

GLOBAL FUND OBSERVER (GFO), an independent newsletter about the Global Fund provided by Aidspace to over 10,000 subscribers.

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"The Fund's business model is efficient. 85% of the grants are working well; but let's try to get it to 98%. / If the Fund is not ambitious, who will be? / The involvement of civil society, and of people living with the diseases, is the unique feature of the Fund. / I will really focus on staff morale. They need a restored confidence and sense of stability. / The Board has at times had a tendency to micromanage. We need not so much a change in structure as a change of spirit."

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The Fund, which last year raised \$2.2 billion, estimates that in 2008 it will need up to \$4.5 billion, and in 2010 it will need between \$4.3 billion and \$7.5 billion.

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Donor countries will meet in Oslo, Norway, next week for the first of two "Replenishment" meetings to discuss how much they might give to the Global Fund for the three years 2008-2010. They will need to consider not only how much the Fund might need, but also how to divide that need between the various donors. GFO summarizes various possible approaches to this question.

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1. NEWS: Global Fund Issues Seventh Call for Proposals
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The Global Fund today issued its Call for Proposals for countries wishing to apply for Round 7 grants. The proposal form and various support documents are available in six languages at www.theglobalfund.org/en/apply/call7. Applications must be submitted by 4 July 2007.

The major changes to the Proposal Form compared to the form that was used for Round 6 are as follows:

- Where the proposal being submitted is similar to a previous proposal that was not approved, applicants are explicitly asked to address the comments that the Technical Review Panel (TRP) made regarding the previous proposal.
- Where the proposal being submitted has some key services in common with an earlier grant, and significant portions of that earlier grant have not yet been disbursed, applicants are asked to explain why the Round 7 proposal covers these same services.
- Where the proposal being submitted specifies a Principal Recipient (PR) that has had some "performance bottlenecks" with an existing grant, applicants are asked to explain how these bottlenecks are addressed in the proposal.
- On the Proposal Form itself, applicants are being asked to submit less complex information on their budgets.
- Although the Proposal Form for Round 7 contains the same five sections used in the Round 6 form, some of the information requested has been moved from one section to another.

Aidspan, publisher of GFO, will produce a guidance document to help potential applicants with the applications process. "*The Aidspan Guide to Round 7 Applications to the Global Fund*" will be posted at www.aidspan.org/guides on Monday or Tuesday March 5 or 6. This document will also be available in French and Spanish versions; these versions should be posted on the Aidspan website by 19 March 2007.

All proposals submitted by the closing date will be reviewed by the Global Fund Secretariat to ensure that they meet the Fund's eligibility criteria. Eligible proposals will then be forwarded to the TRP for consideration. The TRP will make recommendations to the Global Fund Board, which will make its decisions at its board meeting scheduled for 14-16 November 2007. (In the past, all proposals recommended by the TRP for approval have indeed been approved by the Board.)

When the TRP members review the proposals, they will do so in their personal capacities – they must not share the information with or accept any instructions from their employers or their national governments. Once the TRP has assessed each proposal, it will assign it a rating in one of the following categories:

- Recommended (Category 1): Proposal is recommended for approval.
- Recommended (Category 2): Proposal is recommended for approval, provided that the applicant responds promptly to a number of requests by the TRP for clarification or adjustment. (This might be divided into Categories 2A and 2B.)
- Not Recommended (Category 3): Proposal is not recommended in its present form, but applicant is encouraged to submit a proposal in a future round following major revision.
- Not Recommended (Category 4): Proposal is rejected

In allocating each proposal to one of the above categories, the TRP will take into consideration only technical factors, such as whether the project described in the proposal is technically sound, whether it is one that the specified organization(s) are capable of implementing, and whether it represents good use of the money. The TRP is required to ignore the question of whether it believes the Global Fund has enough money to pay for all of the proposals that it is recommending. If the TRP recommends more proposals than the Fund has money to finance, it will be for the Board to deal with the problem. (See next article for information on the funding available for Round 7).

Once a proposal is approved by the Board, the Secretariat will enter into a lengthy and complex process of: (a) ensuring that the applicant answers, to the satisfaction of the TRP, any questions that the TRP asked regarding the proposal; (b) assessing the ability of the proposed Principal Recipient (PR) to perform the role that the proposal assigns to it; and (c) negotiating grant agreement(s) with the PR. It is only after this multi-month process that the first cash disbursement will be sent. Thus, although proposals have to be submitted by 4 July 2007, it is unlikely that the first funding will be sent for successful proposals before the middle of 2008.

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2. NEWS: Global Fund Is In Good Shape to Pay for Round 7
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The Global Fund is in better financial shape to cover the anticipated cost of Round 7 grants than it was at this stage with any of the three previous rounds.

The Fund estimates that the total cost for the first two years of grants likely to be approved in Round 7 will be about \$965 million (about ten percent more than the average cost of the three previous rounds). Of this, about half (\$497 m.) is already available, and the other half needs to be raised. When the Call for Proposals was issued for each of the last three rounds, the Fund had less money available to pay for the grants than it now has for Round 7 – and in all cases, the Fund raised the needed funds in time.

The information on funding availability for Round 7 is contained in "Technical Note 2 – Update on the Funding Outlook for 2006-2007," one of several documents released by the Fund in preparation for a meeting of donors to be held in Oslo next week. The documents are available at www.theglobalfund.org/en/about/replenishment/oslo.

The Global Fund says current fund availability for 2007 is \$2,519 million (\$208 m. in unused funds from last year, and \$2,310 in pledges thus far for 2007). After setting aside \$2,022 m. for renewals during 2007 of existing grants and for new Round 6 grants approved following successful appeals, this leaves an availability of \$497 m. for Round 7 grants.

The Fund will certainly receive additional pledges for 2007 during the balance of the year. In addition, pledges for 2008 can be applied to successful Round 7 proposals insofar as the actual contributions arrive prior to the signing of the grant agreements.

Technical Note 2 reveals that pledges and contributions for the two-year period 2006-2007 thus far total \$4.5 billion, about 50 percent more than the \$3.0 billion that was pledged and contributed for the prior two-year period, 2004-2005. The increase will be even greater once additional pledges for 2007 are received over the rest of this year.

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3. NEWS: Board Ruling Prevents Exclusion of Three Upper-Middle-Income Countries From Round 7 Eligibility
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The Global Fund Board has decided that any country whose economy is classified as upper-middle-income, and that had a high enough disease burden to be eligible to apply for Round 6 HIV/AIDS grants, will also be eligible to apply in Round 7. As a result, South Africa, Botswana and Equatorial Guinea will not be excluded from Round 7 eligibility as they would have been if this ruling had not been made.

Under rules in place since before Round 6, organisations from upper-middle income countries are eligible to apply only if they can demonstrate that their country faces a high current national disease burden. For HIV/AIDS, "high disease burden" was defined by a complicated formula – specifically, that adult HIV prevalence multiplied by 1000, divided by Gross National Income (GNI) per capita, must exceed five.

There have been some changes in GNI since the launch of Round 6 such that, if this formula were retained for Round 7, three upper-middle-income countries whose ratios previously exceeded five (South Africa, Botswana and Equatorial Guinea) would no longer qualify for Global Fund financing for HIV/AIDS. The Global Fund says that the change in the eligibility status of these three countries is more closely linked to currency fluctuations that affected the countries' GNI, than it is to any material increase in the countries' wealth or decrease in their HIV prevalence.

The new policy adopted by the Board is essentially designed to ensure that these three countries are not unfairly penalized by the currency fluctuations and will be eligible to apply for HIV/AIDS grants in Round 7.

This is an interim policy that applies only to Round 7. The Board plans to discuss (and possibly adopt) more substantive amendments to the eligibility criteria for upper-middle-income countries in time for Round 8. A number of Board members have expressed the view that the current eligibility criteria are too restrictive and that, in certain circumstances, more upper-middle-income countries should be eligible for HIV/AIDS grant financing than is currently the case.

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4. INTERVIEW: Michel Kazatchkine, the Fund's New Executive Director
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After Michel Kazatchkine was selected to be the next Executive Director of the Global Fund, GFO interviewed him by phone. Here are excerpts from what he said.

On timing: I'll join the Fund as its new Executive Director as soon as possible after April 1, and definitely by the time of the April 25-27 board meeting. Between now and the end of March, when Dr. Feachem's term of office ends, I will in no way interfere in the Fund or its affairs, or be in the building, except for a meeting with Dr. Feachem during the week of March 19. I cannot start on April 1 because of a number of duties including in my clinic.

I'm currently in a listening and thinking mode, and intend to remain in that mode until I take office. So today I'm not in a position to be extremely specific [about changes I might want to introduce], but of course I've been thinking about them a lot.

On broad strategy: I said to the Board that I see no reason to revisit the Fund's business model at this time. I expect the Fund to continue to grow because the needs remain largely unmet, and because we need to strengthen health systems in order to consolidate the investments and ensure sustainability of the investments. I don't like the "horizontal versus vertical" debate [where "horizontal" means spending money on health systems, and "vertical" means spending it on specific diseases]. I do believe the Fund can gain major benefits from strengthening health systems. But I don't accept that vertical funds are unhelpful. As Executive Director I'm ready, on a scientific basis, to advocate for the disease-focused model.

The Fund's business model is efficient. 85% of the grants are working well; but let's try to get it to 98%; I think we can move towards that.

On size: I endorse the aspirational goal of the Fund raising \$8 to 10 billion annually, but we need a strategy to meet the resource goal that we set for the Fund. I hope the Policy and Strategy Committee will be ambitious in both the goal it sets and its strategy to reach the goal. If the Fund is not ambitious, who will be? The added value of the Fund is its size and its ability to make a difference.

On the role of the public sector: If we talk of increasing the Fund's operations by billions, the primary driver is the public sector. We need to work with them on the sustainability of the resources. That means ODA [Official Development Assistance, provided by Western donor governments.] I'm still struck by the fact that although everyone has health as a priority for ODA, the health portion of ODA is growing less fast than ODA as a whole. And ODA as a whole is still behind the 0.7 percent goal that the international community has set. If they had met 0.7, we wouldn't have all these problems.

Then there is the need for innovative methods [for raising money from Western governments]. There are two models, with hopefully more to come. First is UNITAID [a new international drug purchase facility], to which I'm committed. The second is IFF [International Finance Facility]. IFF could bring the billions that are needed; I look forward to seeing greater progress with IFF.

On civil society: The involvement of civil society, and of people living with the diseases, is the unique feature of the Fund. It's "win-win" – the Fund has learned and benefited from the advocacy and other strengths of civil society, but it has also been of benefit to civil society, in that it has enabled civil society to acquire more institutional capacity.

On foundations: The move by Bill and Melinda Gates in Toronto [to give \$500 million to the Global Fund] was very significant. They are very strongly committed to advancing health in the developing world. But they don't want to build a new health channel that they control; they are confident in the Global Fund, and believe in its legitimacy. I'm really hopeful and confident that we can get more funding from the foundations sector.

Re the business sector: I think this is an open space; we are still on very preliminary ground. I hope and believe we can increase the Product (RED) initiative; I hope it will spread more into Europe. I hope we can also have other business sector initiatives. But I hope also that businesses can get more into co-investment [in which businesses in developing countries contribute their clinics, doctors, etc. to projects that are financed by the Fund]. I don't think that the private sector has a culture yet of working with multilateral entities like the Fund.

Re the UN system: When UN agencies provide technical support to GF-backed projects, they are not working "for" the Fund, they are implementing their mandate, and working for the global good. Everyone is cooperating to make the money work. One of my first efforts will be to establish a strong relationship with them. I've already spoken with Margaret Chan [head of WHO] and Peter Piot [head of UNAIDS].

Re the GF staff: The Secretariat has to be kept lean and focused. I'm not in favour of country offices for the GF. We can work with and through UN country offices to get better flows of information to and from the countries. As we enter the next phase of the GF, we can hope to have everyone at the Secretariat feeling confident, at ease, enthusiastic. It's up to me to be an effective people-oriented manager. I'll arrange for there to be a management audit to help us see where changes need to be made. I've sent a letter to all staff, through the Executive Director, in which I say that I want, within the limits of my physical abilities, to be always available for them. I will really focus on staff morale. I know many people there. They need a restored confidence and sense of stability.

Re whether the Executive Director should become a Board member (though without a vote): We need to work hard at distinguishing between the mandates of the Board and of the ED. The Board has at times had a tendency to micromanage. We need not so much a change in structure as a change of spirit. If the relationship between the Board and the ED is one of trust and confidence, and a spirit of one team working together, I don't see any further gain in making a formal change.

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5. NEWS: Global Fund Identifies Resource Needs for 2008-2010
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In preparation for the Second Replenishment Meeting to be held in Oslo on 5-7 March 2007, the Global Fund has prepared a projection of its resource needs for the three-year period from 2008 to 2010. As it has done in the past, the Fund has developed two estimates, one based on projected demands on the Fund through proposals that are received and approved, and the other based on the Fund's share of the estimated global needs for the fight against HIV/AIDS, TB and malaria. The Fund says that over the three years 2008-2010 it will have an average annual need of \$5.0 billion based on a mid-range estimate of projected demand, and of \$7.2 billion based on its share of global needs. (In 2006 the Fund received \$2.2 billion, and in 2007 it expects to receive in excess of \$2.3 billion.)

In arriving at its "projected demand" estimate, the Global Fund calculated the resources that will be required to fund or renew grants that have already been approved, and to fund new grants that it

expects will be approved during 2008-2010. It evaluated three different scenarios, based on different assumptions about how much demand will be generated.

And in arriving at its "share of global needs" estimate, the Global Fund took projections of global needs for the three diseases that have been developed by the international community, and then calculated the Global Fund's share of these needs. It assumed that the Fund's share for 2008-2010 will be the same as its current share of international financing for the three diseases – i.e., about two-thirds for tuberculosis and malaria, and about 20 percent for HIV/AIDS. (This was based, in turn, on an assumption that funding through other channels will increase at the same pace as will funding through the Fund.)

The Global Fund's estimate of its resource needs for 2008-2010 are summarized in the following table.

Table 1: Global Fund Past Revenue, and Estimated Future Needs (US \$ billion)

Past GF revenue				Estimated future needs of GF					
2004	2005	2006	2007			2008	2009	2010	Average annual need, 2008-10
\$1.5 b.	\$1.5 b.	\$2.2 b.	\$2.3 b.	Based on projected demand	Scenario A	\$3.4 b.	\$3.9 b.	\$4.3 b.	\$3.9 b.
					Scenario B	\$4.0 b.	\$5.0 b.	\$6.0 b.	\$5.0 b.
					Scenario C	\$4.5 b.	\$6.0 b.	\$7.5 b.	\$6.0 b.
				Based on share of global needs		\$6.7 b.	\$7.2 b.	\$7.7 b.	\$7.2 b.

By developing projections of resource needs over a three-year period, the Global Fund is hoping to encourage donors to make multi-year funding commitments (see next article).

These resource-need projections are described in a document entitled "Resource Needs – Funding the Global Fight Against HIV/AIDS, Tuberculosis and Malaria – Resource Needs for the Global Fund 2008-2010," available at www.theglobalfund.org/en/about/replenishment/oslo.

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6. ANALYSIS: Which Countries Should Give How Much to the Global Fund?
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Donor countries will meet in Oslo, Norway, next week for the first of two "Replenishment" meetings to discuss how much they might give to the Global Fund for the three years 2008-2010. (The second meeting will take place in September, in Berlin.)

Over the years, several formulae have been advanced for calculating what might constitute each country's "fair share" of the Global Fund's financial needs. The first widely-discussed such formula was the Equitable Contributions Framework, advanced in 2002 within the NGO sector and then further developed by Aidspace, publisher of GFO. The basis of that formula was that countries should contribute in proportion to the size of their respective economies.

In preparation for next week's Oslo meeting, the Global Fund has prepared a Technical Note in which it outlines five possible formulae, or "contribution scenarios," for obtaining the money that the Fund needs for 2008-2010. (See "Technical Note 1 – Contribution Scenarios in Selected Replenishments," at www.theglobalfund.org/en/about/replenishment/oslo.) The scenarios are:

Scenario 1 (the "Pro-Rata" scenario): Each country contributes a share of the need that is equal to its share of all contributions given to the Fund during 2003-2006.

Scenarios 2, 3 and 4 are based on each country's share of contributions made to other international funds, and are not pursued further here.

Scenario 5 (the "Adjusted GNI" scenario): Each country contributes a share of the need that is equal to its share of global Gross National Income (GNI), adjusted by GNI per capita. (The adjustment is made so that if two countries have the same GNI, but one has a much larger population and hence a lower GNI per capita, the country with the smaller population contributes more, because it has a greater ability to give.) The Adjusted GNI scenario is very similar to the Equitable Contributions Framework.

In an introduction to the Technical Note, the Global Fund says that the scenarios were prepared at the request of donors. However, it also says that the development of the scenarios was a "purely mechanical exercise," done for "illustrative purposes," and not done in an "attempt to assign shares to donors."

To supplement these scenarios developed by the Fund, GFO has developed two "bad scenarios" to illustrate the possible thinking of some donors:

Scenario 0 (the "No Increase" scenario): Each country contributes the same dollar amount per year that it has averaged in recent years, even though the need has increased significantly.

Scenario 6 (the "Minimum of '1' and '5' " scenario): Each country contributes the lesser of what it should contribute according to Scenarios 1 and 5. (Some countries will have to contribute more under Scenario 1; others will have to contribute more under Scenario 5. So there is a real possibility that many will choose whichever is the less painful.)

The Technical Note contains a series of tables outlining what the contribution of each donor country would be under each of Scenarios 1 through 5. The tables include contributions from private foundations, the private sector and innovative financing schemes.

To complicate matters somewhat, there is no agreement yet on what the total amount is that has to be given to the Fund each year. As discussed in the previous article, the 2008 need could be as little as \$3.4 b., and the 2010 need could be as much as \$7.7 b. – or more. In what follows, we show different ways of dividing up the mid-range "Scenario B" need of \$5.0 b. per year, or \$15 b. over the three years.

As shown in the following table, if all countries follow Scenario 0, the Global Fund will only receive \$5.1 billion of the \$15 billion three-year need. And if all countries follow Scenario 6, in which each one chooses the less painful of Scenarios 1 and 5, the Fund will only receive \$11.7 billion, \$3.3 billion less than is necessary.

Table 2: Amounts that Countries Might Contribute to the Fund According to Four Scenarios

Donor	Average Annual Contribution 2003-6, \$m.	Total contribution for the three years 2008-2010, \$m., based on the mid-range "Scenario B" need in Table 1			
		Scenario 0: No Increase	Scenario 1: Pro-Rata	Scenario 5: Adjusted GNI	Scenario 6: Minimum of '1' and '5'
Australia	14.6	44	133	196	133
Belgium	8.5	26	77	124	77
Canada	101.6	305	922	319	319
China	2.0	6	18	37	18
Denmark	19.2	58	174	113	113
European Commission	125.4	376	1,137	1,137	1,137
Finland	3.6	11	33	68	33
France	178.5	536	1,619	705	705
Germany	68.6	206	622	917	622
India	2.0	6	18	5	5
Ireland	15.2	46	138	62	62
Italy	129.7	389	1,177	481	481
Japan	99.1	297	899	1,807	899
Luxembourg	2.4	7	22	18	18
Netherlands	57.7	173	523	204	204
Nigeria	10.0	30	91	0	0
Norway	25.6	77	232	152	152
Portugal	1.1	3	10	26	10
Russia	7.3	22	66	26	26
Saudi Arabia	2.5	8	23	32	23
South Africa	2.0	6	18	10	10
Spain	32.2	97	292	259	259
Gen.Catalunya/ Spain	1.6	5	15	15	15
Sweden	47.8	143	433	141	141
Switzerland	3.9	12	35	209	35
United Kingdom	94.1	282	853	791	791
United States	435.0	1,305	3,946	5,273	3,946
Other countries	4.8	14	44	442	44
Sub-total: Countries	1,496.0	4,488	13,570	13,570	10,278
Private Foundations	66.7	200	605	605	605
Private Sector	3.7	11	450	450	450
Innovative Financing	n/a	375	375	375	375
Total	1,566.3	5,074	15,000	15,000	11,708
Total need (according to Scenario B):	n/a	15,000	15,000	15,000	15,000
Shortfall:	n/a	9,926	0	0	3,292

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END OF NEWSLETTER
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