

GLOBAL FUND OBSERVER (GFO) NEWSLETTER
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At the July 16 “International Meeting to Support the Global Fund” in Paris, statements of support were made by many prominent figures, and the Presidents of the European Commission and France vowed to push for European countries to give a billion dollars to the Fund in 2004. But only two new pledges were announced at the meeting, and little visible movement has taken place during the subsequent two months.

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Grant agreements have at last been signed with South Africa regarding three Round 1 grants, the largest of which involves KwaZulu Natal.

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NEWS: The Paris Meeting and Beyond
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On July 16, France and the United States co-hosted a long-heralded “International Meeting to Support the Global Fund” in Paris. When this event was originally planned, it was hoped by some that it would lead to many announcements of new donations to the Fund. But while there were many statements of support from world leaders, the only new donations announced at the meeting were a \$10 m. pledge from China and a €250,000 pledge from Greece.

Furthermore, little visible movement regarding funding has taken place during the two months since. In fact, total pledges as reported by the Fund have actually decreased (because of exchange rate fluctuations) from \$4,742 m. on 4 July to \$4,616 m. on 26 September.

This temporary stall can be attributed partly to the fact that several important pledges were announced at the G8 summit, not long before the Paris meeting, and also to the European tradition of long summer vacations. But pro-Fund advocates complain that the Fund still has not developed a clear and viable strategy for coping with its enormous funding needs.

The Paris meeting was attended by some 250 invited guests – ministers and senior officials from donor governments, parliamentarians, corporate CEOs, leaders of foundations and NGOs, grant recipients, Global Fund board members, and more.

Executive Director Richard Feachem provided the financial context when he said “An additional \$3 billion before the end of 2004 is essential to fully fund Round 3 in 2003 and Rounds 4 and 5 in 2004.” (At the time of the meeting, only \$400 m. was available for Round 3, as against the \$700-1,000 m. that was projected as being needed. And only \$700 m. had been pledged for 2004, as against the \$2,400 m. that was projected as being needed.) Feachem echoed the call of President Chirac for \$1 billion to come in 2004 from the US and \$1 billion to come from Europe, adding that the third \$1 billion should come from all others – particularly Australia, Canada, Japan, the oil-rich states, and the private sector.

“I believe in the Global Fund,” said Nelson Mandela. “I believe that it has shown great progress, and that we must, in turn, commit more support to its success and future.”

“Turning the tide of AIDS, TB and malaria is a priority second to none,” said Kofi Annan, Secretary General of the UN. “The Fund is there to fill a specific and substantial [funding] gap.”

European Commission President Romano Prodi committed personally to fight for a one billion dollar contribution from Europe for 2004. “I am the guarantor for the one billion,” President Prodi said. “We [in the European Union] may sometimes work slowly, but we can be trusted to reach our goals in the long run.”

French President Jacques Chirac reaffirmed his call for Europe to contribute one billion dollars, while calling for the United States to also allocate one billion dollars each year to the Fund. “The Global Fund is an outstanding instrument,” President Chirac said. “It was set up in record time. It is already operating on the ground, saving lives.”

Richard Burzynski, an NGO leader, chastised donors for lacking commitment. “The Fund is no longer a new experiment. It’s up; it’s running. And it now needs to be based on a financing mechanism that is solid, predictable, reliable, and equitable.” (See “Speech: It’s Time for Commitment,” below.)

Closing the meeting, Chairman Tommy Thompson said “What we do at these meetings will only matter if we follow up on our bold words. Working together, we can get this job done – we can accomplish the \$3 billion next year and the additional \$400 million this year to fully fund these applications.”

Since the meeting, there has been much discussion in Washington DC about how much the US will contribute to the Fund in 2004. President Bush has only called for \$200 m., down from \$323 m. in 2003. Some members of Congress are calling for considerably more to be given. But a severe constraint is contained in US legislation that specifies that the cumulative amount given by the US to the Fund must never exceed 33% of the total given by all.

The US has always been a significant contributor to the Global Fund. However, US leaders sometimes exaggerate the significance of US donations. For instance, US Senate Majority Leader Bill Frist, interviewed on TV on 24 July 2003, said, “We right now have committed half the funds to [the] Global Fund... If the United States takes sole responsibility, it is doomed to fail... Today 50 percent, half of this global fund of all 144 nations in the world -- one nation -- the United States, has committed half... We had 50 percent of all commitments. We need other people to step up.”

The reality is that as of 4 July 2003 the US had contributed 41% of all cash received by the Fund (compared with 42% from Europe), and the US had pledged 34% of all payments to be made to the Fund from its inception through 2008 (as against 56% from Europe). The US has 33% of the world’s GDP and Europe has 27%. (For details, see Issue 11 of GFO at www.aidspace.org/gfo/archives/newsletter.)

If all current pledges for 2003 and 2004 are honored but there are no new pledges, a 2004 US contribution of \$200 m. would cause its cumulative donation as of the end of 2004 to be 32% of all donations. Therefore, for each further dollar to be given in 2004 by the US beyond \$200 m., two further dollars must be given by other donors.

If, as President Chirac and others have proposed, the US, Europe, and all others each increase their total 2004 pledge to \$1 billion, the results will be as follows:

Table 1: Needed Pledges

	Current 2002-4 pledges	Of which, 2004	Needed extra in 2004	Resulting 2004	Resulting 2002-4
EU	\$1,296 m.	\$385 m.	\$615 m.	\$1,000 m.	\$1,911 m. (39%)
USA	\$823 m.	\$200 m.	\$800 m.	\$1,000 m.	\$1,623 m. (33%)
Other	\$458 m.	\$75 m.	\$925 m.	\$1,000 m.	\$1,383 m. (28%)
Total	\$2,577 m.	\$661 m.	\$2,339 m.	\$3,000 m.	\$4,916 m. (100%)

One issue of concern that was referred to several times at the Paris meeting is whether there will be enough money to fund Round 3. The board’s policy provides an upper limit to the value of proposals that it can approve in Round 3 (or any other Round). The total cost of the first two years of Round 3 grants must not exceed the uncommitted cash which the Fund is expected to have by the end of this year – about \$400 million. Estimates as of early July, before the TRP met, were that the likely two-year cost of TRP-recommended grants for Round 3 would be \$700-1,000 m. (The two-year cost of all proposals submitted in Round 3 was about \$2,000 m., though some of these were rejected as ineligible.) In Rounds 1 and 2, unlike in Round 3, there was sufficient money to fund the first two years of all the TRP-recommended grants.

Two factors may reduce or eliminate the cash-shortage problem. First, it might turn out that the cost of the TRP-recommended grants is less than was projected in early July. Second, the board might modify its policy, and decide that it can allocate towards these grants not just the \$400 m. it expects to have available by the end of this year, but also some of the \$660 m. which has already been pledged for next year.

Another pressing question is how many Rounds there will be next year. The Fund has said on many occasions that there will be two rounds per year, as was the case this year. This means that Rounds 4 and 5 will occur during 2004. However, in a recent posting at its web site asking for new TRP members

(see "Short Items", below), the Fund says that the TRP will meet "every 8 to 12 months," and that the next meeting will be in early May 2004. Given that the TRP holds one meeting for each Round, this evidence suggests that grant applicants may be asked to submit Round 4 proposals in about March 2004, with Round 5 not taking place until 2005. The board will presumably make a decision on this matter at its October meeting.

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NEWS: Round Three Results Due Mid-October
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The Technical Review Panel (TRP) has completed its evaluation of the Round Three proposals, and has sent its recommendations to the board. The board will make its decisions at its October 15-17 meeting in Chiang Mai, Thailand. (During the weekend of October 18-19, results will be emailed to all subscribers in the next issue of GFO, and will also be posted at the web site of Aidspan (www.aidspan.org), publisher of GFO. The Fund is also expected to post the results at its own site, www.globalfundatm.org.)

The TRP is composed of 26 technical experts from 19 countries. The members operate in their personal capacities, not taking into consideration the views or desires of their domestic governments or their employers. In Rounds 1 and 2 the board approved all the proposals that were recommended by the TRP, and no others. This approach makes the situation much less political than would be the case if the board went through the recommendations one by one, discussing how each board member felt about each proposal or about the country from which it came. This de-politicized approach has impressed many observers of the Fund.

Once the board has decided that a proposal is approved, the CCM or other organization that submitted it will be sent the TRP's comments. These comments will list the strengths and weaknesses of the proposal, and will list some questions that the TRP has about the proposal. Each applicant will be asked to answer those questions within a few weeks. Once the TRP accepts these answers, the Fund's Secretariat will start negotiating a grant agreement with the applicant. This can be a fairly lengthy process, because the agreement will need to specify a number of details regarding which organization will be the Principal Recipient, who will be the Sub Recipients, which tasks and likely results will be achieved by which dates, etc. Much of this will already have been specified in the original proposal, but usually additional details will need to be agreed in writing before the money can start to flow. Proposals approved in Round 3 should mostly be receiving their first money by mid-2004.

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COMMENTARY: A Breakthrough Proposal?
By Bernard Rivers, GFO Editor
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Something quite remarkable happened a few days ago. On Thursday 25 September, a simple and obvious proposal was made by Stephen Lewis, the passionate Canadian who serves as the UN Secretary-General's Special Envoy for HIV/AIDS in Africa. Speaking at a conference on AIDS in Nairobi, he said that Canada should issue a compulsory license to lift the patent protection that covers most anti-retroviral drugs (ARVs). This would enable generic pharmaceutical companies to produce the drugs and export them for \$250-\$300 per person per year to poor countries that do not have domestic production capacity.

Later that very day, Canadian government ministers with relevant responsibilities told reporters that they agreed with the idea, and that they hoped to get all-party support quickly.

Lewis explained that he made his proposal because of the confluence of two significant recent developments. First, in late August the World Trade Organization (WTO) agreed to let poor countries import cheap generic copies of patent-protected drugs as long as they could not make them domestically,

were not importing them for commercial purposes, and could find a supplier willing to issue a compulsory license to lift the patent protection. "There is absolutely nothing standing in the way of such an initiative except a paralysis of political will and the influence of the big pharmaceutical companies," said Lewis. Second, last week J.W. Lee, the new head of the World Health Organization (WHO), announced that his top priority will be to achieve the "3 by 5" goal of three million people receiving HIV treatment by 2005. He also declared that the current HIV/AIDS situation represents a global health emergency, which countries might find useful when justifying the issuing of a compulsory license.

Advocates believe that despite the new WTO concessions, the WTO imposes conditions that could be onerous to some importing countries. In particular, any third country (possibly acting at the behest of major pharmaceutical companies) could challenge the issuing of a compulsory license by issuing a formal complaint within the WTO. Lewis acknowledged this point, but said that such hurdles would be significantly reduced if a major economic power such as Canada were to initiate the compulsory license.

The drug companies were not long in making clear their unhappiness with Lewis's proposal. On Friday Harvey Bale, head of the International Federation of Pharmaceutical Manufacturers Associations, objected that the proposal will erode patent protection and scare off future research spending by biotech investors, adding that "Lewis is leading us all down the primrose path to a dead end." (However, Bale might have had a point when he added, "This is going to delay the debate over ... how much money should the Canadian government send to the Global Fund.")

Canadian press reports on Saturday said that senior government officials are determined to craft a fine-tuned change to the act – a change that would allow generic drug-makers to manufacture for export certain medicines still under patent, but would have no other impact on patent rules. The officials commented, however, that this might not be possible until next year.

The action proposed by Lewis need not be restricted to Canada. There are strong generic drug-manufacturing capabilities in China, India, Thailand and Brazil, among others. Some of these countries probably have the capability to manufacture all the necessary drugs, possibly to the required scale, and possibly at lower cost than companies in Canada. Thus far, these countries have been understandably cautious about taking actions that might be strongly opposed by the US. But the proposed action by Canada might change all that, as might the way in which China and other developing countries found it necessary to work together in the recently-collapsed WTO talks.

Moreover, there are further actions that could lead to cost savings by poor countries. For instance, the Global Fund could help recipients of its grants to club together and achieve economies of scale by purchasing their ARV needs jointly. If fifty countries were each going to spend \$10 million of Global Fund money on drug purchases, and if those countries jointly commissioned some third party to purchase \$500 million-worth of drugs on their behalf, the economic savings could be considerable.

And where might all this lead to? Once they see which way the wind is blowing, manufacturers of ARVs, both generic and patent-protected, could agree that their products will be sold for a penny over the marginal cost of production to all except the world's thirty or so richest countries. Financially, they would lose little or nothing, because they currently make very few ARV sales in these countries; and politically, their image could be transformed. Their profits would continue to be earned and their research costs covered through the already lucrative sales of these drugs in rich countries.

No doubt these ideas are all riddled with complexities that will make them hard to implement. But so what? So have been many other great developments in history, not least Kofi Annan's original suggestion that there should be a Global Fund.

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ANALYSIS: Progress with Signing Grant Agreements
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After a slow start, the Secretariat of the Global Fund has been signing grant agreements at an increasing rate. Initial delays were caused both by the extreme shortage of staff at the time that Round 1 grants were approved, and by the need to devise new procedures.

As of 19 September 2003, the Global Fund had signed 64 out of 68 Round 1 grant agreements, and 49 out of 99 Round 2 grant agreements. Following signature of these agreements, a total of \$131 million has been disbursed thus far. Fourteen of the 68 Round 1 grantees have already received their second cash disbursements, meaning they have received between 22% and 54% of their two-year funding. On the other hand, another fourteen of them have still received no money, despite it already being seventeen months since the Round 1 grants were approved.

Round 1 grants were approved by the board in April 2002, and the first of these led to grant agreements eight months later. Round 2 grants were approved by the board in January 2003, and the first of these led to grant agreements three months later.

The number of agreements signed in each of the nine months from December 2003 to August 2003 was 9, 9, 13, 13, 5, 3, 21, 16 and 20, respectively. There are 54 grant agreements still to be signed. At the current rate, most of these should be signed by the end of the year.

The reason that it takes some time to sign grant agreements is that once the board approves a proposal, the recipient has to answer some follow-up questions to the satisfaction of the Technical Review Panel; then the grantee has to choose a Principal Recipient; then the Secretariat and the Principal Recipient have to agree many aspects of how the grant will be implemented and the finances handled.

Details are as follows:

Table 2: Grant agreements signed

	Round 1		Round 2	
	Signed	Not yet signed	Signed	Not yet signed
Grant agreements	64	4	49	50
Countries covered by the grant agreements	37 [a]	4 [b]	34 [c]	33 [d]
2-year value of grant agreements	\$544 m.	\$21 m.	\$373 m.	\$502 m.
Of which, disbursed thus far	\$75 m	\$0	\$55 m.	\$0

Within each Round, some countries have more than one grant – one for HIV and/or one for TB and/or one for malaria. And within each grant, there is occasionally more than one Principal Recipient, which leads to one grant agreement per Principal Recipient.

[a]: Countries covered by Round 1 signed grant agreements: Argentina, Benin, Burundi, Cambodia, Chile, China, Ethiopia, Ghana, Global (World Lutheran Federation), Haiti, Honduras, India, Indonesia, Kenya, Laos, Madagascar, Malawi, Mali, Moldova, Mongolia, Morocco, Nigeria, Panama, Rwanda, Senegal, Serbia, South Africa, Sri Lanka, Tajikistan, Tanzania, Tanzania/Zanzibar, Thailand, Uganda, Ukraine, Vietnam, Zambia, and Zimbabwe.

[b]: Countries and Principal Recipients covered by Round 1 unsigned grant agreements: North Korea, Vietnam (Ministry of Health), Zambia (Ministry of Finance & National Planning), and Zimbabwe (National AIDS Council). (Note: Vietnam, Zambia and Zimbabwe have each signed at least one grant agreement, but not all their agreements.)

[c]: Countries covered by Round 2 signed grant agreements: Armenia, Bangladesh, Benin, Bulgaria, Burundi, Central African Republic, Congo (Democratic Republic), Costa Rica, Croatia, Cuba, East Timor, El Salvador, Eritrea, Estonia, Ethiopia, Georgia, Ghana, Guinea, Kazakhstan, Kenya, Kyrgyzstan, Laos, Madagascar, Mongolia, Multi-country Africa (Regional Malaria Control Commission), Multi-country Western Pacific, Nepal, Pakistan, Philippines, Romania, Swaziland, Tanzania/Zanzibar, Thailand, and Togo.

[d]: Countries covered by Round 2 unsigned grant agreements: Afghanistan, Botswana, Burkina Faso, Cambodia, Chad, Colombia, Comoros, Cote d'Ivoire, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, India, Iran, Jordan, Lesotho, Liberia, Malawi, Mauritania, Mozambique, Myanmar, Namibia, Nicaragua, Nigeria, Peru, Sierra Leone, Somalia, South Africa, Sudan, Thailand, Uganda, and Yemen. (Note: Several of these countries have signed at least one grant agreement, but not all their agreements.)

Further details are available in www.globalfundatm.org/files/grantsstatusreport.xls, which is updated by the Fund fairly often.

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NEWS: Short Items

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- On 4 August, the Fund chose Local Fund Agent (LFA) contractors after a lengthy evaluation of applications received in response to a public invitation to bid. The companies selected were Chemonics, Crown Agents, Deloitte Touche Tohmatsu, EPOS Health Consultants, FJP Management Engineering, ICICI Bank Limited, KPMG, PricewaterhouseCoopers, T & B Consult, and United Nations Office for Project Services (UNOPS). For many countries, more than one of these potential LFAs is available, so the Fund will now conduct an evaluation of which of these LFAs to choose within each country to oversee grants for which grant agreements have not yet been signed.

Prior to the above evaluation, LFAs were chosen on a country-by-country basis from a smaller list of companies. Country-level LFA contracts signed by the Fund through 19 September were with Crown Agents (one contract), KPMG (22 contracts), PricewaterhouseCoopers (50 contracts), the World Bank (one contract), and UNOPS (5 contracts).

- The Fund is seeking new members for the Technical Review Panel (TRP), in order to enable long-serving members to start to leave. Full details and an application form are available at www.globalfundatm.org/trp.html and www.globalfundatm.org/trp/application.html. Applications must be submitted by 17 November. The Fund adds “Applicants with strong experience from private sector are strongly encouraged. The private experience taken into consideration should not be limited to the pharmaceutical industry: experience in managing private health systems or health care in productive firms in the developing world would be very useful.”
- The Fund has released its first annual report, covering 2002 and the first half of 2003. The Executive Summary is available at www.globalfundatm.org/files/annualreport_executivesummary.pdf. To be mailed a copy of the full 96-page printed document, email a request to info@theglobalfund.org.
- The Round 1 HIV grant to Argentina is being implemented in an interesting way. The proposal was submitted by the Argentina CCM, of which more than half the members represent NGOs and other civil society organizations. The grant, for \$12.5 million over the first two years, targets HIV prevention among high-risk groups. It will be implemented primarily through programs to be conducted by civil society organizations, most of which are not members of the CCM. The CCM invited bids from civil society organizations throughout the country to implement relevant parts of the agreed program, with the implementation activities to be financed using funds received by the Principal Recipient as a result of the Global Fund grant. According to the Deputy Minister of

Health of Argentina, the CCM received 462 proposals, of which 129 were approved for funding. Agreements are now being signed with these 129 organizations.

- Health Action International Africa (HAI Africa), based in Nairobi, has just released a useful 8-page Fact Sheet on “Assured Quality and Lowest Prices – What the Global Fund Requires for Buying Medicines.” This provides guidance to countries and organizations that are applying for or receiving funds from the Global Fund to procure medicines. It is accessible at www.haiafrica.org/globalfund.
- The proposal form that the Fund asked grant applicants to complete during Round 3 made several references to antiretroviral drugs, and one reference to “ARVs”. The Fund made this form available in several languages. The version provided in Chinese must have been translated by someone with a limited knowledge of health issues. When asking the question about “ARVs”, the form asked, in Chinese, about “Armed Rescue Vehicles.”

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SPEECH: It's Time for Commitment

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[The following speech was made at the July 16 “International Meeting to Support the Global Fund” by Richard Burzynski, Executive Director of ICASO, the International Council of AIDS Service Organizations]

The UN Development Program published its annual Human Development Report last week... When he launched the report, UNDP Administrator Mark Malloch-Brown noted a disturbing finding: "Every European cow is getting a \$3 a day subsidy, whereas 40 percent of Africans live on less than \$1 a day."

And in another report just out, we learn that some 400 ultra-wealthy Americans had a combined income of \$69 billion in 2000... Take a moment and compare that number with the \$10 billion that Kofi Annan said should be spent annually on HIV/AIDS. Sobering, isn't it?

Those nations that pay their cows \$3 per day, and that have a few citizens with incomes of hundreds of millions of dollars, have worked hard to reach that point. And now they have an awesome responsibility. They must choose between acting more forcefully to alleviate unnecessary death and suffering throughout the developing world, and not doing so.

We have come to the end of a day in which every speaker seems to be an unequivocal supporter of the Global Fund. Some new pledges and policies have been announced, and repeated endorsements of the need for the Fund's solvency have been issued...

Still the Fund's future is in doubt. Sure, it may evolve into yet another worthy bureaucracy that achieves a modest impact with minimal resources. But the Fund's mission has always been to quickly channel *large* amounts of money to help *huge* numbers of people with the *best* projects. And that mission is seriously jeopardized...

We must face two clear facts:

- the richest governments in the world are expected to provide the greatest contributions on a sustained basis, and they have not;
- the private sector, aside from the Gates Foundation, has provided very little meaningful funding to date.

If this fund is to be a serious, sustainable and reliable mechanism proportionate to the problems we face, then put quite simply, governments and the private sector need to come up with the money.

We in the NGO sector – people living with and among these diseases, and front line workers the world over – are doing all we can to galvanize broad-based support for the Fund. We are partnering with you in

every conceivable way. Organizations like mine have re-tooled our entire work plans to focus on Fund advocacy. And two extraordinary broad-based civil society advocacy campaigns are underway.

The first initiative is hosted by the Global Network of People Living With AIDS. It's called "It Starts With US" and it canvasses the globe for small donations for the Fund from the people we are all trying to save – those living with HIV and AIDS...

The second initiative is the Fund-the-Fund campaign. Over 100 organizations around the world have come together in this campaign to promote the Equitable Contributions Framework... [This] is a formula that enables the governments of each of the 47 countries whose citizens live the most comfortable lives to see what their fair share contribution to the Fund should be, based on their GDPs and their economic capacities... This policy instrument... is objective, reasonable and do-able.

The Global Fund will need to have received a total of \$5 billion between its start in January 2002 and the end of 2004. Some are recommending that a reserve of \$1 billion is needed in anticipation of escalating commitments beginning in 2005. That brings the total target to \$6 billion – just about half of what Kofi Annan called for when establishing this Fund. Don't forget, we all started out aiming for \$10 billion.

As of the start of this week, donors have pledged to contribute \$2.6 billion to the Fund by the end of 2004. Thus, based on the Fund's immediate goals, there is a shortfall of about \$3 billion that must be delivered by the end of 2004. These are ambitious but realistic targets...

The Fund is no longer a new experiment. It's up; it's running. And it now needs to be based on a financing mechanism that is solid, predictable, reliable, and equitable. Donor governments need to view the Fund in the same way that they view their other national priorities, like contributions to international peacekeeping, or investments in domestic school systems. The Fund must be based on a truly joint and long-term global commitment to financing the war on AIDS, TB and malaria, or it will fail...

You have the tools and you have our partnership. But only you can make the political decisions to make it happen.

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NEWS: South African Grant Agreements Finally Signed
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After several false starts, the Global Fund and South Africa signed agreements on August 7 regarding three Round 1 grants that were originally approved over eighteen months ago:

- A two-year \$27 million grant to a consortium of government, private and civil society partners operating in KwaZulu-Natal (KZN) will promote the "continuum of care" in the province most affected by HIV/AIDS. "In retrospect, writing the proposal and getting it approved was the easy part," said the project's director. "The challenge now will be to roll out and scale up" the project.
- A two-year \$12 million grant will enable the expansion and acceleration of the National Adolescent Friendly Clinic Initiative, a partnership between loveLife and the South African Government.
- And a one-year \$2 million grant will support the ongoing development and implementation of two existing projects – Soul City and Soul Buddyz – that conduct awareness-raising and mobilization among the youth of South Africa.

The biggest problems arose with the KwaZulu-Natal proposal. The Fund has a policy that proposals must normally be submitted by national CCMs, or by sub-national CCMs approved by the national CCM. When the call for proposals was issued for Round One, South Africa's Finance Minister, Trevor Manuel, said that South Africa did not need the Fund's money. Accordingly, no South African CCM was created. KZN

- For GFO background information, see www.aidspace.org/gfo
- For previous issues of the GFO Newsletter and Discussion Forum, see www.aidspace.org/gfo/archives
- For a definitive collection of papers on the Global Fund, see www.aidspace.org/globalfund

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