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[www.aidspace.org/gfo/archives/newsletter/issue11.htm](http://www.aidspace.org/gfo/archives/newsletter/issue11.htm)

## **Funding the Fund: Ten Key Issues**

### **Introduction**

This is a special edition of Global Fund Observer (GFO), devoted entirely to the topic “Funding the Fund: Ten Key Issues.” This edition is intended, in particular, to serve as an input to the “International Meeting to Support the Global Fund” to be held in Paris on Wednesday July 16.

The Paris meeting will be attended by some 250 people: ministers and senior officials from donor governments, parliamentarians, corporate CEOs, leaders of foundations and NGOs, representatives of grant recipients, Global Fund board members, and more. It will be jointly chaired by Tommy Thompson (Chair of the Fund, and US Secretary of Health and Human Services) and Pierre André Wiltzer, French Minister for Cooperation and Francophone Affairs.

The meeting will cover three themes:<sup>1</sup>

- The Global Imperative to Fight AIDS, Tuberculosis and Malaria (9:00 – 10:30 Paris time)
- The Opportunity of the Global Fund (11:00 – 12:30)
- Building support for the Global Fund (13:45 – 16:45)

The meeting will be webcast live at [www.kaisernetwork.org/paris2003](http://www.kaisernetwork.org/paris2003), starting at 8:30 am Paris time (2:30 am US East Coast time). GFO will be present, and will provide a report in the next issue.

The subtext for all the discussions will be the fact that the Fund has not yet been provided by donors with enough money. As a result, the Fund is unlikely to be able to fully cover the Round 3 grants that are due for approval in October.

### **Ten key issues**

This special edition of GFO raises and then examines ten key issues that are likely to be on the minds of attendees at the Paris International Meeting to Support the Global Fund:

[Issue 1: How much money does the Global Fund need?](#)

[Issue 2: How much money does the Fund expect to receive from Europe, the US, and others?](#)

[Issue 3: What financial shortfall does the Fund currently face?](#)

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[Issue 5: Which wealthy countries have not supported the Fund?](#)

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[Issue 9: What should be done regarding Round 3 if the financial shortfall is not overcome?](#)

[Issue 10: What is the best long-term solution to the funding crisis?](#)

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<sup>1</sup> Under each theme, there will be one or more panels of speakers, with each panel followed by an open discussion among conference participants. For further details on the meeting, see [www.globalfundatm.org/paris/preindexen.html](http://www.globalfundatm.org/paris/preindexen.html).

## **Summary**

Some of the main points made in examining the above issues are:

- The Global Fund will need to have received a total of \$4,945 m. between its start in January 2002 and the end of 2004. To this, it would be prudent to add a further \$1,000 m., to serve as a reserve for when expenses start to escalate in 2005.
- Donors have thus far only pledged to contribute \$2,617 m. to the Fund by the end of 2004. (Additional pledges have been received for payment during 2005-8.)
- Thus, the Fund has a shortfall of \$3,328 m. that must be delivered to the Fund by the end of 2004.
- Based on current pledges and Fund rules, Round 3 will be under-funded by nearly \$600 m., i.e. it will have to be a \$400 m. round rather than a \$1,000 m. round.
- As of July 4, Europe (with 27% of the world's GDP) had pledged to give \$1,383 m. to the Fund by 2004; this represented 53% of all pledges received for that time period. The US (with 33% of the world's GDP) had pledged \$825 m.; this represented 32% of all pledges received for that period.
- The best way to meet the financial needs of the Global Fund would be for donor countries to agree to implement the Equitable Contributions Framework, a dues-based system whereby a large group of donor countries agree to make the needed donations in proportion to their economic size.
- Some countries, like France, have met their Equitable Contribution. Others, such as the USA, Japan and Germany, are significantly behind. And some wealthy countries, such as Australia, Finland and Portugal, have made no pledges at all to the Fund.
- The Fund's financial shortfall could also be reduced through the following:
  - Persuade non-contributors to contribute.
  - Relax the conservative rule that requires the Fund to have two years' of funds in hand before approving a grant.
  - Persuade countries that have made pledges for later years, or for unspecified years, to shift these pledges so they are payable in 2003-4.

### **Issue 1: How much money does the Global Fund need?**

According to Global Fund estimates (see Table 1), the Global Fund will need to have received a total of \$4,945 m. between its start in January 2002 and the end of 2004.

Expenses will then start to climb rapidly in 2005, when it becomes time not only to start Rounds 6 and 7, but also to extend funding for Rounds 1 and 2 from their first two years to their final three years. To prepare for this, prudence dictates that during 2004 the Fund should build up a reserve of at least \$1,000 m. This increases the total required revenue from \$4,945 m. to \$5,945 m. by the end of 2004.

**Table 1: Global Fund Required Revenue**

	<b>2002-4</b>
To cover Round 1 (1st 2 years) <sup>2</sup>	\$567 m.
To cover Round 2 (1st 2 years) <sup>3</sup>	\$887 m.
To cover Round 3 (1st 2 years) <sup>4</sup>	\$1,000 m.
To cover Round 4 (1st 2 years) <sup>5</sup>	\$1,200 m.
To cover Round 5 (1st 2 years)	\$1,200 m.
Administrative expenses	\$91 m.
<b>Total GF required revenue, if no reserve:</b>	<b>\$4,945 m.</b>
Plus proposed reserve:	\$1,000 m.
<b>TOTAL required revenue</b>	<b>\$5,945 m.</b>

Source: Global Fund data as of 4 July 2003, except for the \$1,000 m. reserve

The fact that the Fund needs to receive the above revenue by the end of 2004 does not mean that the Fund will spend all that money during the time period in question. The Fund's current policy is that before an agreement for the first two years of a grant can be signed, the total cost of those two years must have been received by the Fund. In Issue 7 below we discuss the possible consequences of relaxing this conservative requirement.

**Issue 2: How much money does the Fund expect to receive from Europe, the US, and others?**

In contrast with the figures above, donors have thus far only pledged to contribute \$2,617 m. to the Fund by the end of 2004. (Additional pledges have been received for payment during 2005-8.)

There has been much talk from US leaders about how the US is paying an excessive portion of the Global Fund's needs. (For instance, Tommy Thompson said in his interview with GFO on June 6, "The United States has given 47% of the cash and has 50% of the pledges.") Although this might have been the case at one point, it is not the case now. As of July 4, Europe (with 27% of the world's GDP) had pledged to give \$1,383 m. to the Fund by 2004; this represented 53% of all pledges received for that time period. The US (with 33% of the world's GDP) had pledged \$825 m.; this represented 32% of all pledges received for that period. In terms of money actually handed over, Europe and the US are much closer, at \$644 m. and \$623 m., respectively.

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2 Round 1 grants: Approved in April 2002.

3 Round 2 grants: Approved in January 2003.

4 Round 3 grants: Proposals are currently being evaluated. They will be approved in October 2003. Before Round 3 proposals had been received, the GF Secretariat projected that the cost of the first 2 years of the grants to be approved in this round would be \$1,600 m. The total value of proposals actually received was c. \$2,000 m. – less than originally expected. The GF Secretariat then reduced its projection of the 2-year cost of the grants to be approved from \$1,600 m. to \$1,000 m. (Note: This number may be an under-estimate, because a significant number of the proposals are improved versions of ones that were narrowly rejected in Round 2, and many of the other proposals were written after successful Round 2 proposals were made publicly available. However, this analysis will not modify the GF Secretariat's estimate.)

5 Round 4 and 5 grants: These will be approved in March and October 2004. The GF Secretariat is projecting the cost of the first 2 years of each to be \$1,200 m. (Again, the actual numbers may well be higher; but this analysis will not modify the GF Secretariat's estimate.)

**Table 2: Global Fund Expected Revenue**

Source of GF funds	Percent of world GDP	Paid to date	Pledged for 2002-4 (Includes previous column)	Pledged for 2005-8 (Includes pledged for unspecified years)	Total GF pledges (Equals sum of previous two columns)
<b>Europe:</b>	<b>27%</b>	<b>\$644 m. (42%)</b>	<b>\$1,383 m. (53%)</b>	<b>\$1,277 m. (60%)</b>	<b>\$2,661 m. (56%)</b>
France	4%	\$118 m. (8%)	\$294 m. (11%)	\$353 m. (17%)	\$648 m. (14%)
Germany	6%	\$50 m. (3%)	\$50 m. (2%)	\$301 m. (14%)	\$351 m. (7%)
Italy	3%	\$109 m. (7%)	\$200 m. (8%)	\$236 m. (11%)	\$436 m. (9%)
United Kingdom	4%	\$78 m. (5%)	\$168 m. (6%)	\$134 m. (6%)	\$302 m. (6%)
Point Seven group (Denmark, Ireland, Netherlands, Norway, Sweden)	3%	\$96 m. (6%)	\$249 m. (10%)	\$53 m. (2%)	\$302 m. (6%)
Other	6%	\$193 m. (13%)	\$421 m. (16%)	\$200 m. (9%)	\$621 m. (13%)
<b>United States</b>	<b>33%</b>	<b>\$623 m. (41%)</b>	<b>\$825 m. (32%)</b>	<b>\$800 m. (38%)</b>	<b>\$1,625 m. (34%)</b>
<b>Other countries, plus private sector and foundations</b>	<b>40%</b>	<b>\$250 m. (16%)</b>	<b>\$409 m. (16%)</b>	<b>\$48 m. (2%)</b>	<b>\$457 m. (10%)</b>
Canada	2%	\$50 m. (3%)	\$75 m. (3%)	\$25 m. (1%)	\$100 m. (2%)
Japan	14%	\$80 m. (5%)	\$200 m. (8%)	\$0 m. (0%)	\$200 m. (4%)
Other	25%	\$120 m. (8%)	\$134 m. (5%)	\$23 m. (1%)	\$157 m. (3%)
<b>TOTAL:</b>	<b>100%</b>	<b>\$1,517 m. (100%)</b>	<b>\$2,617 m. (100%)</b>	<b>\$2,125 m. (100%)</b>	<b>\$4,742 m. (100%)</b>

Source: GDP data – [www.worldbank.org/data/countrydata/countrydata.html](http://www.worldbank.org/data/countrydata/countrydata.html). All other data – Global Fund data as of 4 July 2003.

For further details, and information regarding other countries: See [www.aidspace.org/gfo/docs/gfo57a.xls](http://www.aidspace.org/gfo/docs/gfo57a.xls)

In approximately chronological order, new pledges during the last few months are as follows. (The first few were also reported in the previous issue of GFO):

- The US Congress has passed legislation that permits the US to give \$1,000 m. to the Fund during the first nine months of 2004, plus “such sums as may be necessary” during each of the following four years. This is discussed further in Issue 6 below.
- France has increased its pledge by €400 m., to be provided during 2004-6.
- Italy has increased its pledge by €200 m., with payment dates to be determined.
- The UK has increased its pledge by \$80 m., with payment dates to be determined.
- New Zealand has pledged \$700,000, to be provided in 2003.
- The European Commission has said it will increase its pledge by €336 m. The first half (€168 m.) will come from the EC’s European Development Fund (EDF), subject to agreement by the African, Caribbean and Pacific (ACP) Group of States.<sup>6</sup> The second half will come from the EC general budget.<sup>7</sup>
- Germany has increased its pledge by €100 m., with payment dates to be determined.
- Ireland has increased its pledge by €7.1 m., to be provided in 2003.
- Norway has increased its pledge by \$18 m., to be provided in 2003.
- The US pledge for 2003 has been “corrected” from \$350 m. to \$325 m., on the basis that the GF Secretariat had misunderstood the situation.

<sup>6</sup> This half could come in a single payment, which under certain circumstances could be made before the end of 2003.

<sup>7</sup> This half will most likely be spread smoothly over the years 2003-2006, though the EC is looking into whether it could be “front-loaded.” Also, this €168 m. might end up being either increased or decreased by the EC, depending upon the views of the EC regarding the Fund.

### **Issue 3: What financial shortfall does the Fund currently face?**

Despite these new pledges, the Fund faces a serious shortfall, as is shown in Table 3. Of the \$5,945 m. needed during 2002-4, the Fund currently only expects to receive \$2,617 m. – just 44% of what is needed.

Thus, as shown in Table 3, the Fund has a shortfall of \$3,328 m. that must be delivered to the Fund by the end of 2004.

**Table 3: Global Fund Shortfall**

	<b><u>2002-4</u></b>	<b><u>2005-8</u></b>	<b><u>Total</u></b>
GF <i>required</i> revenue (including proposed \$1,000 m. reserve)	\$5,945 m.	Not known	Not known
GF <i>expected</i> revenue	\$2,617 m.	\$2,125 m.	\$4,742 m.
<b>Current shortfall:</b>	<b>\$3,328 m.</b>	Not known	Not known

Source: Tables 1 and 2. (All data as of 4 July 2003.)

As shown in Issue 9, the funding shortfall has very immediate consequences: Without further pledges this year (or changes in the Fund's rules), Round 3 will be under-funded by nearly \$600 m., i.e. Round 3 will have to be a \$400 m. round rather than a \$1,000 m. round.

### **Issue 4: What is the Equitable Contributions Framework?**

The best way to meet the financial needs of the Global Fund would be for donor countries to agree to implement the Equitable Contributions Framework, a dues-based system whereby a large group of donor countries agree to make the needed donations in proportion to their economic size. An illustration of how the \$3,328 m. shortfall could be met is shown in Table 4.

Three months ago, over 100 NGOs around the world formed the *Fund The Fund* coalition ([www.fundthefund.org](http://www.fundthefund.org)) to campaign for improved financial support for the Global Fund and to promote use of the Equitable Contributions Framework. The Framework was the central proposition by Dr. Marie-Jose Mbukenakamwe in the keynote address entitled "Where is the War Chest Against AIDS?" that she made today before 5,000 people in the opening plenary in Paris of the 2<sup>nd</sup> IAS Conference on HIV Pathogenesis and Treatment.

The Equitable Contributions Framework specifies that the Fund should be primarily supported by the 47 nations whose citizens live the most comfortable lives. (Specifically, these are the 47 nations with a "high" Human Development Index. The UN's HDI measures the overall quality of life based on standard of living, life expectancy, and literacy plus school-enrolment.)

According to the Equitable Contributions Framework, each of the 47 high-HDI countries should provide a portion of the Fund's needs that is equal to the country's percentage of world GDP. For instance, the US has 33% of the world's GDP, so it should provide 33% of the Global Fund's needs.

The 47 high-HDI countries between them have 80% of the world's GDP, and thus between them should provide 80% of the Fund's needs. The remaining 20% of the Fund's needs should be provided by corporations, foundations, wealthy individuals, members of the public, and countries other than the 47 just discussed.

Table 4 shows how much some of the major donor countries have pledged to the Fund thus far for 2002-4, and how much they should pledge using the Equitable Contributions Framework. Finally, it shows how much each of these countries is behind its Equitable Contribution.

As can be seen, some countries, like France, have pledged an amount at least equal to their Equitable Contribution. Others, such as the USA, Japan and Germany, are significantly behind.

**Table 4: The Equitable Contributions Framework**

	Minimum percent of Global Fund's budget that should be paid by each donor, equal to its share of world GDP	Thus, Equitable Contribution: The minimum amount that should be paid to the Fund during 2002-4	Pledged thus far for 2002-4	Thus, current shortfall for 2002-4
<b>Europe:</b>	<b>27%</b>	<b>\$1,610 m.</b>	<b>\$1,383 m.</b>	<b>\$226 m.</b>
France	4%	\$248 m.	\$294 m.	None
Germany	6%	\$356 m.	\$50 m.	\$306 m.
Italy	3%	\$207 m.	\$200 m.	\$7 m.
United Kingdom	4%	\$267 m.	\$168 m.	\$99 m.
Point Seven Group (Denmark, Ireland, Netherlands, Norway, Sweden)	3%	\$193 m.	\$249 m.	None
Other	6%		\$421 m.	
<b>United States</b>	<b>33%</b>	<b>\$1,933 m.</b>	<b>\$825 m.</b>	<b>\$1,108 m.</b>
<b>Other countries, plus private sector and foundations</b>	<b>40%</b>	<b>\$2,402 m.</b>	<b>\$409 m.</b>	<b>\$1,994 m.</b>
Canada	2%	\$129 m.	\$75 m.	\$54 m.
Japan	14%	\$807 m.	\$200 m.	\$607 m.
Other	25%	\$1,467 m.	\$134 m.	\$1,333 m.
<b>TOTAL:</b>	<b>100%</b>	<b>\$5,945 m.</b>	<b>\$2,617 m.</b>	<b>\$3,328 m.</b>
Global Fund's minimum requirements for 2002-4 (see Table 1):		\$5,945 m.		

Source: Columns 3 and 5 – Aidspan computations, based on GDP. Other columns – Tables 1 and 2.

For details regarding other countries: See [www.aidspace.org/gfo/docs/gfo57a.xls](http://www.aidspace.org/gfo/docs/gfo57a.xls)

### **Issue 5: Which wealthy countries have not supported the Fund?**

As shown in Table 5, several relatively wealthy nations have not yet made any contributions to the Global Fund, even though some much less wealthy nations have made contributions.

**Table 5: Relatively Wealthy Countries that have Failed to Donate to the Fund**

Country	Minimum percent of Global Fund's budget that should be paid by each donor, equal to its share of world GDP	Thus, Equitable Contribution: The minimum amount that should be paid to the Fund during 2002-4	Pledged thus far for 2002-4	Thus, current shortfall for 2002-4
Australia	1.2%	\$70 m.	\$0	\$70 m.
Finland	0.4%	\$23 m.	\$0	\$23 m.
Greece	0.4%	\$22 m.	\$0	\$22 m.
Israel	0.4%	\$21 m.	\$0	\$21 m.
Portugal	0.4%	\$21 m.	\$0	\$21 m.
South Korea	1.3%	\$80 m.	\$0	\$80 m.

Source: Same as Table 4.

For details regarding other countries: See [www.aidspace.org/gfo/docs/gfo57a.xls](http://www.aidspace.org/gfo/docs/gfo57a.xls)

### **Issue 6: What are the consequences of the recent US legislation regarding the Fund?**

This spring, the US Congress passed legislation that permits the US to give \$1,000 m. to the Fund during the first nine months of 2004, plus "such sums as may be necessary" during each of the following four years, so long as no actual contribution to the Fund by the US takes the US share of total contributions beyond 33%. However, further specific legislation has to be passed each year before any money can be given to the Fund. At present, President Bush has only said he would like the US to contribute \$200 m. per year, far less than the \$1,000 per year he is permitted to ask for. Congress is currently debating by how much to extend this for 2004.

As shown in Table 2, the US has contributed 41% of the money that has been actually received by the Global Fund thus far. However, if all countries honor pledges they have already made to give further sums during this year, the US's share of all contributions made by the end of this year will, by chance, be exactly 33% (\$625 m. out of \$1,909 m.)

The consequence of the US legislation, therefore, is that for each additional \$1 that the US is to give during 2004, other donors must give \$2. There is no reason why this cannot happen. For instance, there have been initiatives by Tony Blair of the UK, Jacques Chirac of France, and Kofi Annan of the UN encouraging European countries to give the Fund 1 billion dollars euros each year over the next five years.

### **Issue 7: How could the Fund's rules regarding financial reserves be improved?**

The Fund is currently governed by the following two rules:

- (A1) "The Board may approve proposals and commit funds up to the cumulative amount pledged until and including the current year"
- (B1) "Sufficient cash and/or liquid assets to cover two years of implementation of the proposal must be deposited with the Trustee or readily available prior to the Secretariat signing a grant agreement"

These are best understood by using Round 3 as an illustration. In October of this year, the Technical Review Panel (TRP) will recommend that the board approve a set of Round 3 grants. Let's say that the cost of these grants over the first two years would be \$1,000 m. Rule (A1) means that if the board believes, based on pledges received thus far, that by the end of 2003 only \$400 m. in unallocated money will have been received, then the board can only approve \$400 m. in Round 3 grants. And Rule (B1) then means that the money must have actually been received before the grant agreements can be signed.<sup>8</sup>

These rules are unduly conservative and onerous. Imagine that a grant will involve the Global Fund in sending the recipient \$1 m. per month throughout the first two years. Rule (B1) requires the Fund to be sitting on \$24 m. in the bank before the first \$1 m. can be sent, even if the Fund has received firm pledges that it will receive substantial new donations just a few months into the project. What is so special about requiring two years' money in the bank? Why not one year? Or five? And will donors be responsive if they are told that the Fund desperately needs new funding, yet it is sitting on a mountain of cash?

Accordingly, it is recommended that these two rules be amended as follows:

- (A2) "The Board may approve proposals and commit funds up to the cumulative amount *pledged to be received by fifteen months after the approval takes place.*" [Thus, if in October 2003 the Fund has received pledges that the Fund will receive by the end of 2004 sufficient money to pay for the first two years of all the grants recommended by the TRP, those grants can all be approved.]

<sup>8</sup> The above two rules were approved at the June 2003 board meeting in a slightly odd manner. It was stated that the two rules had previously been understood, but they had not been approved by the board. But at the June board meeting, no proper vote was conducted when the rules were supposedly approved. (A proper vote requires a two thirds majority from each of two voting blocs.) However, this technical problem is not too significant, because two board committees have been asked to make recommendations for consideration at the October board meeting regarding these rules and a number of related points.

(B2) “Sufficient cash and/or liquid assets to cover *one year* of implementation of the proposal must be deposited with the Trustee or readily available prior to the Secretariat signing a grant agreement. *The grant agreement must state that the recipient accepts that funding after that first year will be dependent upon the Fund succeeding in raising sufficient further donations.*”

The introduction of these rules would have a dramatic impact on the prospects of the board being able to approve all TRP-recommended Round 3 grants, because the board would be able to take account of all pledges to be received during 2004, which currently amount to \$709 m.

**Issue 8: What would be the impact of moving forward pledges assigned to unspecified years?**

As of July 4, data provided by the Global Fund showed that there were \$622 m. in pledges for which the countries had not clearly stated in which years those pledges would be paid.<sup>9</sup> The pledges are shown in Table 6.

**Table 6: Countries that have made Pledges Assigned to Unspecified Years**

Country <sup>10</sup>	Amount assigned to unspecified years
Germany	\$301 m.
Italy	\$236 m.
Liberia	\$0.025 m.
Niger	\$0.05 m.
Nigeria	\$1 m.
Rwanda	\$1 m.
Uganda	\$2 m.
United Kingdom	\$80 m.
Zimbabwe	\$1 m.
<b>Total:</b>	<b>\$622 m.</b>

Many or all of the Fund’s current financial concerns would be overcome if the above countries would agree that these pledges will be paid during 2003 or 2004.

**Issue 9: What should be done regarding Round 3 if the financial shortfall is not overcome?**

The Fund expects to need \$1,000 m. to cover the first two years of Round 3, to be approved in October. According to current Fund rules (discussed in Issue 7 above), board approvals regarding Round 3 must not exceed the amount to be pledged by the end of this year.

As shown in Table 7, the consequence of this is that without further pledges, Round 3 will be underfunded by nearly \$600 m., i.e. it will have to be about a \$400 m. round rather than a \$1,000 m. round.

<sup>9</sup> In some cases, press reports have suggested payment years. But these years appear not to be firm.

<sup>10</sup> Some of these countries have made other pledges which are assigned to specified years.

**Table 7: Funding Shortfall Regarding Round 3 Grants**

<b>GF revenue (excluding proposed reserve) required by end of 2003:</b>	
To cover Round 1 (1st 2 years)	\$567 m.
To cover Round 2 (1st 2 years)	\$887 m.
To cover Round 3 (1st 2 years)	\$1,000 m.
Administrative expenses for 2002-3	\$51 m.
<b>Total:</b>	<b>\$2,505 m.</b>
<b>GF revenue expected by end of 2003:</b>	
Received thus far	\$1,517 m.
Pledged for delivery by end of 2003 but not yet received	\$401 m.
<b>Total:</b>	<b>\$1,918 m.</b>
<b>Thus, current shortfall re Round 3:</b>	<b>\$587 m.</b>

Source: Tables 1 and 2, plus other GF data. (All data as of 4 July 2003.)

In examining earlier issues, a number of suggestions were made regarding how the seriousness of the Round 3 funding crises could be reduced or eliminated.

But there still remains the possibility that the board will conclude in October that there is not enough money available to fund all the proposals that the TRP has recommended for board approval.<sup>11</sup> Let us imagine that the cost of all the proposals that the TRP recommends is \$X, but there is only some lesser amount \$Y available. Here are some options that the board is likely to consider:

- Option 1: Approve all the TRP-recommended proposals, but offer each of them a reduced percentage of the money they asked for.

This raises the questions: What if some of the proposals appear not to be viable if they receive reduced funding? And, will this lead to budget-padding in the future?

- Option 2: Approve \$Y-worth of the TRP-recommended proposals, and reject the remaining recommended proposals.

This raises the questions: Will those who submitted the “TRP-recommended but board-rejected” proposals conclude that in the future they would rather not write such proposals than write them, raise peoples’ hopes accordingly, and then dash peoples’ hopes when the proposals are recommended but rejected? Will donors make an inadequate distinction in their minds between these proposals and those that were not good enough to be TRP-recommended, and sleep well believing that the system is running well?

- Option 3: Approve \$Y-worth of the recommended proposals, and declare the remaining recommended proposals “approved but held in a queue awaiting future funding”

This raises the questions: Should marginally-acceptable proposals in the queue have funding priority over excellent proposals submitted in the next round? Or not – meaning that they might remain in the queue indefinitely? Would a queuing system discriminate against small poor high-burden countries? Would it be better to reject proposals rather than queue them, on the grounds that those who wrote them will then be motivated to go out and actively seek alternative sources of funding? Should the Fund postpone all future rounds until the queued proposals have been funded? What impact would this have on the Fund’s reputation?

<sup>11</sup> The TRP has been instructed to ignore the issue of fund availability when deciding how many or which proposals to recommend for approval.

**Issue 10: What is the best long-term solution to the funding crisis?**

There are three sub-issues here:

- A. Should the amount of money to be raised by the Fund be:
  - (i) *demand-driven* (meaning, the amount to be raised is determined by the value of the high-quality proposals that the Fund receives)<sup>12</sup>
  - (ii) or *supply-driven* (meaning, the amount to be raised is determined by the donors, based on their own agendas).
  
- B. Should the mechanism for raising the money be:
  - (i) *voluntary and unstructured* (meaning, donors give what they want when they want)
  - (ii) *voluntary and structured* (meaning, donors give what they want, but based on regular pledging conferences)
  - (iii) *dues-based and structured* (meaning, donors subscribe to a system where they have to give pre-specified amounts with pre-specified timing, as with UN dues, peace-keeping dues, etc.)
  
- C. Should the Fund consider totally innovative ideas such as:
  - (i) Negotiate a mechanism whereby a debt-burdened country can sometimes have debt forgiven if the country in question pays the forgiven debt (using domestic currency) into a domestic account that is only used to finance domestic Global Fund-approved projects. The account would be structured such that funds could only be released from the account to the project when the Fund agrees, and could not be used for any other purposes.
  - (ii) Reduce the costs of many projects by negotiating bulk multi-project multi-country purchases of drugs and commodities.

Regarding A and B above: Thus far, the Fund has attempted to operate using *demand-driven* funding that is *voluntary and unstructured*.

Some donors appear to want to move to *supply-driven* funding that is still *voluntary and unstructured*. However, because the determining factor here would be donor selfishness, this would probably lead to the Fund becoming a marginalized player incapable of responding to dramatic increases in the need or in recipients' ability to respond.

Those who support the Equitable Contributions Framework are in effect advocating using *demand-driven* funding that is *dues-based and structured*. They quote Colin Powell, who said a year ago, "HIV/AIDS is a catastrophe far worse by orders of magnitude than any problem or crisis we have on the face of the earth right now.. a catastrophe worse than terrorism." They say that such a catastrophe needs an organization that is capable of innovation and of moving rapidly to full-scale (namely, the Global Fund) and that has a funding scheme in place that is robust and reliable enough to be able to support the organization (namely, the Equitable Contributions Framework).

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END OF NEWSLETTER  
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This is an issue of the GLOBAL FUND OBSERVER (GFO) NEWSLETTER.

The GFO NEWSLETTER is an independent source of news, analysis and commentary about the Global Fund to Fight AIDS, TB and Malaria ([www.globalfundatm.org](http://www.globalfundatm.org)). The GFO Newsletter is emailed

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<sup>12</sup> As with some countries in times of war, this approach involves saying "We'll spend whatever it takes, so long as the expenditure produces results."

to subscribers once or twice a month. It is closely linked to the GFO DISCUSSION FORUM (see below).

GFO has an Editorial Advisory Board initially comprising ICASO, GNP+ and the AIDS NGO Network in East Africa (the three organizations designated as Communications Focal Points within the Global Fund's NGO board delegations); plus Health & Development Networks (founder of the Break-The-Silence listserv, which originally covered the Global Fund); and the International HIV/AIDS Alliance. GFO is currently provided in English only. It is hoped later to provide it in additional languages.

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