country to engage the support of the private sector on a local level, through CCMs during proposal formulation and by PRs over the course of grant implementation. This system hinders the Global Fund's ability to build partnerships with multinational private sector companies who desire to offer support across multiple geographies or at the global level through a single channel.

43. **Definition of new approaches and models:** Despite the fact that the private sector readily admits that it has mobilized late, there is a significant lack of recognized approaches and practical models for existing successful partnerships. The Global Fund is therefore confronted with the major challenge of promoting, facilitating and implementing a major paradigm shift in public-private partnerships, moving from a mostly one-sided charitable, philanthropic approach to a re-investment/co-investment approach in which governments and the private sector share responsibilities for providing resources.

### **Key Considerations for Strategy Development** **Ongoing work**

44. There are ongoing efforts within the Secretariat and the Private Sector Delegation to expand the participation of the private sector. These efforts are outlined in the Private Sector Partnerships Strategy paper developed by the Secretariat in November 2004 and the Private Sector Delegation's paper presented at the Replenishment Conference in September 2005.

### **Additional considerations**

45. The development of a **common understanding among all stakeholders and partners** of the distinctive contributions that can be and have been made by the Corporate Sector and the Private Foundations Sector is necessary to help mobilize broader contributions from both these sectors.

46. An accurate and realistic understanding of the **potential for mobilizing resources from the private sector at a global level**, be it cash or non-cash, should be the basis for setting expectations as well as related policies

- i. The Private Sector Delegation maintains that the potential value of non-cash contributions is considerably greater than that of cash contributions from the private sector, but the Global Fund has yet to adopt a formal policy to mobilize, value and recognize such contributions.
- ii. Mobilizing cash contributions from the private sector requires substantial investments in fundraising staff and marketing activities, which the current Global Fund structure does not allow.
- iii. In addition, mobilizing private cash contributions also depends on the ability of private donors to target the use of such contributions. While steps have been taken to allow some specificity in the form of “gross” earmarking with the guidance of the former Resource Mobilization and Communications Committee,<sup>41</sup> and those steps are already beginning to bear fruit, a substantially higher degree of specificity may be required to effectively improve the Global Fund’s value proposition to private donors.

47. A further examination of **the role that the Global Fund can play as a conduit of private sector services and resources to the country level** – while still preserving the principle of local ownership and country-driven processes – is likely to be warranted at this time. One particular mechanism to consider is co-investment with the private sector at the country level:

- i. Co-investment covers a broad range of financial and operational contributions that can be made by the private sector to support implementation. Methods to better leverage the private sector’s expertise in such areas as financial, project and data management should be recognized by Global Fund partners at country level. For this to be successful, further work with CCMs and with a range of partners – business coalitions, individual companies, multilaterals, bilaterals, and civil society – should be explored. Such new partnerships may require revisiting the current M&E framework, for example, to ensure the full capture of private sector contributions to meeting country targets.

## **D. BACKGROUND PAPER ON INFLUENCING MARKET DYNAMICS**

### **Situation**

48. As an introduction, it is worth clearly delineating the scope of this paper.

- i. The ability to provide key products – like essential medicines or other health products – to end users hinges on two conceptual components: First, under what conditions these products can be purchased in the global market (relevant considerations include availability, price, quality, other product features, etc.); second, how these products are then transferred from supplier to the ultimate end users.
- ii. This paper focuses on how the Global Fund might potentially contribute to improving the former, i.e. helping to positively influence the dynamics of the global markets for key products so that these can be acquired under more favorable conditions. **Specifically, the objectives are to:**<sup>42</sup>

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<sup>41</sup> GlobalFund. “Report of the Resource Mobilization and Communications Committee” (GF/B10/10).

<sup>42</sup> Another objective of influencing market dynamics could be to stimulate innovation. However, due to the Fund’s focus on funding the scaling up and increased coverage of proven and effective interventions, this is not taken to be a primary objective for this paper. Nevertheless, it should be noted that stimulating innovation can be achieved *indirectly* by

- (a) **Improve pricing;**
- (b) **Improve security – defined as the ‘uninterrupted, sustainable supply of affordable quality products.’<sup>43</sup>**

iii. The second conceptual component – how products are transferred to end users (often referred to as “procurement”) – is not treated here, as it lies in the realm of operations and country implementation, which is contained in the background paper on “Improving grant performance.”

49. The Framework Document calls for the Global Fund to “focus its resources on increasing coverage of critical and cost-effective interventions against the three diseases” and to support “efforts to make quality drugs and products available at the lowest possible prices for those in need.”<sup>44</sup>

50. The affordable, timely, guaranteed availability of appropriate essential medicines and health products plays a major role in the Fund’s ability to achieve its intended purpose of “making a sustainable and significant contribution to the reduction of infections, illness and death due to the three diseases.” For example, artemisinin-based combination therapies (ACTs), anti-retroviral therapies (ARVs), long-lasting insecticide-treated bednets (LLITNs), diagnostic tests, and TB and MDR TB drugs are all indispensable tools in countries’ arsenal for the fight against the pandemics. For this reason, the appropriate pricing and security of these goods is an area of great strategic importance to the Fund.

51. Also, the financial importance of Global Fund-financed purchases of essential medicines and health products is significant:

- i. A large proportion of the Fund’s total grant money is spent on these purchases: On an aggregate basis of Global Fund grant funds, the proportion spent on drugs and commodities is currently close to 49%, with approximately US \$1 billion in funds for these disbursed to date and an additional \$2.5 billion projected over 2006-2007 (see table below).<sup>45</sup>

US \$ billion	2002-2004	2005	2006 (projected)	2007 (projected)
Total Global Fund disbursements	\$0.9	\$1.2	\$2.3	\$2.9
<b>Funds for the procurement of drugs and commodities (projections at 49% of disbursements)</b>	<b>\$0.4</b>	<b>\$0.6</b>	<b>\$1.1</b>	<b>\$1.4</b>

contributing to ensuring reliable and secure long-term markets. Innovation can then happen through marginal improvements to existing products in the short term, new competitor entry in the medium term, or new product development in the long term.

<sup>43</sup> DfID Health Resource Centre. “Global Health Partnership Impact on Commodity Pricing and Security” (2004). The key terms are in this definition are explained as follows: *Uninterrupted*: Ensuring appropriate lead times and sufficient buffer stock so that stock outs do not occur. *Sustainable*: Ensuring that the market is attractive enough to maintain current capacity as well as induce additional producers to invest in capacity so that competition is maintained or enhanced. *Quality*: Meeting internationally accepted quality standards.

<sup>44</sup> The Framework Document of the Global Fund. In addition, this document also explicitly allows for direct payments by the Fund’s trustee to suppliers for procurement purposes: “Disbursements will generally be effected by three principal methods[, one of which is] direct payments to suppliers, based on pro-forma invoices.”

<sup>45</sup> Global Fund. Annual Report (December 2004). Figures quoted here also include non-health commodities. Efforts are currently under way to develop figures that exclude these.

- ii. For some products, the Fund finances a sizable proportion of the global purchase of the product: For example, Global Fund recipients combined make up on the order of 60-70% of the global purchase of ACTs. The Fund also finances a significant share for certain TB and HIV/AIDS products.

52. In anticipation of these considerations, there was a high level of expectation in the discussions that led to the creation of the Global Fund that its size and specific actions would exert an important, positive influence on the international market dynamics of essential products, and that this would improve supply conditions, lower product costs and stimulate research.<sup>46</sup>

53. The Global Fund's 'Consultation On Future Scenarios' held in November 2004 recognized that "existing systems may not deliver quality products at an affordable price." As a result, it recommended that the "Board reexamine the role of the Global Fund in procurement, to determine if the organization can more effectively use its size to [...] improve the predictability of supply (particularly for certain key products where concerns are now emerging about the global ability to meet demand)."<sup>47</sup> It was recommended that a committee be asked to follow this up, but there has not yet been a further examination of the issue.

54. The Global Fund is currently engaged in a range of activities to facilitate improved procurement. Of those, the actions that hold the potential to positively influence the market dynamics of essential products include the following:

- i. Catalyzing the creation of a Global Electronic Marketplace (GEM) – an electronic system integrating pricing, purchasing, electronic tracking and quality assurance information, which allows the aggregation of country orders and transparent reporting.
- ii. Setting up a Price Reporting Mechanism, an online system where PRs are required to share data on prices paid for specific products as a precondition for the release of future disbursements.
- iii. Collaborating with the Roll Back Malaria Partnership to collect and distribute information on projected demand for ACTs on a country level – thereby enabling manufacturers to better plan for future production.

### **Challenges and Opportunities**

55. Clearly, this is an area of significant opportunity, but which also holds several challenges. Some of these are as follows:

56. **Selecting the right strategic approach** that will make a system-level difference on markets is far from trivial:

- i. It has been pointed out that, despite its 3½ years of existence as well as its deliberate actions to date (some of which are admittedly very recent), the Global Fund is at this time generally not exerting the major influence that it was hoped to on the international markets of essential health products.<sup>48</sup>
- ii. There is a large amount of complexity to be contended with in this area:
  - (a) Multiple products, each with their own particularities in terms of sourcing, cost structure, market structure, etc.;

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<sup>46</sup> Bezanson, Keith. "A Situation Assessment of the Global Fund." (September 2005).

<sup>47</sup> Global Fund. "Report Of The Consultation On Future Scenarios For The Global Fund." (GF/B10/12).

<sup>48</sup> Bezanson. *Op. cit.*



- (b) Multiple variables that might be optimized, although rarely simultaneously:<sup>49</sup> short-term variables like price, quality, product design, production capacity, etc.; and longer-term variables like market attractiveness, competition, continuity of supply, incentives for innovation, etc.;
- (c) Multiple types of possible action to improve market dynamics.

57. **Questions about the limits of the Fund's mandate:** Being a financial mechanism, the Global Fund is often the focus of debates about how far it ought to go beyond a role limited exclusively to financing country projects. It is clearly outside the Fund's mandate for it to become a procurement agent. But short of such 'extreme' models, there is a wide spectrum of roles that the Fund could conceivably play in this arena while keeping within its mandate: Simply calling for improved market dynamics using its public visibility and influence; using its procurement policy to further encourage or incent certain behaviors that could improve market dynamics; playing a facilitative, catalytic or advisory role (such as with GEM) in spawning the creation of entities or mechanisms that would work to improve market dynamics; strategically sharing data to increase market transparency or improve market forecasting; etc.

58. **The Global Fund's own business model currently contains some features that likely impede the ability to positively influence the markets.** For example, the Fund's financing model provides only a 2-3 year window of assured financing, which may make countries reluctant to commit to expensive new regimens (such as ACTs) and pharmaceutical firms reluctant to invest in increased production (and, for ACTs, sourcing of raw material) without medium term guarantees.

59. However, the **opportunity is considerable** and there is good reason to believe that it **can be effectively seized:**

- i. It is known that there are currently instances where grantees are not optimizing the use of Global Fund resources – meaning that substantial savings could potentially be achieved, with the saved money going to fund additional programs and save additional lives. As demonstrated by the price variability found in the Price Reporting Mechanism, countries are not yet systematically paying the lowest price for health products, nor are they systematically getting products to those in need in a sufficiently rapid manner. Furthermore, it has been argued that the Fund could do more to tap the potential of existing mechanisms that facilitate the effective and cost-efficient procurement of quality products, such as Stop TB's Global Drug Facility (GDF). (Currently the Fund recommends that grantees use GDF, but there is variable use of it by countries in practice.)
- ii. There are many opportunities to improve market dynamics across different product types, as relevant:
  - (a) In terms of pricing: improving transparency, enabling recipients to leverage the aggregate market power inherent in the Fund's scale, etc.;
  - (b) In terms of security: supporting markets that are not yet mature, building market confidence, improving predictability of demand, increasing reliability of supply, etc.

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<sup>49</sup> From DfID Health Resource Centre. *Op. cit.*: "The variables of pricing and commodity security can be in conflict. Indeed, one of the greatest [...] challenges is to assure that [short-term] access to medicines, which may be enabled by single-firm contracting or reduced short-term prices, does not preclude [long-term] access, made possible by manufacturers continuing to provide a secure supply of existing products, to invest in R&D for future products, as well as by the development and maintenance of competitive markets, facilitating price reductions."

- iii. There is evidence that actions designed to affect the pricing and security of health products can have a significant positive impact, while being mutually beneficial to both purchasers and suppliers.<sup>50</sup> For example:
  - (a) The Clinton HIV/AIDS Foundation has worked to identify cost reduction opportunities for ARV suppliers that have played an important role in driving down ARV prices to \$160-180 per individual annual dose from a level that was at least 3- to 5-fold higher. It also provides suppliers with demand data to enable them to better plan future production.
  - (b) The WHO/Novartis partnership to provide Coartem at 'cost' pricing involved WHO helping to reduce risks and costs (both direct and transactional) as well as forecasting demand for Novartis. WHO also provided a credit fund to help countries pay for Coartem.<sup>51</sup>
  - (c) The strategy followed by Stop TB's Green Light Committee (GLC) has increased supply and decreased the price of quality-assured MDR TB drugs by 85-99% on the 14 products procured for GLC-endorsed projects.<sup>52</sup>
- iv. The Fund has significant financial and non-financial advantages at its disposal – for example, its considerable financial leverage and the influence that stems from its high level of visibility.

### **Key Considerations for Strategy Development**

#### ***Starting point***

60. As cited above, some of the current initiatives by the Secretariat to improve procurement may have an impact on overall market dynamics. Therefore, the progress of these efforts should be closely monitored as further consideration of possible options is undertaken.

#### ***Additional considerations***

61. As mentioned above, the strategy will need to keep in the mind the limits of the Fund's role as a financing mechanism in enabling improved market dynamics. Clearly the reflection is in the realm of **ensuring the right enabling or facilitative role** for the Fund (from among the range of possible roles of varying 'intensity') and **a more effective use of its partners to enable solutions** – not in the Fund becoming a procurement agent.

62. Considering the Fund's commitment to country-driven processes, careful consideration should be given the **appropriate balance between the use of top-down requirements and mechanisms and softer, more voluntary measures, such as encouragements and incentives to countries**. (In this regard, the following example may be interesting: GAVI has a policy enabling countries to either procure at low cost through GAVI's preferred supplier or to procure as they wish to but only be reimbursed for the portion of the price they would have paid had they chosen the preferred supplier.)

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<sup>50</sup> Driving down prices to affordable levels can be done whilst ensuring enduring market attractiveness for manufacturers; and assured markets can benefit recipients and manufacturers alike. At the same time, there is of course evidence that badly designed actions can have a negative effect.

<sup>51</sup> This was achieved by WHO providing expert reviews (thus reducing scientific risk); providing funding and technical assistance to make the product better suited for target markets (e.g. appropriate packaging, partial funding of Phase IV trials to determine appropriate dosage); monitoring leakage; assisting with collecting pharmacovigilance and post-marketing surveillance data; and by reducing the transaction costs Novartis would otherwise incur from managing the business relationship with multiple purchasers.

<sup>52</sup> The GLC employs a range of actions tailored to the product type with the intent of managing and streamlining demand. They include: pooling demand, pursuing partnerships with suppliers, negotiating on behalf of countries, and bulk purchasing.

## **Part 4: SITUATION ASSESSMENT BACKGROUND PAPERS FOR THE ISSUES IN THE SECOND PILLAR: "IMPROVING ALIGNMENT AND HARMONIZATION AND REDUCING TRANSACTION COSTS"**

1. This pillar focuses on "**Optimizing the Fund's financing model and architecture**" for the purposes of (1) enabling the Fund to improve its alignment with countries' priorities and systems, (2) enhancing the extent of its harmonization with other donors – in conformity with the spirit of the Global Task Team recommendations – and (3) helping the Fund address the sustainability, transaction cost and alignment issues raised by grants coming to the natural end of their Phase 2 funding. Below are two situation assessment background papers that specifically address the issues of "alignment and harmonization" and "Beyond Phase 2."

### **A. BACKGROUND PAPER ON GLOBAL FUND HARMONIZATION WITH OTHER DONORS AND ALIGNMENT WITH COUNTRY PRIORITIES/SYSTEMS**

#### **Situation**

1. As an introduction, it is worth noting the following definitions of the concepts of alignment and harmonization (A+H):

- i. **Alignment** refers to the support of country-owned development strategies and the systematic use and reinforcement of national management systems;
- ii. **Harmonization** is defined as external actors using common approaches to aid delivery and behaving more predictably.<sup>53</sup>

2. It should be noted that A+H are not ends in themselves, but means to achieve greater impact from all resources, especially national ones. Cost containment (including reduction of transaction costs) is the secondary goal.

3. The Fund's core principles, especially the primacy of country ownership, the emphasis on results, complementarity with and additionality to others and minimum transaction costs, foreshadowed the current aid A+H debate.<sup>54</sup>

4. The Fund has supported a number of key international initiatives to move towards increased A+H.  
i. The Fund was actively involved with its partners in developing the "Three Ones" principles (of one agreed HIV/AIDS Action Framework, one National AIDS Coordinating Authority and one

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<sup>53</sup> For a fuller description, see the DAC. "Preparation Report for the Paris High-Level Forum" (2005). The terms alignment and harmonization are sometimes used interchangeably. This masks the important distinction between the concepts, which is captured in the above definitions.

<sup>54</sup> The Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria. Relevant extracts include the following:

- "The Fund will base its work on programs that reflect *national ownership* and respect country-led formulation and implementation processes."
- "The Fund will seek to establish a simplified, rapid, innovative process with efficient and effective disbursement mechanisms, *minimizing transaction costs* and operating in a transparent and accountable manner based on clearly defined responsibilities. The Fund should *make use of existing international mechanisms* and health plans."
- "In making its funding decisions, the Fund will support proposals which:
  - . Strengthen and reflect high-level, sustained political involvement and commitment in making allocations of its resources;
  - . Build on, *complement*, and *coordinate with existing regional and national programs in support of national policies, priorities and partnerships*, including Poverty Reduction Strategies and sector-wide approaches.
  - . Focus on performance by linking resources to the achievement of clear, measurable and sustainable *results*."

agreed country-level Monitoring and Evaluation System). It has also formally signed up to the Paris Declaration and endorsed the recommendations of the Global Task Team (GTT).<sup>55</sup>

- ii. These are far-reaching commitments. To take just one example, the GTT report requests that the Fund and other actors “progressively shift from project to program financing”, with a progress report to the spring 2006 Fund Board meeting.
- iii. The full set of A+H-relevant recommendations from the GTT report is listed in the table on the following page.

5. Furthermore, there are currently a number of countries within the Fund’s portfolio where one or more of the following situations apply:

- i. There is a national strategy for fighting the diseases (which may be more or less fully developed e.g., specific, robust, costed);
- ii. There is high donor density;
- iii. There is an explicit demand (from the country or from other partners) for the Fund to further align and/or harmonize its practices;
- iv. The Fund and other donors are supporting health system strengthening efforts;
- v. There is an existing pooled financing mechanism in place or in development;
- vi. The Fund is engaged in active discussions to work within an existing pooling mechanism, or has in fact already signed an explicit Memorandum of Understanding (MoU) to that effect (e.g., Mozambique SWAp).<sup>56</sup>

### **Challenges and Opportunities**

**6. Addressing points of friction between the current architecture and requirements of A+H:** In practice, the Fund is experiencing some difficulty in operationalizing its commitments to A+H. This is not because its principles do not fit, but because current, specific applications of these principles – namely certain facets of the current architecture – generate friction.<sup>57</sup> Three areas of tension<sup>58</sup> have been highlighted between the Fund’s architecture and the requirements of A+H. They are: the CCM as a standalone institution; the project/rounds approach; and the LFA model.

**i. The CCM as a freestanding institution:**

- (a) The introduction of CCM has been a feat of social engineering, impacting on the depth and even definition of “ownership”; this is especially true where existing planning bodies were not permeable to civil society.
- (b) Nonetheless, the original idea of a “mechanism” was not to impose a new institution, empowered solely to develop proposals for Fund support for the three diseases. Rather, the intent was to combine existing structures, augmented as necessary for broad buy-in and representation.
- (c) With some exceptions (such as South Africa) this route has not been followed. CCMs have often been set up separately and have sometimes struggled to find the right relationship with other national coordinating structures with established competences, for example, in

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<sup>55</sup> UNAIDS. “Clearing Common Ground for the ‘Three Ones’.” (April 2004); High-Level Forum on Aid Effectiveness. “Paris Declaration On Aid Effectiveness” (28 February - 2 March 2005); Global Task Team on Improving AIDS Coordination Among Multilateral Institutions and International Donors. “Final Report” (14 June 2005).

<sup>56</sup> The Global Fund. “Harmonization of Global Fund Programs and Donor Coordination: Four Case Studies with a Focus on HIV/AIDS” (August 2005); The Global Fund. “Progress Report on Collaboration with Partners for Accelerated Implementation: Seven Country Case Studies” (June 2005).

<sup>57</sup> From the foundation of the Global Fund, its principles were translated into a specific architecture, which, it must be remembered, is just one among several conceivable variants which might be equally consistent with these same principles.

<sup>58</sup> See, for example, The Global Fund. “Report of the Board Consultation on Future Scenarios for the Global Fund.” (GF/B10/12).

HIV/AIDS and health planning.<sup>59</sup> Given overlapping scope, membership, and timeframes, there is a risk of scarce national ownership becoming diffused and costs rising.

ii. **The project/rounds approach:**

- (a) The approach of requesting and reviewing project proposals in periodic rounds bunched across countries has brought benefits in terms of transparency and objectivity in the approvals process.
- (b) However, its inherent disadvantage is that standardized timelines and templates are unlikely to fit the diverse needs of national planning frameworks – giving instead the unintended signal that these should adapt to the Fund, not vice versa.
- (c) Transaction costs are also relatively high, though initially shifted to other development partners in-country. Ultimately, the parallel implementation of waves of multiple grants with a short, fixed horizon (2+3 years) may put a crippling administrative burden on the Fund itself.<sup>60</sup>

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<sup>59</sup> From Brugha, Ruairí. “The Global Fund at three years – flying in crowded air space”, *Tropical Medicine and International Health* Vol. 10 No. 7 (July 2005): “Given a 6-week deadline to Round 1 submission, some recipient countries were forced to ‘fudge’ the fit between hastily formed CCMs and national AIDS councils [(NACs)]. [...] Since 2002, countries have been trying to work out whether to situate NACs under Global Fund CCMs, because the latter are attracting resources that were rarely available to the former, even though CCMs may not have the legitimacy of NACs; or whether they should situate the CCM under NACs, which poses the problem of where to find the fit for malaria.”

<sup>60</sup> This has been pointed out, for example, in Global Fund. “Updated Discussion Paper On The Core Business Model Of A Mature Global Fund.” (GF/B9/5).

## ALIGNMENT AND HARMONIZATION RECOMMENDATIONS FROM THE GTT REPORT

(Adapted from UNAIDS. "Implementation of the Global Task Team Recommendations - Update Paper." August 2005)

AREA OF FOCUS	RECOMMENDATION	FOCAL POINT	CHIEF IMPLEMENTATION PARTNERS
<b>Global Fund-World Bank finance alignment</b>	The Global Fund, the World Bank, and other multilateral institutions and international partners will identify specific approaches to improving the alignment of their financing with country cycles and annual priority AIDS action plans.	Global Fund	World Bank
<b>Joint annual reviews</b>	In countries that hold joint annual reviews of the national AIDS program, the Global Fund, World Bank, and other multilateral institutions and international partners will participate and subsequently accept these joint annual reviews as their primary evaluations (within governance structures of each).	World Bank	Global Fund
<b>NAC-CCM relationships</b>	Based on requests from countries, UNAIDS, the Global Fund, and the World Bank will support efforts at country level to define problems in the relationship between the single national AIDS coordinating authority and the Country Coordinating Mechanism, clarify principles, and disseminate good practices.	Global Fund	UNAIDS Secretariat, World Bank
<b>Shift from project to program finance</b>	The Global Fund, the World bank, other multilateral institutions and international partners will progressively shift from project to program financing based on costed, prioritized, evidence-based, and multisectoral national AIDS action frameworks that are linked to broader development processes such as Poverty Reduction Strategies	Global Fund, World Bank	UNAIDS Secretariat
<b>Piloting of joint fiduciary assessments</b>	The Global Fund and the World Bank will pilot joint financial management & procurement assessments and joint programmatic and financial reporting.	World Bank	Global Fund
<b>Improved World Bank-Global Fund communications</b>	The Global Fund and the World Bank will take concrete operational steps to improve communications	Global Fund, World Bank	

<b>Identification of procurement and supply bottlenecks</b>	The Global Fund, the World Bank and other parts of the UN system, and other multilateral institutions and international partners will engage in a process to identify procurement and supply management bottlenecks, and to agree upon concrete steps for the harmonization and alignment of procurement and supply management policies and procedures.	Global Fund	AMDS, World Bank
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- (d) Moreover, the proposal approval rate has been under 40% on average, and 31% in Round 5.<sup>61</sup> This naturally generates unpredictability for countries. The TRP has noted in its recent report on Round 5 that countries are submitting overlapping or “insurance” (not the TRP’s term) proposals to the Fund.<sup>62</sup> It has been further claimed by others that countries may also be submitting oversized bids to the Fund, and submitting bids for similar programs to both the Fund and other partners, defeating the principle of additionality as well as A+H.
- (e) Finally, while the Fund’s administrative language is of programs, the above incentives strongly encourage “projectization” of proposals, with national strategies implicated only by way of background context. Such projects can be large and complex, but are seldom truly programmatic, i.e. whereby the Fund fills a specific gap between an identified national strategy and all available resources. As these are ultimately fungible, the notional earmarking of Fund projects cannot be enforced without effective monitoring at the aggregate level.

iii. **The LFA model:**

- (a) In terms of alignment to national systems, especially government financial inspectors, the interjection of another external actor – the LFA – can be problematic, introducing a bias towards bolting on new systems rather than improving existing ones.
- (b) Current Fund policy already encourages the use of existing accountability systems acceptable to other donors. In practice to date however, the LFA model has been implemented in a “one-size-fits-all” fashion, which does not leave room for alternative, non-duplicative arrangements in country settings where strong monitoring systems – such as SWApS or existing oversight mechanisms of multilateral partners – are already in place.

**7. Developing models of A+H that are appropriately compatible with the Fund’s core principles:**

The Fund is profoundly committed to its founding principles. Some of these – cross-sectoral participation, focus on results – may be more or less systematically present in any A+H schemes currently in place in countries. It is thus important that the Fund work to find ways to align with existing systems or harmonize within existing mechanisms that allow the realization of its principles – without this imposing an excessive additional burden on the countries. In doing this, the Fund also

<sup>61</sup> Percentage measured by number of proposals. Global Fund. “Report of the Technical Review Panel and the Secretariat on Round Five Proposals.” (GF/B11/6).

<sup>62</sup> *Ibid.*: “In some cases, countries applied to Round 5 for activities that were due to be funded by Phase 2 of a prior grant and indicated that should they be successful in this Round, they would not apply Phase 2 funding of the prior Round grant. This appears to be an effort to circumvent performance based funding approach of the GFATM, and the TRP did not recommend any of these proposals for funding for this reason. In other cases, countries had identified that their funding from a prior grant would run out in 2007 or 2008, and applied for funding Round 5, with a proposed delayed start date in order to dovetail with the prior funding.”

needs to explore the flexibility inherent in its principles and the Framework Document<sup>63</sup> and to keep in mind that the current architecture is just one possible embodiment of the principles. Meeting the challenge highlighted here undoubtedly requires some degree of effort; at the same time, it opens up the following promising opportunity.

**8. Capturing the opportunity to multiply the Fund's impact through improved A+H:** Reducing any unintended costs that the Fund may be incurring or inflicting on others is in itself a major benefit of improved A+H – and one consistent with the Fund's principles as expressed in the Framework Document. But, beyond this, increased A+H provides the Fund with a major opportunity to multiply its impact: The Fund necessarily brings its performance-based approach to any aligned or harmonized setting (such as a national plan or a pooled mechanism) in which it works. There is thus an opportunity to help increase the performance focus of an effort or pool of resources larger than the Fund's own resource contribution to it – a “leverage” or multiplicative effect. (In the same way, the Fund's attention to truly cross-sectoral participation in-country opens up a similar leverage opportunity of bringing to the table actors who may not be as fully involved in existing national or pooled funding efforts, but who can contribute to increasing the scale and reach of the work.)

### **Key Considerations for Strategy Development**

#### **Ongoing work**

9. On an operational level, work is currently ongoing in the Secretariat to adapt or develop operational procedures, guidelines and tools to enable increased A+H (while maintaining consistency with Board-approved policies). The specific countries within the Fund's portfolio where A+H issues are high on the agenda (such as countries where the Fund has signed an MoU to enter into a pooling mechanism) provide a concrete anchorage for this work.

10. There is also ongoing operational work focused on following up on the more operational A+H recommendations of the GTT report. The table in Annex 5 of GF/B12/5 lists all such work.

11. On a more strategic level, a consultant has been engaged to follow up on the GTT recommendation related to the relative roles of the Fund and the World Bank.<sup>64</sup> This is not part of the A+H set of GTT recommendations (and as such it is treated in more detail in the relevant paper on “Global Fund strategic positioning”), but it should hopefully lead to increased harmonization between the Fund and the Bank.

12. There is also more general external ongoing work on the effects of global health partnerships in country, including examination of the country level costs that they (together with other donors) generate.<sup>65</sup>

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<sup>63</sup> For example, the Framework Document specifies in Section X.C.4 that “The Board may consider two further disbursement approaches: a. An outcomes based approach which provides incentives for the implementing agencies to achieve results in fighting the three diseases; b. General budget support, which is not tied to the purchase of specific goods and services, but made on the basis of commitments to achieve change or make progress in certain areas.”

<sup>64</sup> The GTT report explicitly requests that “the Global Fund and the World Bank [...] evaluate and clarify areas of overlap, comparative advantages and complementarities between the two to establish a more functional and clear division of labour in order to more effectively support countries.”

<sup>65</sup> See, for example: Bill and Melinda Gates Foundation and McKinsey & Company for the High Level Forum on the Health MDGs. “Global Health Partnerships: Assessing Country Consequences.” (November 2005).



### **Additional considerations**

13. **There are two levels of possible actions to enable increased Global Fund A+H, and the strategy will need to focus on those levers that are of a more strategic nature:**

- i. There is much that can be done within the **current business model**.
  - (a) Some of this is plainly operational – and as such is not taken up in the strategy: it involves making use of existing room for discretion and variation and making the kinds of changes to internal procedures, guidelines and tools that are within the province of routine operational improvement driven by Global Fund management. An example of this might be that the Secretariat establishes internal guidelines on the conditions under which the Fund will enter into common fund arrangements and communicates these clearly to partners.
  - (b) There may also be options to strategically adjust or optimize the current model at the margin that may require relatively minor changes to Board policy. These elements would be discussed as part of the strategy work.
- ii. There may also be a need to consider **significant architectural changes to (parts of) the current business model**. An example of the latter might be that 5-10 year program approaches, aligned with national planning timelines, become the default option for proposals to the Fund. This would have major repercussions on, e.g., the TRP's role and structure, country allocations and replenishment policies.

14. With regards to potential significant architectural changes to the current business model, the strategy will likely need to **consider the scope of implementation of such architectural changes**. One possibility may be that a new model (such as a program approach described above) is offered – in the spirit of country ownership – as an option to certain countries under certain conditions (in contrast to the current, more “one-size-fits-all” model), with the current model remaining the norm for other countries. Another possibility is that the new model is rolled out across the whole portfolio and replaces the current one.

15. Appropriate consistency with the Fund's core principles – such as accountability, multi-sectoral involvement, country ownership and complementarity will likely be a key consideration in designing any options intended to facilitate increased Fund A+H.<sup>66</sup>

16. A number of ideas to increase Global Fund A+H have been suggested previously and may need to be considered and assessed as part of the strategic reflection. They include:<sup>67</sup>

- i. Moving away from rounds of proposals and towards identifying technically sound proposals on a continuous basis;
- ii. Moving from projects to programmatic approaches.

17. Similarly, the strategy will need to reflect upon how to implement those A+H-relevant GTT recommendations that are of a strategic character. Looking at the table of A+H recommendations from the GTT report included earlier in this paper:

- i. The A+H recommendations of a strategic character – or which contain strategic aspects (as indicated) – are:<sup>68</sup>
  - (a) Global Fund-World Bank finance alignment – as it relates to the question of rounds;

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<sup>66</sup> For instance, options developed might consider not just how to improve Global Fund A+H on standalone basis but also how they can contribute to creating a more coordinated and strategic response to the pandemics at the country level.

<sup>67</sup> Global Fund. “Updated Discussion Paper On The Core Business Model Of A Mature Global Fund.” (GF/B9/5); Global Fund. “Report of the Board Consultation.” (GF/B10/12).

<sup>68</sup> These recommendations may also contain operational components, but the strategic components are explicitly called out here for the purpose of ensuring their appropriate inclusion in the strategy effort.

- (b) Joint annual reviews – as it relates to the potential requirement for and the joint acceptability of independent impact evaluations as a primary evaluative tool;
  - (c) NAC-CCM relationships – as it relates to the design requirements of CCMs;
  - (d) Shift from project to program finance.
- ii. The A+H recommendations of a fully operational character are:
- (a) Piloting of joint fiduciary assessments.
  - (b) Improved World Bank-Global Fund communications;
  - (c) Identification of procurement and supply bottlenecks.

18. It is important to keep in mind that the effectiveness of all A+H actions rest on national leadership in framing well-costed, feasible strategies, where inputs link clearly through to desired outcomes. Without these, neither the Fund nor partners can properly fulfill their intended roles.

## **B. BACKGROUND PAPER ON BEYOND PHASE 2**

### **Situation**

19. The Framework Document calls for the Global Fund to make a sustainable contribution to the fight against the pandemics, to support the scale-up of interventions that work, to minimize transaction costs, and to focus on performance by linking resources to the achievement of measurable and sustainable results.<sup>69</sup> However, it does not dictate a specific structure to ensure performance, calling just for “meaningful milestones along the way against which to evaluate the progress of each grantee and to consider disbursement of subsequent tranches of the grant.”<sup>70</sup>

20. The current five-year, two-phase (2+3 years) grant architecture was set up to fulfill this aim and is codified in the Comprehensive Funding Policy.<sup>71</sup>

21. With the maturing of the Fund’s portfolio, there will soon be a large number of grants reaching the end of their full funding period. Specifically, a preliminary Secretariat analysis indicates that:

- i. Six grants of duration less than 5 years will reach their end by 30 November 2005;
- ii. A first wave of 27 five-year grants will reach their end between January and December 2006;
- iii. Close to 117 additional grants will terminate between January 2007 and December 2008.

22. By default under current Fund policy, countries with grants reaching the end of their proposal term who wish to continue to receive Global Fund support for their current activities are able to reapply as a new proposal in a subsequent round.<sup>72</sup>

- i. These proposals are accepted into the round alongside proposals submitted for completely new activities.
- ii. Within current Fund policy, no explicit provision is made for long-term sustainability of the activities initiated.<sup>73</sup> For example, there is no requirement for countries to articulate an exit strategy from their dependence on external financing beyond year 5.

<sup>69</sup> The Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria.

<sup>70</sup> *Ibid.*, Section IX-C.

<sup>71</sup> Global Fund. “Comprehensive Funding Policy.” (GF/B6/4) (15-17 October 2003). “Proposals are approved for the entire term of the proposal (up to five years) with a financial commitment for the initial two years with the possibility of renewal for up to an additional three years.”

<sup>72</sup> In fact, grant agreements currently state that: “If the Principal Recipient chooses to continue Program activities after the Global Fund funding has been exhausted, the Principal Recipient understands that the Global Fund makes no commitment beyond the amounts available under the terms of this Agreement.”

<sup>73</sup> There are provisions for *short to medium-term* support for the continuation of life-saving treatment.

23. There has to date been no formal reflection focused on the merits or drawbacks of the above scheme for programs that wish to continue funding beyond the end of Phase 2.

### **Challenges and Opportunities**

24. There are two overarching concerns about this issue:

- i. Whether the current scheme is appropriate;
- ii. Whether the Fund is at present properly equipped – in terms of design and modus operandi – to handle the implications of the current scheme.

### **Appropriateness of the current scheme**

25. **Degree of optimal fit with Fund principles:** Concerns have been expressed about whether the current scheme fails to take advantage of opportunities to improve consistency with some of the Fund's principles or whether it even impedes desired outcomes. Specific areas of concern include:

- i. Supporting country sustainability;
- ii. Minimizing transaction costs;
- iii. Ensuring alignment with country priorities and systems;
- iv. Facilitating program scale-up.

26. These concerns stem from considerations such as the following:

- i. The maximum grant duration is not adapted according to the country context or type of activity being funded, leading to an artificial cut-off date for Global Fund financing compared to the timeline of programs;
- ii. There is no synchronization between grant end dates and the timing of new rounds;
- iii. The lack of predictable rounds (in terms of both timing and resource availability) makes it difficult for countries to proactively plan ahead for continuing Global Fund-supported projects. Presently, there are signs that a number of countries are submitting overlapping or early proposals for an already-funded project.<sup>74</sup> While there could be a multiplicity of reasons for this (e.g., expanding coverage, interventions, geographies), this may indicate that countries are concerned about the sustainability of projects beyond the end of their previous grants' terms and so are trying to actively manage their risk by the only method possible within the current Global Fund system.

27. **Continuation of life-saving treatment:** The current scheme does not address the inescapable ethical question about continuation of life-saving treatment after the end of Phase 2. There are a number of challenges that will need to be contended with here:

- i. While a current Board-approved policy and process<sup>75</sup> exist which allow for the provision of up to two years of interim funding for life-sustaining treatments in the case of a grant's failure to be renewed at the point of Phase 2 evaluation, the implications of a potential similar policy for funding such treatments beyond the end of Phase 2 are only starting to be explored.<sup>76</sup> A modification to the current Continuity of Services Policy (with a 2-year sunset) has been proposed by the Policy and Strategy Committee and will be discussed at the 12<sup>th</sup> Board

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<sup>74</sup> Global Fund. "Report of the Technical Review Panel and the Secretariat on Round Five Proposals." (GF/B11/6) : "In some cases, countries applied to Round 5 for activities that were due to be funded by Phase 2 of a prior grant and indicated that should they be successful in this Round, they would not apply Phase 2 funding of the prior Round grant. [...] In other cases, countries had identified that their funding from a prior grant would run out in 2007 or 2008, and applied for funding Round 5, with a proposed delayed start date in order to dovetail with the prior funding."

<sup>75</sup> The Board approved the creation of the "Extraordinary Request for Continued Funding" policy and process to mitigate this risk. Global Fund. "Report of the Portfolio Management and Procurement Committee." (GF/B9/9). (November 2004).

<sup>76</sup> Global Fund. Portfolio Management and Procurement Committee meeting, Geneva, 27-28 September 2004; Portfolio Management and Procurement Committee meeting, Geneva, 18 March 2005; initial work by the Secretariat's Strategic Information and Evaluation Unit on developing and assessing potential solutions in collaboration with partners.

- Meeting. It includes an expansion of the current policy to the situation of grants coming to the end of their phase 2.
- ii. There is clearly a need to ensure that the continuation of life-saving treatment after the end of Phase 2 gets funded in a sustainable manner – though this need not always be by the Global Fund itself. At the same time, there may be moral pressures for the Fund to continue to be the source of this support, especially in countries where there may be few or no other external funders. This raises difficult fundamental issues such as the appropriate role of external funders as default long-term ‘maintenance’ funders (as compared to the responsibility of national strategies to address financial sustainability), the fit of such ‘maintenance’ funding with the Fund’s performance-based funding philosophy and the financial implications for the Fund – in the context of its overall resourcing – of long-term support to an increasing number of life-saving treatment programs.

## ***28. Appropriateness of the present Global Fund design and modus operandi to the current scheme***

- i. **Ability to ensure appropriate account of performance to date:** There is a fundamental difference between taking into account past performance for the sake of assessing a new intervention vs. for the purposes of continuing funding for a current Fund-supported project (even if the latter is presented formally as a “new” proposal). For this reason, the Fund (and particularly the TRP) may not currently be adequately designed and resourced to manage the implications of the current scheme.
- ii. **Transaction costs at the country and Secretariat levels:** There are concerns about the country administrative burden and Secretariat workload involved in assessing and renewing a large number of grants reaching the end of Phase 2 under the current scheme, where the processing time for proposals is largely similar, regardless of past performance and risk of the grant. This may contribute to an ultimately crippling administrative burden on the Fund itself, as has been pointed out elsewhere.<sup>77</sup>

## ***Key Considerations for Strategy Development***

### ***Ongoing work and starting point***

29. The Portfolio Committee (PC) asked the Secretariat to examine the issue of ‘no-cost extensions’ for grants that reach the end of their lifetime funding periods with Board-approved funds remaining. At its last meeting, the PC recommended a decision point to the 12<sup>th</sup> Board meeting to allow for one-off, exceptional no cost extensions at the end of the lifetime grant period. However, this is clearly not a likely source of longer-term funding.

30. The Global Task Team report requests the Global Fund to examine the possibility of gradually moving towards a program financing model.<sup>78</sup> As part of the follow-up to this, there is ongoing work to analyze the approved Round 5 proposals to identify where funding is requested for programs vs. specific projects.

### ***Additional considerations***

31. As alluded to in the “Challenges and Opportunities” section, there are different facets to the issue of beyond Phase 2. The facet of the appropriateness of the current scheme and whether any alternative schemes should be considered – such as significant architectural changes to (parts of) the

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<sup>77</sup> As mentioned in the “Updated Discussion Paper on the Core Business Model of a Mature Global Fund” (GF/B9/5) and in the 11<sup>th</sup> Board meeting discussion in relation to the Deputy Executive Director’s report on staff.

<sup>78</sup> Global Task Team on Improving AIDS Coordination Among Multilateral Institutions and International Donors. “Final Report.” (14 June 2005). It states that: “In line with the OECD/DAC Paris Declaration, the Global Fund, the World Bank will [...] progressively shift from project to programme financing ...”

current business model – is the key strategic issue. The question of any changes that may be required to the current design and modus operandi of the Fund for the sake of handling the current beyond Phase 2 scheme is likely to comprise mainly operational and policy level elements, with possibly a few strategic elements. The continuity of services issue encompasses facets – particularly the scenarios of Phase 2 no-go decisions and grant terminations – that go beyond the scope of the beyond Phase 2 issue and may be of a fully policy (as opposed to strategic) nature. It will thus be important to ensure the relevant elements of this issue are treated in the appropriate forum, be it in the strategy effort, the policy stream of the Policy and Strategy Committee’s work or the Portfolio Committee, or by the Secretariat as part of its current management mandate within current Board policies.

32. It will be important to ensure clarity about what the aim is in considering modifications to the current beyond Phase 2 scheme. This may require discussion of the prioritization and/or trade-offs between different possible objectives such as reducing transaction costs, ensuring sustainability, facilitating scale-up, facilitating alignment, etc.

33. Strategic reflection on beyond Phase 2 should consider and assess relevant ideas that have been suggested previously, such as:<sup>79</sup>

- i. A “ ‘Phase 3’ in which recipients that had demonstrated performance in Phases 1 and 2 would not have to reapply with a new proposal in a new round, but rather would have access to additional resources”;<sup>80</sup>
- ii. Moving away from rounds of proposals and towards identifying technically sound proposals on a continuous basis;
- iii. Moving from projects to programmatic approaches;
- iv. A multi-tiered approach, including some element of “fast-tracking” or risk adjustment based on past performance and type of project.

## **Part 5: SITUATION ASSESSMENT BACKGROUND PAPERS FOR THE ISSUES IN THE THIRD PILLAR: “ENSURING GLOBAL FUND FINANCIAL SUSTAINABILITY”**

### **A. BACKGROUND PAPER ON RESOURCE MOBILIZATION**

#### **Situation**

##### ***The Vision of a Massive Financing Mechanism***

1. Resource mobilization is a core function of the Global Fund – a key objective of the Secretariat and an important part of the Board’s mandate – and is critical to the realization of the Global Fund’s founding vision: that it be a significant financing mechanism mobilizing massively increased resources to “make a sustainable and significant contribution” in the fight against the three pandemics.<sup>81</sup>

2. The Secretary General of the United Nations, Kofi Annan, originally proposed a “war chest” for the fight against the major infectious diseases and presented the plan at a meeting of the Organization of African Unity in April 2001. African leaders attending that meeting endorsed the proposal in a declaration stating: “We support the creation of a Global AIDS Fund capitalized by the donor

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<sup>79</sup> See, for example, Global Fund. “Updated Discussion Paper on the Core Business Model of a Mature Global Fund” (GF/B9/5); Global Fund. “Report of the Board Consultation” (GF/B10/12).

<sup>80</sup> *Op. Cit.*

<sup>81</sup> The Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria.

community to the tune of US\$ 5-10 billion accessible to all affected countries [...].”<sup>82</sup> Originally conceived as a Global AIDS Fund, the scope was then extended to include tuberculosis and malaria, increasing the total resource need.

3. The current Global Fund resource mobilization and resourcing situation is as follows:
  - i. Since the creation of the Global Fund, the availability of resources has increased only moderately from about US\$ 1 billion per year in 2002 and 2003 to US\$ 1.5 billion in 2004 and 2005. This falls far short of the original vision for the Fund.
  - ii. It also is a relatively small amount compared to estimated resource needs. The most recent estimates by UNAIDS and WHO put the global resource needs for 2007 at US\$ 18 billion for HIV/AIDS,<sup>83</sup> US\$ 4.2 billion for tuberculosis and US\$ 3.1 billion for malaria.<sup>84</sup> To date, the Global Fund’s average funding “share” of global external resource needs has been approximately 20% for HIV/AIDS, 66% for tuberculosis and 45% for malaria.
  - iii. The Global Fund’s Comprehensive Funding Policy (CFP) defines modalities for:
    - (a) proposal approval and signing of grant agreements: The CFP defines the duration of funding commitment, nature of assets required to be on hand at time of Board approval and at subsequent signing of grant agreement, relative priorities for funding of Phase 1, Phase 2 and appeals, and frequency of calls for proposals;
    - (b) resource mobilization: The CFP mandates a periodic replenishment model on a voluntary basis for all public donors, complemented by additional ad hoc contributions for all donors.
  - iv. In March 2005, at the first meeting of the Global Fund’s first replenishment cycle in Stockholm, “participants reviewed the estimates of Global Fund resource needs for 2006 and 2007 that had been prepared for the meeting – US\$ 3.5 billion and 3.6 billion, respectively. These amounts would allow the funding of years three to five of ongoing programs and fund at least one new round in both 2006 and 2007, consolidating the operations of the Global Fund for the two years 2006 and 2007 while working on facing greater challenges in funding and operations from 2008. They agreed to consider the 2006 and 2007 targets in the context of the further review of the implementation of the Fund’s current programs.”<sup>85</sup>
  - v. The resource needs estimate presented in March 2005 will be updated on a regular basis. A revised estimate of the Fund’s resource needs is planned for early 2006 in advance of the mid-2006 replenishment meeting.

4. Regardless of the actual numbers on the global resource needs and the specific needs of the Global Fund, there is agreement that the global effort is falling far short of requirements and, in spite of some important gains made over the past few years, the pandemics continue to increase.

#### ***The Global Fund as Part of the International Architecture for Fighting the Pandemics***

5. When the Global Fund was created as a major multilateral financial institution, it became part of the international architecture established to address AIDS, tuberculosis and malaria. The Global Task Team on Improving AIDS Coordination Among Multilateral Institutions and International Donors convened by UNAIDS provides a framework for defining the role of the Global Fund in relation to other multi- and bilateral partners.<sup>86</sup> Similar efforts are being initiated by WHO in regard to tuberculosis and malaria.

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<sup>82</sup> Organization of African Unity. “Abuja Declaration on HIV/AIDS, Tuberculosis and Other Related Infectious Diseases” (OAU/SPS/Abuja/3) (April 2001).

<sup>83</sup> UNAIDS. “Resource Needs for an Expanded Response to AIDS in Low- and Middle-Income Countries.” (August 2005).

<sup>84</sup> World Health Organization. “Converting Funding into Concrete Results: Global Cooperation to Support National Scale Up of Tuberculosis and Malaria Control” (September 2005.)

<sup>85</sup> Global Fund. “The Global Fund Replenishment First Meeting, Chair’s Summary” (15-16 March 2005).

<sup>86</sup> Global Task Team on Improving AIDS Coordination Among Multilateral Institutions and International Donors. “Final Report.” (14 June 2005).

6. The Board of the Global Fund has formally endorsed the recommendations of the Global Task Team, which have informed the first replenishment cycle of the Global Fund.

### **Resource Mobilization Efforts**

7. To mobilize resources, the Global Fund has to date relied on the G8 group of countries for the bulk of its financial donations.

- i. Together G8 countries account for 72% of funding to date. Other donors have contributed as follows: non-G8 OECD countries (13%), European Commission (11%), non-OECD countries, including South Africa and Nigeria (0.7%), private foundations (3%) and private sector (0.04%).
- ii. Another component of resource mobilization is non-financial contributions. In 2004, pro bono contributions to the Global Fund Secretariat were valued at approximately US\$ 7 million, ranging from legal services to creative services by celebrities to media air time and print space, excluding the many substantial non-cash contributions being made in-country.

8. In 2005, the Global Fund Board established a formal, voluntary replenishment process.

- i. Its aim was to provide “the Fund with long term and predictable funding on a scale sufficient to respond effectively to the spread of the three diseases and to help achieve internationally agreed development goals” and “to reach out to donors more effectively and forecast more accurately its available resources for future years.”<sup>87</sup>
- ii. Of the US\$ 7.1 billion requested for the first replenishment cycle of 2006-2007, about US\$ 3.7 billion was pledged at the replenishment meeting in London in September 2005. These resources will allow the continuation of all existing programs at a total estimated cost of US\$ 3.3 billion but are not adequate to launch future rounds. Replenishment participants noted: “We are concerned that the resources raised today are not sufficient to finance fully new programs estimated to cost about US\$ 3.7 billion.”<sup>88</sup>

### **Future Prospects for Resource Mobilization**

9. Looking ahead at the landscape of development financing, there are promising signs that significant and novel increases may become available. These increases are particularly significant to the Global Fund given their consistency with the Fund’s additionality principle (“The Fund will make available and leverage additional financial resources to combat HIV/AIDS, tuberculosis and malaria.”)<sup>89</sup>

- i. The G8 meeting in Gleneagles in July 2005 confirmed greater donor commitment to increasing development assistance.<sup>90</sup> While most of the promised increase is not scheduled to become available until 2008-2010, the promise is significant and it is anticipated that some of the new funds will be channeled to the Global Fund.
- ii. There are emerging innovative financing mechanisms for development, which the Global Fund stands to benefit from:
  - (a) An air travel solidarity levy recently proposed by France and supported by Algeria, Brazil, Chile, Germany and Spain is to commence in 2006. Its intent is to provide a secure and predictable source of fresh financing for development, with a major portion possibly directed to the fight against HIV/AIDS, tuberculosis and malaria.<sup>91</sup>

<sup>87</sup> The Global Fund. “Report of the Replenishment.” (GF/B11/5). (September 2005).

<sup>88</sup> The Global Fund. “Communiqué of the Third Meeting.” (6-8 September 2005).

<sup>89</sup> The Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria. Section III-B.

<sup>90</sup> G8 endorsement of multilateral debt forgiveness for 18 African countries, signed in June 2005. Commitment of US\$ 48 billion in additional aid by 2010, of which US\$ 20 billion is additional to previous pledges.

<sup>91</sup> Announcement by Dominique de Villepin, Foreign Minister of France, at the United Nations General Assembly Session on Development Financing. (14 September 2005).

- (b) The Global Fund has been engaged in a debt conversion initiative, which would take the form of “an agreement by key creditors to [...] write off part of their public debt [...] for conversion into funds for Global Fund-approved programs.”<sup>92</sup>
  - (c) The UK-proposed International Finance Facility (IFF) is a mechanism that “frontloads” future official development assistance (ODA) from donor countries by issuing bonds to raise immediate cash from the international capital markets. An initial version of the concept is now being piloted with a focus on immunization through the Global Alliance for Vaccines and Immunization (GAVI), a public-private initiative. There are plans for a broader IFF, which is likely to benefit the Global Fund.<sup>93</sup>
- iii. Oil prices have reached record highs (in nominal terms), a trend that is projected to continue, and OPEC countries are experiencing levels of liquidity and current account surpluses similar to those of 1973-75 when several OPEC states launched international development programs. This could represent an opportunity for a major new international partnership in the fight against the pandemics.

### **Challenges and Opportunities**

10. Resource mobilization efforts are facing a number of specific challenges:

11. There is a **significant 2005 funding gap** of US\$ 339 million, despite increased levels of contributions.

12. The first **replenishment cycle has to date resulted in pledges that fall short by about US\$ 3.3 billion for 2006-2007**. As a result, there is currently no financial certainty that a Round 6 will be possible in 2006. The Global Fund’s Comprehensive Funding Policy states: “The Board will announce a minimum of one Call for Proposals per calendar year. The Board can adjust this based on need and on resources available. A forecast of the resources available for the Round will be announced at the time that the Call for Proposals is issued.”<sup>94</sup>

13. Despite the intent of the replenishment process to give the Global Fund increased resource predictability, the funding shortfalls for 2005 and for the first replenishment cycle of 2006-2007 point to a relatively **high degree of uncertainty in the funding of the Global Fund**. This **uncertainty has a significant detrimental effect on recipients**: it makes planning difficult, it leads to a lack of predictability that does not support the starting and sustaining of interventions that are costly (e.g., artemisinin-based combination therapy for malaria) or have long timeframes (e.g., antiretroviral therapy for HIV/AIDS), and it does not encourage and support the level of scale-up that the Global Fund was created to finance.

14. Despite high initial expectations and considerable work done to date, **financial contributions from the private sector have remained relatively modest**. It has been noted, however, that initial expectations in this regard were unrealistic and that the private sector’s value-add lies more with non-financial contributions. Additionally, since private donors’ contributions usually require significant investments to mobilize, there has been a lower level of participation of the private sector in the Global Fund than originally envisioned. The private sector has also pointed out that **current Fund policies limit the extent to which in-kind donations can be accepted**.<sup>95</sup>

<sup>92</sup> Advocacy International and Global AIDS Alliance. “Joint Report on Global Fund Debt Conversion.” (July 2005).

<sup>93</sup> The Global Fund. “Financing the Fight Against AIDS, Tuberculosis and Malaria: Prospects of the International Finance Facility.” (July 2005).

<sup>94</sup> The Global Fund. “Comprehensive Funding Policy” [as amended at the Eighth Board Meeting in Geneva]. (18-19 March 2004).

<sup>95</sup> See the background paper on “Participation of the Private Sector”.



15. The innovative financing mechanisms and other developments described above represent a significant **opportunity for the Global Fund** to develop new sources of additional funding.

16. Some donors have an **adverse perception of the Fund's large and increasing cash balance** (US \$3 billion currently). This balance has accumulated as a result of the Comprehensive Funding Policy's requirement that the Fund must have on hand assets, in the form of cash or promissory notes, sufficient to cover the entire amount of each grant before a grant agreement may be signed.<sup>96</sup> This ensures that the Fund can honor its grant commitments regardless of the amount of future contributions to the Fund. Also, the substantial funds on hand generate investment income, which has covered the vast majority of the Fund's administrative expenses to date. However, some observers question whether this is the most effective use of the amounts contributed to the Fund to fight the three pandemics; others have difficulty reconciling the Fund's appeals for additional funding to finance new rounds of grants with the holding of such a large amount of liquid assets.

### **Key Considerations for Strategy Development**

#### ***Ongoing work***

17. The responsibility for examining the future of the replenishment process and the Comprehensive Funding Policy lies with the Finance and Audit Committee (FAC).<sup>97</sup> The FAC will probably hold a special session on these issues in January 2006. It has been proposed that the next Replenishment meeting be held in mid-2006.

18. There are ongoing efforts within the Secretariat and the Private Sector Delegation of the Board to expand the participation of the private sector. These efforts are outlined in the Private Sector Partnerships Strategy paper developed by the Secretariat in November 2004 and the Private Sector Delegation's paper presented at the Replenishment Conference in September 2005.

#### ***Additional considerations***

19. The strategy is not the appropriate forum in which to develop detailed tactics for resource mobilization. Instead, the strategic reflection on this topic should focus on broad principles and orientations.

20. Any strategic options developed will need to respect the underlying principles of the Comprehensive Funding Policy: maintaining donor confidence in the Fund's prudential financial management, as well as to maintaining the confidence of grantees in the Fund's ability to meet its contractual obligations.

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<sup>96</sup> Because grant commitments are typically of two or three years' duration, with funds disbursed in installments over that period, the need to hold assets to cover the entire grant at the outset inevitably creates a large asset balance. The cash element of these assets has, to date, been about 90%, because very few donors have elected to contribute by promissory note. (A greater use of promissory notes would reduce the cash on hand, since the promissory notes would be encashed over a two to three year period, in line with grant disbursement needs).

<sup>97</sup> The Board at its 11<sup>th</sup> Board meeting requested the Finance and Audit Committee to review the contents of the Report of the Replenishment and make recommendations resulting from such review to the Board as appropriate. The Board also invited the Portfolio Committee and the Policy and Strategy Committee to provide any recommendations or other input from their reviews of the Report to the FAC.

## **Part 6: SITUATION ASSESSMENT BACKGROUND PAPERS FOR THE ISSUES IN THE BASE OF THE EDIFICE**

1. No background paper has been developed on the issue of the Global Fund's business model and structure – which encompasses how the different elements of the Fund's architecture<sup>98</sup> are designed and operate together to achieve the strategic objectives represented by the pillars and ultimately the Fund's purpose (in the roof). This issue is largely informed by the individual considerations laid out within the background papers on the issues in each pillar.

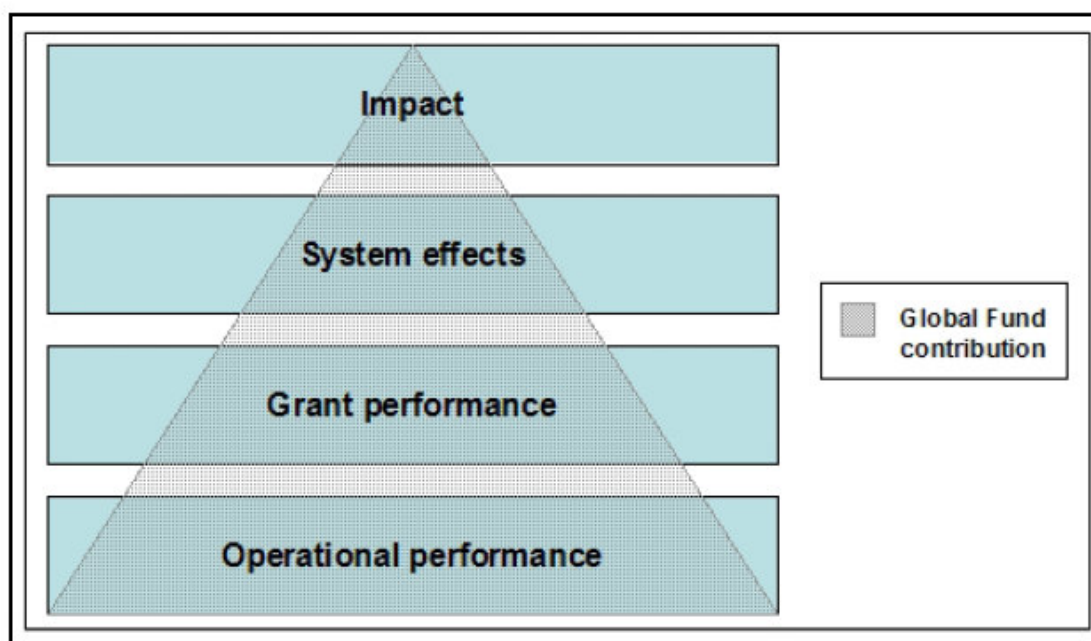
### **A. BACKGROUND PAPER ON MEASURING IMPACT AND ENSURING ACCOUNTABILITY**

#### ***Situation***

2. The Global Fund was created for the purpose of “mitigating the impact caused by HIV/AIDS, tuberculosis and malaria in countries in need, and contributing to poverty reduction as part of the Millennium Development Goals.”<sup>99</sup>

3. Since its inception, as is evident in the Framework Document, the Fund has been strongly committed to evaluation, impact assessment and accountability – these are key pillars of the Fund's performance-based funding philosophy.

4. The Fund currently has in place a multi-level monitoring and evaluation (M&E) framework and approach, which builds up to measurement of impact (see figure). This framework was developed with guidance from the TERG and has been endorsed by MEFA and the Board.<sup>100</sup>



<sup>98</sup> The Fund's “architecture” is composed of its various operational instruments like the TRP, CCMs, LFAs, PRs, etc.

<sup>99</sup> The Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria

<sup>100</sup> September 2004 TERG meeting; October 2004 MEFA meeting; MEFA Report to the 9<sup>th</sup> Board meeting (GF/B9/8).

5. As the framework represents, achieving impact takes many steps and is an effect of the collective contribution of many partners' efforts. For these reasons, the Board approved that impact measures not be used for the regular monitoring of performance which serve as the basis of disbursements during Phase 1.<sup>101</sup>

- i. The current M&E system uses country-reported results (as verified by LFAs and the Secretariat) for measuring indicators at the levels of operational and grant performance. Many organizations such as universities, donor development agencies and research organizations, have conducted independent studies to assess some elements of the Fund's performance at the country and global levels<sup>102</sup>, particularly in connection with its system-wide effects.

6. In addition, the aggregate Global Fund portfolio is periodically analyzed in terms of its composition, at least from a high-level perspective (e.g., breakdown by disease, geography, expenditure type, type of recipient).

7. To assess the overall performance of the Fund, a set of strategic performance measures for Replenishment (sometimes known as "the soft indicators") has recently been developed in conjunction with partners.

### ***Challenges and Opportunities***

8. A number of issues have been raised in connection to impact measurement and ensuring accountability:

9. There is a desire to ensure that the **Fund track and have available impact results, and that these be appropriately linked to global progress against the three diseases and towards the Millennium Development Goals (MDGs)**.

10. There have been requests from some Board constituencies<sup>103</sup> for **a small set of appropriate indicators** – that the Fund tracks, communicates and is held accountable for – which would demonstrate in a simple and compelling fashion that it is making a difference.

- i. Some constituencies feel that it is sometimes hard, amongst the plentiful Global Fund M&E data, to see the impact "big picture."<sup>104</sup> They express a desire for a simple set of indicators that demonstrates the Fund's impact at an aggregate level, including measures on the Fund's cost efficiency. For instance, this would allow donors to make a compelling case for funding the Global Fund in their capitals and recipients to better understand how their country programs fit in with the global fight against the three diseases.
- ii. Some donors express that Fund's metrics are often too related to 'doing things right' (efficiency) when they want to also see measures of 'doing the right things' (effectiveness).

11. The question has been raised about whether the **aggregate composition of the Global Fund's portfolio might be examined more deeply and systematically** by the Board.

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<sup>101</sup> Monitoring and Evaluation Strategy (GF/B5/6).

<sup>102</sup> For example: London School of Hygiene and Tropical Medicine Country Tracking Studies; DFID Country Case Studies Report; Partners for Health Reform Plus System-Wide Effects of the Global Fund Country Studies; GTZ/Italian Bilateral Cooperation/French Ministry of Health CCM case studies.

<sup>103</sup> For example, as pointed out in the United Kingdom/Canada/Germany/Switzerland constituency's comments on the "Discussion Paper on the Core Business Model of a Mature Global Fund" (Annex 2 of GF/B10/12).

<sup>104</sup> *Ibid.*

## **Key Considerations for Strategy Development**

### **Starting point and ongoing work**

12. There is a strong existing base for impact measurement:
- i. The Fund is in the process of engaging relevant technical partners such as WHO, the World Bank, UNAIDS and PEPFAR in order to assess its contributions to the MDGs and UNGASS targets. Preliminary models have already been constructed to assess three Global Fund-supported interventions linking to global impact.<sup>105</sup>
  - ii. Recipients are already required to include in their grant proposals impact indicators, which have been jointly agreed as part of the collaborative M&E toolkit by partners such as WHO, UNAIDS and PEPFAR.
  - iii. The overall Board-endorsed<sup>106</sup> M&E framework of the Global Fund is robust, and so forms a solid foundation on which to build further. In addition, the TERG is monitoring closely the framework's roll-out and implementation.
  - iv. The TERG has recognized the need for systems and specific studies to be implemented in order to determine the Global Fund's impact. The 5-Year Evaluation is working towards analyzing the Fund's impact by 2008.
  - v. The TERG has reviewed and confirmed the Performance Indicators for Replenishment developed by the Secretariat and preliminary targets for them. These are a first attempt at a high level review of indicators in order to provide a synthesized, annual review of Global Fund performance.

### **Additional considerations**

13. Any strategic reflection on impact should take into account the following considerations, which place intrinsic constraints on what can be done at what pace toward impact measurement:
- i. **Impact measurement takes time:** Regardless of the M&E system or framework used, impact takes several years to measure. As the Fund's portfolio reaches the appropriate maturity level, the Fund and TERG are systematically conducting evaluations and reporting on results at the relevant levels of the framework – on both a country and global basis. However, it is currently too early to be able to measure, report, and let alone make decisions on impact. This is due to the youth of the Fund's portfolio – the average age of active Global Fund grants is only 15 months<sup>107</sup> and the Fund has not yet reached the end of its first 5-year grant cycle.
  - ii. **Impact measurement depends on others' capacity:** It is important to keep in mind that assessing overall Global Fund impact relies on measurement capacity in countries. Since impact measurement requires greater technical expertise and tends to be more complex than assessing grant or operational performance, it may be necessary to build and/or strengthen such capacity at the country level with the support of partners. For this reason, the 5-Year Evaluation proposes to assess capacity for impact assessment at the country level.
  - iii. **Determining the “right” things to measure in order to assess impact is difficult:** In order to do so, collective agreement is necessary on the right indicators (e.g., norms/standards, mortality and morbidity, poverty) to measure and a baseline or standard against which to measure.

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<sup>105</sup> These are ITN distribution, DOTS-compliant TB treatment and ARV treatment. As more impact data becomes available, the intent is to develop a clearer picture of the Fund's contribution to the worldwide efforts to eradicate the three diseases.

<sup>106</sup> October 2004 MEFA meeting; MEFA Report to the 9<sup>th</sup> Board meeting (GF/B9/8).

<sup>107</sup> Global Fund. “Sustaining Performance, Scaling Up Results: Third Progress Report 2005” (August 2005).