



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Twenty-Second Board Meeting
Sofia, Bulgaria, 13-15 December 2010

GF/B22/18
Revision 1

FUNDING OF ROUND 10 AND TIMING AND RESOURCE SCENARIOS FOR FUTURE FUNDING OPPORTUNITIES

PURPOSE:

1. This paper relates TRP Round 10 funding to the forecast and resources available and presents possible timing options and funding scenarios for future funding opportunities.
2. Revision 1: This report is being issued as a Revision to correct dates shown in diagrams on pages 6, 7 and 8 depicting Options 1, 2 and 3 respectively (originally shown as “2010”, but which should read “2011”).

PART 1: INTRODUCTION

1.1. The Technical Review Panel (TRP) recommendations to the Board on Round 10 are presented in the report “Report of the Technical Review Panel and Secretariat on Round 10 Proposals” (GF/B22/13).

1.2. The forecast of resources available for meeting Round 10 recommended proposals is informed by the Board decisions underpinning its launch and, in particular, the relevant resource allocation policies within the Comprehensive Funding Policy (CFP) as modified by the Round 10 decisions. This paper relates the TRP recommended demand to the forecast of assets available.

1.3. Acknowledging the link between Round 10 and future funding channels, this paper also presents possible timing scenarios for funding opportunities beyond Round 10. This includes Round 11 (and 12), the National Strategy Application (NSA) Second Wave and the Health System Funding Platform (HSFP) all of which are important elements of the Agenda for a more Efficient and Effective Global Fund.

1.4. This paper also examines financing and policy flexibilities that could be exercised in order to enable funding for future rounds.

1.5. The paper is structured as follows:

- Part 2: Relates Round 10 recommended demand to available resources.
- Part 3: Presents timing options for Round 11 (and the NSA Second Wave and HSFP) and also discusses some resourcing scenarios.
- Part 4: Illustrates funding beyond the current Replenishment cycle.

PART 2: ROUND 10 TRP RECOMMENDED DEMAND AND FORECAST OF AVAILABLE RESOURCES

2.1 The value of proposals recommended by the TRP for funding is US\$ 1.73 billion over two years and US\$ 4.72 billion over five years. Some further reduction of the recommended demand is likely through the TRP clarification process.

2.2 The forecast of total assets available to meet this demand, as reported to the Board (*Forecast of Funds Available for Round 10 GF/B22/17*) is:

- Based on current pledges ; US\$ 1,528 million
- By 31 March 2011, based on forecast of available pledges; US\$ 2,118 million (if the Board approves the FAC recommendation to revise the CFP by establishing a “Commitment Reserve” (see 3.7 below); US\$ 1,779)

This level of forecast assets will enable the **full approval of all Round 10** recommended proposals albeit on a time-phased basis.

2.3 This forecast of assets is based on the CFP as modified for this Round under which:

- Pledges to be received within (and for use within) the period up to and including 31 December 2011 shall be considered when determining assets available for Round 10.
- The determination of what assets will be available by 31 December 2011 will first be made at the December 2010 Board Meeting and then updated by 31 March 2011 in relation to any subsequent pledges that may have been made.

2.4 Included within recommended proposals are US\$ 47m (two years) and US\$ 130m (five years) arising from the HIV Most at Risk Populations (MARPs) Dedicated Reserve. This is less than the total amount set aside of US\$ 75m (two years)/US\$ 200m (five years). Consequently, all of these TRP recommended applications can be approved at this Board Meeting.

2.5 After funding of the MARPs proposals, US\$ 1,481 million is available to approve part of the recommended Round 10 demand at the Twenty-Second Board Meeting. The remainder of Round 10 recommended demand can, based on current income forecasts, be approved by the final date (31 March 2011) for determining assets available for this Round.

2.6 This phasing of approvals will require the application of the Prioritization rules approved at the Twenty-First Board Meeting (which supersede the prioritization provisions described in article 8 of the CFP). This defines which proposals can be approved for funding at the Twenty-Second Board Meeting and which approvals will need to be queued for subsequent approval between this Board Meeting and 31 March 2011.

2.7 Due to the size of the various tranches of similar ranked proposals, the Secretariat will, prior to the Twenty-Second Board Meeting, propose a method for further sub-ranking of proposals. This will enable approvals to be made in an expeditious manner as resources become available.

2.8 The resultant priority ranked listing of all proposals recommended for funding will be issued prior to the Twenty-Second Board Meeting. A draft Board Decision point to approve Round 10 proposals is included in the TRP Report (GF/B22/13).

PART 3: ROUND 11 AND OTHER FUTURE FUNDING CHANNELS

Context

3.1 To further greater alignment and harmonization to country processes, Board policies introduced in 2006 (GF/B14/DP12), called for the Board to:

- announce with significant advance notice the dates for the next two rounds;
- issue a minimum of one call for proposals in each calendar year, at around the same date; and
- to allow a minimum of four months for proposal submission.

3.2 The Global Fund is not currently compliant with this decision. Announcing the dates for Round 11 at the forthcoming Board Meeting will enhance planning and predictability for implementers and the Secretariat.

3.3 At its Twenty-First Board Meeting a decision was made to launch a second wave of NSAs such that funding approvals would be made by the Board in the final quarter of 2011. This would have required the launch of the NSA Second Wave in October 2010. In view of the Replenishment outcome and under advice from the Board leadership, the launch of the NSA process has been deferred until a decision is taken at the forthcoming Board Meeting.

3.4 At its Twenty-First Board Meeting the Board requested the Secretariat to work on Track 2 Option 2 of the HSFP such that funding requests emanating from a pilot in 4-5 countries could be approved by the Board at the same time as Round 11. The Policy and Strategy Committee has recently approved the proposed design of the HSFP Pilot.

3.5 The level of resources that are available to fund future Rounds (e.g. Round 11) and other funding opportunities (e.g. NSAs, HSFP) is dependent on:

- resources secured through the Replenishment, as may be further augmented during the Replenishment term;
- commitments for renewal of existing grants as determined by the Phase 2/periodic review process;
- funds utilized in meeting Round 10 recommended demand;
- the provisions within the Comprehensive Funding Policy; and
- the timing of future funding opportunities.

3.6 As discussed in Part 2, there is forecast to be sufficient resources under the CFP to fund Round 10. The Secretariat also reported to the FAC that subsequent to funding Round 10, no resources would be available to fund further rounds (namely Rounds 11 and 12) within this Replenishment term. This is, however, based on two important inherent assumptions:

- that the Board will approve the FAC recommendation to revise the CFP by establishing a “Commitment Reserve” (see 3.7 below);
- that the Board will explicitly decide to raise the currently imposed ceiling on the Phase 2 renewals of Rounds 8 and 9 from 75% to 90%.

3.7 The revision to the CFP proposed by the FAC (GF/B22/06 Decision Point 5) is designed to give priority to renewals of grants over new applications. Through establishment of the “Commitment Reserve” it will be possible to ensure such priority over a three year forward looking cycle. The revision of the CFP, strongly supported within the FAC, is a prudent measure and as such it is assumed that it will be approved by the Board.

3.8 The Board does however explicitly need to address whether it will approve a lifting of the ceiling on Round 8 and 9 Phase 2 renewals.

Timing options for launch of next funding channels

3.9 This paper presents three timing options for future funding channels. **Under all options, in order to enhance predictability for countries and enable planning by all stakeholders (including the Secretariat), it is strongly preferred that the Board commit to the dates at the Twenty-Second Board Meeting.**

3.10 Under all options it is desirable for Round 11, the NSA Second Wave and the HSFP pilot to be timed so that funding decisions can be made at the same time (or at least from the same pool of funds). A NSA Second Wave (or HSFP pilot) in which proposals are approved from a later pool of funds than that for Round 11 should not be considered as this would make them unattractive as compared to the Rounds-based channel in the current resource environment. Consequently the timing options need to recognize the inherently different lead times between Rounds and NSAs. The latter requires additional steps and time due to the country selection and joint assessment stages which precede the shorter application step.

3.11 In considering the timing options below, it is important to note the inherently *longer lead time for the NSA Second Wave as compared to Round 11*. This is an intrinsic feature of the Second Wave, which arises from it having two additional steps:

- a step to determine which countries will participate in the Second Wave (in orange in the diagram below) - because the Second Wave is a limited scope “pilot”; and
- a joint assessment step (in blue) - this counts as part of the Global Fund process in the Second Wave because there is currently no established joint assessment approach for national disease strategies. The Second Wave is being used to “catalyze” the development of such an approach.

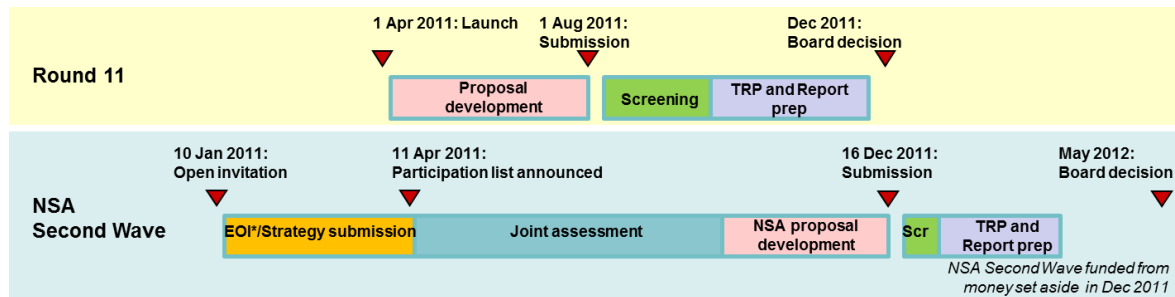
3.12 In the intended future NSA model, these steps will no longer be part of the NSA process as it will not be necessary to limit participation, and the joint assessment is anticipated to become an inherent part of countries’ strategy development/planning processes, rather than being part of the Global Fund NSA timeline.

3.13 The HSFP pilot also requires a step to determine country participation. Even though the HSFP pilot builds on the established IHP+ process of a joint assessment of national health strategies, such an assessment needs to happen prior to an applicant developing a funding request. Therefore many of the timing implications relating to the NSA Second Wave discussed in the following options will also apply to the HSFP pilot.

3.14 To implement the new grant architecture, it is also important to recall that Round 11 will introduce the new application process, including mandatory consolidated disease proposals.

3.15 This will require a lead time for communicating changes, adequate time for proposal preparation (a minimum of four months) and sufficient time for screening and preparation for TRP review. Lessons learned during Round 10, when 12 consolidated applications were received, confirm that extra time will be required for this transitional process. This is reflected in the timing presented.

Option 1: Call for Round 11 Proposals made on 1 April 2011, with a NSA second wave initiated in January 2011



3.16 The Round 11 timing above reflects the earliest possible launch. The NSA Second Wave reflects a deferral from original planned timelines for reasons previously explained.

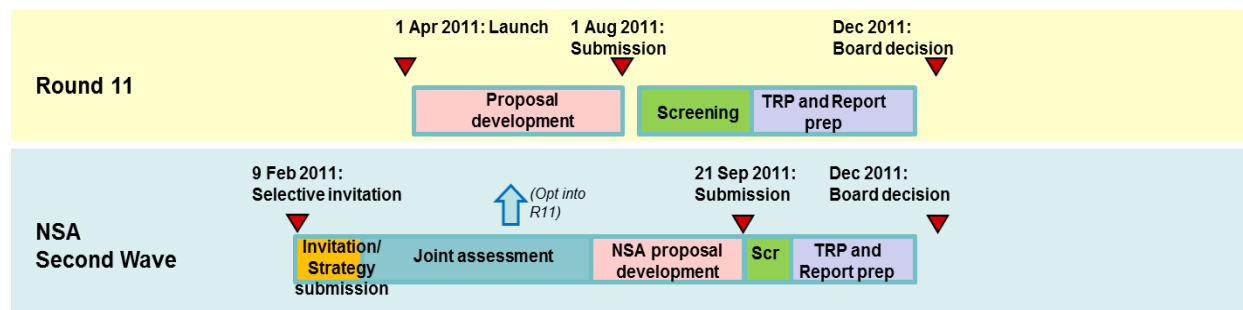
3.17 As illustrated, this timing will not allow Round 11 and NSA Second Wave funding recommendations to be considered by the Board at the same time. This is because the later than planned launch of the NSA Second Wave will result in funding recommendations under that channel being presented to the Board at the first Board Meeting of 2012 (April/May 2012), whereas Round 11 funding recommendations will be considered at a December 2011 Board. Given this misalignment, and to maintain the attractiveness of NSAs, it will be necessary to apportion a part of the available funds and set this aside for the NSA second wave funding approvals.

3.18 This timing option has the advantage of continuing to launch and approve a Round within the calendar year 2011, although it allows less time to secure additional funds and does require establishment of a funding set-aside, which is feasible but difficult to operationalize.

3.19 The existing Eligibility, Cost Sharing and Prioritization rules will apply under this option. This is because any changes to the rules, pursuant to the current review, are now not anticipated to be approved until the May 2011 Board Meeting. Consequently the Round 10 rules (with some modifications) would be applied for funding opportunities called under this timing option.

3.20 Clearly the Board **must** commit to these launch dates (Round 11, HSFP and NSAs) at the December Board Meeting for this timing option to be realized.

Option 2: Call for Round 11 Proposals made on 1 April 2011, with a NSA Second Wave initiated in February 2011



3.21 The Round 11 timing above reflects the earliest possible launch, as in Option 1. The NSA Second Wave however is significantly compressed as compared to its originally-planned timeline in an attempt to have simultaneous Board funding decisions in December 2011 for Round 11 and the NSA Second Wave. In this scenario, there would be no need for a funding set-aside as in Option 1.

3.22 This timing option has the same advantages and disadvantages for Round 11 as Option 1. Again, the existing Eligibility, Cost- Sharing and Prioritization rules will apply under this option.

3.23 For the Second Wave of NSAs to be workable in the 10 months available in this option, a number of significant design modifications would need to be made as compared to the 15-month timeline in Option 1:

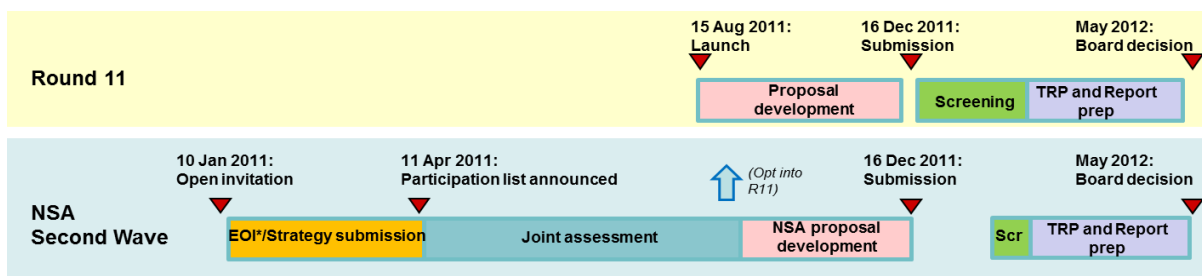
- country participation would have to be by *selective invitation* only as in the First Learning Wave (instead of by open invitation to all countries);
- the time allowed for country stakeholders to organize the joint assessment would be significantly reduced; and
- the number of participants would need to be reduced (approximately 8 instead of 12).

3.24 While this option delivers a more rapid NSA Second Wave timeline, this comes with several major drawbacks. In particular it fails to respond to a number of wishes expressed by the Board in its April 2010 decision on the Second Wave¹ and to lessons drawn from the NSA First Learning Wave. In particular the country selection and joint assessment processes will be impacted as will be the size of the pilot. A more compressed timeline therefore risks undermining the effectiveness of this second pilot.

3.25 Should the Board opt for this timing, it **must** decide this at the December Board Meeting.

¹ Decision GF/B21/DP14 - “Next National Strategy Application Funding Opportunity“

Option 3: Call for Round 11 Proposals made on 15 August 2011, with a NSA second wave initiated in January 2011



3.26 Under this timing option, Round 11 would be launched around 15 August 2011 and the NSA second wave initiated in January 2011. Both Round 11 and NSA second wave funding decisions will be made by the Board in May 2012 and as such there would be no need for a funding set-aside as in Option 1.

3.27 This timing option ensures that a Round is launched in calendar year 2011, even if approval occurs in 2012. The later timing, relative to Option 1 and Option 2, will also enable the transition to the new simplified Round 11 application process to be conducted in a more orderly manner including having opportunity to field test the revised materials.

3.28 The revised Eligibility, Cost sharing and Prioritization rules will be reflected under this timing and can be communicated well before the launch of Round 11. These rules will need to be retroactively applied to the NSA Second Wave.

3.29 A later launch, as in the case of Option 3, will delay access to funding to applicants relative to Option 1 and Option 2, by around four months. However it may allow more resources to be accumulated to meet demand and therefore could enable a larger round. It would also provide additional time for adequate planning and mobilization of technical assistance to support the new approach to consolidated disease proposals.

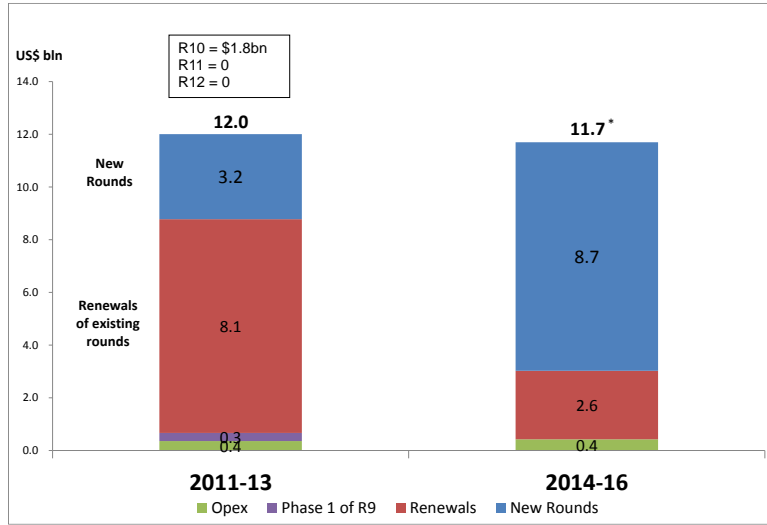
3.30 As with previous options, it would be highly desirable that the Board commits to the timing at the December Board Meeting if this option were preferred.

Resource Scenarios for future funding channels

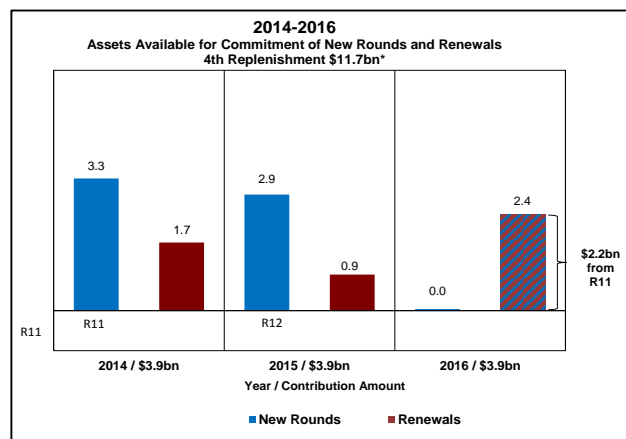
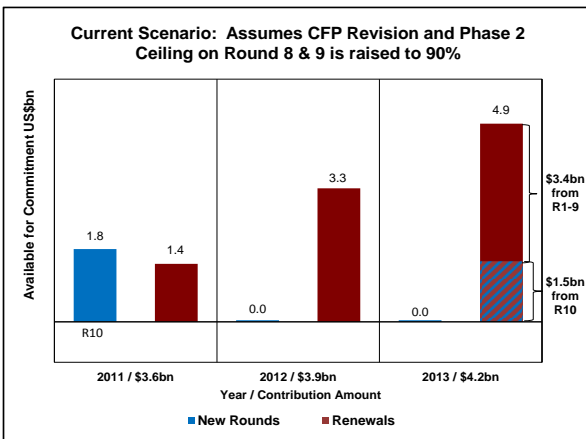
3.31 Full funding of Round 10 would now appear feasible. However, resources that will be available for funding channels beyond Round 10 will depend on new monies secured above the current expected pledges. It will also depend on how available funds are applied towards renewal obligations (i.e. Phase 2 etc.).

3.32 In this context it is important to understand the outlook for assets available for grant commitments viewed over a longer time horizon. The following chart illustrates the allocation of funds in the next and subsequent Replenishment periods across new rounds and renewal commitments (Phase 2s, RCC Second Phase etc.). The illustration assumes a similar level of income in 2014-2016 to that achieved in the Third Replenishment period.

Illustrative Outlook 2011-2016 Assets Available for Grant Commitments



3.33 This graph clearly illustrates the potential disparity in new versus renewal funding across the next two replenishment cycles. This distortion is largely due to the very significant provision for renewals relating to Rounds 8 and 9 and the consequent impact on the launch of new rounds beyond Round 10. Given the spike in renewal needs in 2012 and 2013, it is currently forecast that after Round 10, no funding will be available for new rounds. This assumes that the Board will agree to increase the funding ceiling for Rounds 8 and 9 from 75% to 90% and that it establishes a Commitment Reserve. This scenario is illustrated as follows:



3.34 Recognizing the uneven renewals and new Rounds profile above, this section explores three aspects of the assumed renewal obligations. These are:

- Retaining current Round 8 /9 Phase 2 ceilings;

- Spreading the Phase 2 commitments; and
- Applying more stringent Performance Based Funding and Value for Money principles at Phase 2 renewals.

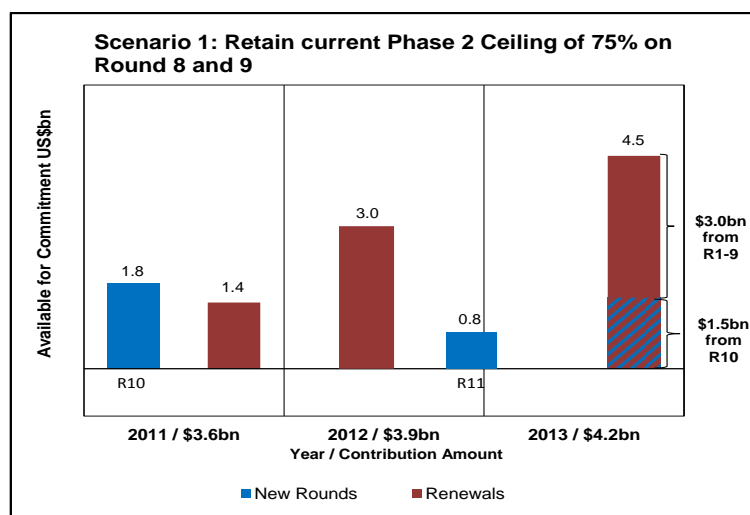
3.35 The impact of each measure is presented separately in Scenarios 1, 2 and 3 below. Following this, the combined impact of the measures is illustrated in Scenarios 4 and 5.

3.36 It is important to recognize that these measures and combinations are illustrative. There exist other measures that the Board may wish to explore as well as alternative ways of combining such measures. The Secretariat stands ready to model other measures and combinations.

Resource Scenario 1: Retention of current Phase 2 ceilings on Round 8 and Round 9 renewals

3.37 At the time of approving Rounds 8 and 9 the Board required that the Phase 2 renewals of these proposals (years 3 to 5) be subject to a collective limit of 75 % of the amount requested. The Round 9 funding decision, provided for this limit on Rounds 8 and 9 to be eased to 90 % “when new resources become available, subject to approval of the Board at the time”. It therefore requires an explicit decision by the Board to approve the raising of the limit to 90 %.

3.38 In the context of the Replenishment and available level of funds, the Board may decide against increasing Round 8 and Round 9 renewals from their present 75% ceiling to 90%. The following graphical representation shows the impact of retaining the Round 8/9 Phase 2 limits at 75 % with a Round 11 launch assumed in August 2011 (Timing Option 3).



3.39 Therefore, based on the Replenishment outcome (of anticipated pledges of US\$ 11.7 billion), it is possible to project minimum resources of US\$ 800 million towards Round 11/NSA Second Wave/HSFP pilot assuming Round 11 funding approvals in May 2012. This amount could

be augmented by new funds secured through to May 2013 (the end of the funding window for Round 11 under this scenario).

3.40 To increase the ceiling from 75% to 90% requires a Board decision. To maintain it at 75% may not technically require a decision. However for purposes of clarity and transparency a Board decision is desirable and could be included within the funding decision to launch Round 11.

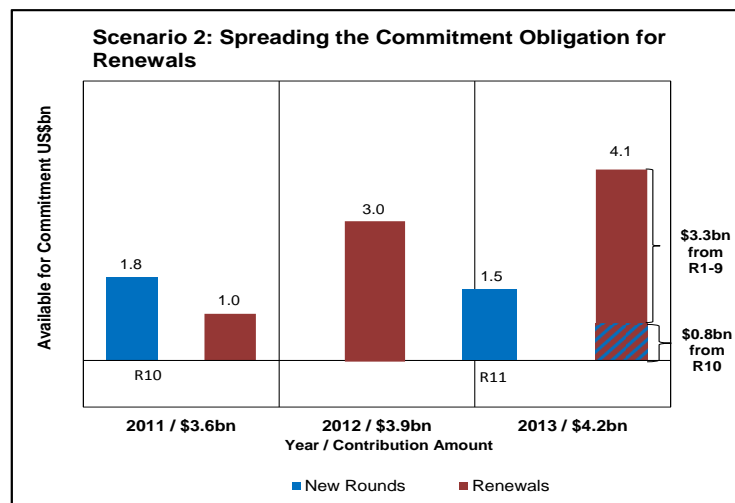
3.41 Under this scenario, **Round 12** (and concurrent NSA and HSFP funding opportunities) can be launched within this Replenishment cycle - for example in March/April 2013, for funding decisions at the end of 2013. However the resources to meet this demand will be from 2014 in the fourth Replenishment term.

Resource Scenario 2: Spreading the commitment obligation

3.42 At present, the Global Fund policies dictate a maximum commitment period of two years. Consequently, if funding is required for a three year term, commitments would be made initially for two years and then for the subsequent third year. A variation discussed at the FAC is to vary this such that commitments are made for one year at a time. The impact of introducing such a change for renewal funding (not initial grant approvals) would be to defer commitments.

3.43 It is relevant to recognize that, while this proposal will spread commitments, there is also a recommendation to the Board to institute a “Commitment Reserve”. The effect of this is to give priority to renewals over a three year forward looking cycle thus minimizing risks to recipients. Similarly, the method of renewing annual commitments can be designed in a way to minimise any burden on Principal Recipients.

The impact of this measure is shown below.



3.44 This demonstrates that funding of up to US\$ 1.5 billion would be accessible to Round 11/NSA Second Wave/HSFP pilot.

3.45 Of particular note; should this measure be adopted it is also likely that all of Round 10 can be approved at the Twenty-Second Board Meeting without recourse to prioritization and the consequent deferred approvals discussed in Part 2.

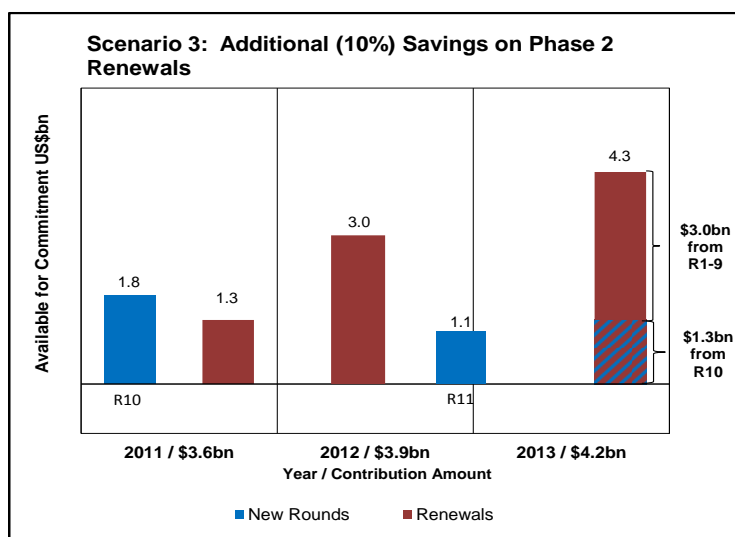
3.46 Under this scenario, as with Scenario 1, **Round 12** (and concurrent NSA and HSFP funding opportunities) can be launched within this Replenishment cycle - for example in March/April 2013, for funding decisions at the end of 2013 utilizing resources from the fourth Replenishment term.

Resource Scenario 3: Additional savings on Phase 2 renewals

3.47 Noting the renewed focus on Performance Based Funding and Value for Money, more stringent reviews at the time of Phase 2/RCC renewals could lead to a reduction in the level of funds committed. The amount of such reductions will only become apparent in the fullness of time.

3.48 This measure requires no Board decision. Should additional savings (beyond those currently assumed) of, for example, 10% be achieved over a period of time (e.g. through 2011) then it would be valid to assume this level in forward looking projections for the remainder of the Replenishment term

3.49 The following graph illustrates the impact of additional Phase 2/RCC savings of 10%.

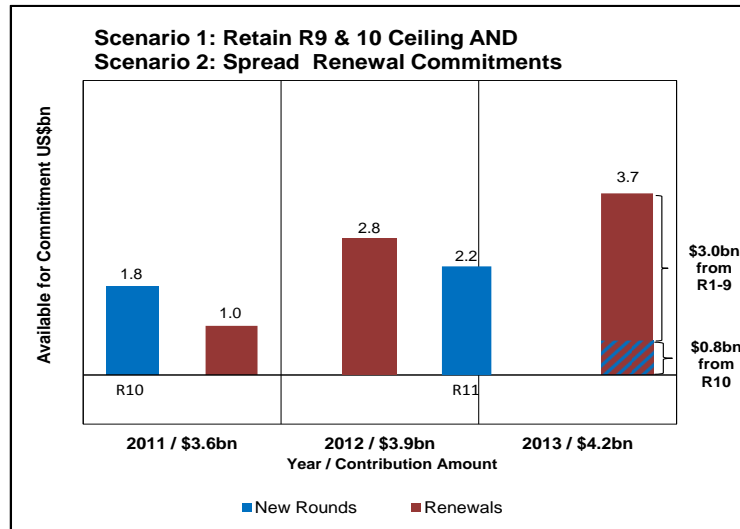


3.50 This demonstrates that funding of US\$ 1.1 billion could be available for Round 11 (and NSA Second Wave/HSFP pilot) should the measure described be realized.

3.51 Under this scenario, as with the previous two scenarios, Round 12 (and concurrent NSA and HSFP funding opportunities) can be launched within this Replenishment cycle - for example in March/April 2013, for funding decisions at the end of 2013 utilizing resources from the fourth Replenishment term.

Resource Scenario 4: Combining the measures from Scenario 1 and 2

3.52 Scenarios 1 - 3 illustrated the impact of separate measures, each applied individually. It is of course possible to combine measures. This scenario combines the effects of Scenarios 1 and 2; Retention of the 75% limit on Round 8 and 9 Phase 2 renewals and committing renewals in annual amounts.

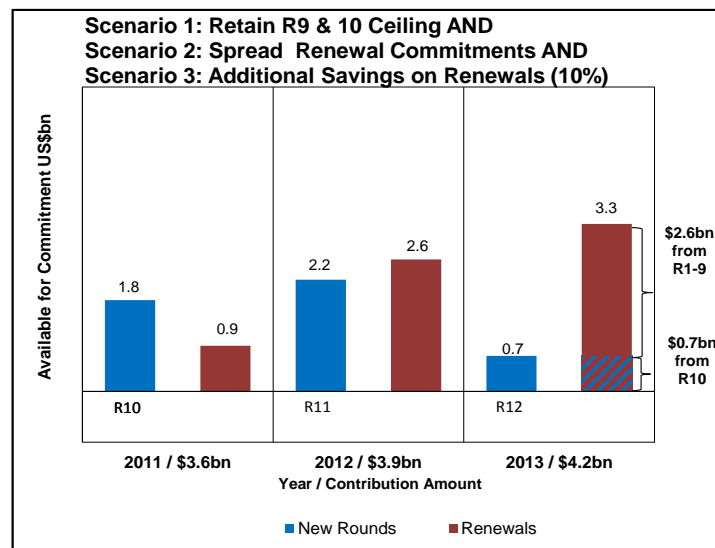


3.53 This demonstrates that funding of US\$ 2.2 billion could be available for Round 11 (and NSA Second Wave/HSFP pilot), should the measures described be realized.

3.54 Under this scenario, Round 12 (and concurrent NSA and HSFP funding opportunities) can be launched within this Replenishment cycle - for example in March/April 2013, for funding decisions at the end of 2013 using resources from the fourth Replenishment term.

Resource Scenario 5: Combining the measures from Scenarios 1, 2 and 3

3.55 This Scenario 5 combines the measures from Scenarios 1, 2 and 3.



3.56 This demonstrates that funding of up to US\$ 2.9 billion would be accessible to Round 11 and Round 12 (and NSA/HSFP) if each of the measures described were applied in combination. This could for example fund a Round 11 at US\$ 2.2 billion leaving funds for a small (focused) Round 12. Alternatively, Rounds 11 and Round 12 could each be funded at US\$ 1.45 billion. This scenario therefore leaves open the possibility of calling and funding both a Round 11 and 12 within the Third Replenishment cycle.

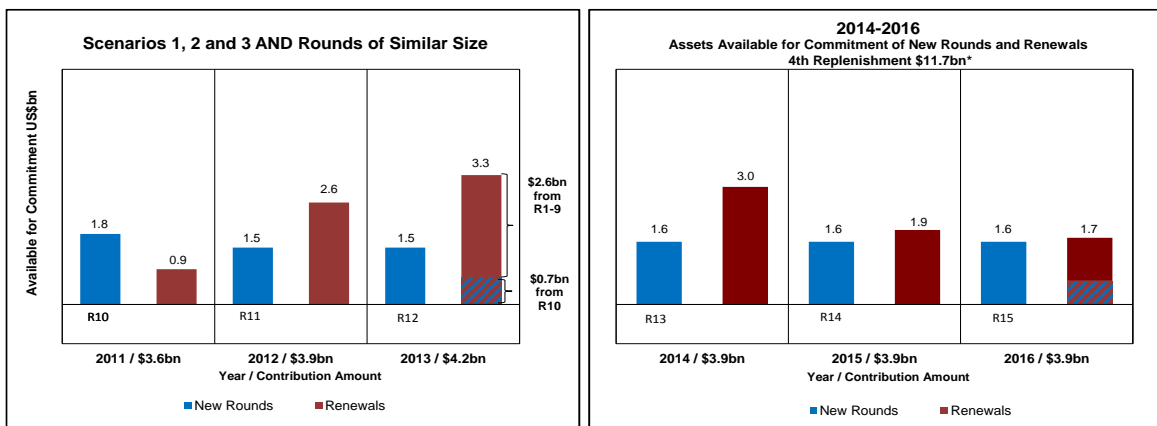
PART 4: BEYOND THE CURRENT REPLENISHMENT CYCLE

4.1 This paper has so far focused on Round 10, Round 11 (the NSA Second Wave and HSFP pilot) and how these could be funded within the context of currently predicted resources during the third Replenishment cycle of 2011-2013. The previous Part 3 also noted possible timing for Round 12, which would depend on how the discussed measures might be combined.

4.2 It is however informative to understand the potential funding horizons beyond the current Replenishment period. This includes Round 12, which may well be launched within the 2011-2013 Replenishment term but funded wholly or partially from the fourth Replenishment period.

4.3 For this analysis it is assumed that resources pledged for the 2014-2016 cycle will be similar to the previous cycle; that is US\$ 11.7 billion. The following graph presents an illustration of Rounds 10 through 15 based on this presumed level of income, and an assumptions that:

- measures described in Part 3 are all applied (i.e. Scenario 5); and
- Rounds subsequent to Round 10, within each Replenishment cycle, are structured to be of similar size.



4.4 This demonstrates more consistency and regularity in Rounds. A key reason for this is that the spike in renewals that manifested itself in 2012 and 2013, thereby suppressing the value of new rounds, is not repeated in future rounds due to the smoothing effect of equal rounds, the “Commitment Reserve” and the more modest round sizes relative to Rounds 8 and 9. Larger rounds will of course be possible if the resource envelope was increased from US\$ 11.7 billion for this and/or the next Replenishment term.