



Independent observer
of the Global Fund

Significant developments regarding funding the Fund

There have been some significant new pledges to the Fund during the past two weeks. However, many of these pledges are for 2005 and later. Without further major pledges, the Fund is likely to have only about one third of the money it needs for Round 3 (to be approved in October) and for Rounds 4 and 5 (to be approved next year).

Fortunately, there are real possibilities of further major pledges being made during or before the July 16 "International Meeting to Support the Global Fund" in Paris. As a result, there is still a chance that Round 3 grants, to be approved in October, will be fully funded.

The US set the stage in January by committing \$1,000 m. spread evenly over the years 2004-8, and more recently by passing legislation that in theory could lead to the US giving the Fund as much as \$1,000 m. every year.

Then, since late May, Europe has announced new pledges worth in excess of \$1,000 m. over several years. These pledges, again, might be increased to \$1,000 every year.

Prior to the new European pledges, the US had provided 48% of all pledges to the Fund and Europe had provided 39% (at today's exchange rates). But that has now changed dramatically. As of June 12, Europe has provided 54% of all pledges and the US, despite having a significantly larger economy, has provided only 36% of all pledges.

Details are as follows:

- 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, 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 Fund to receive \$200 m. per year, far less than the \$1,000 per year he is permitted to ask for.

- France has increased its pledge by €400 m., to be provided during 2004-6.
- Italy has increased its pledge by €200 m., to be provided by 2006.
- The UK has increased its pledge by \$80 m., probably to be provided during 2006-7.
- New Zealand has pledged \$700,000 for 2003.
- The European Commission will probably 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. (This half could come in a single payment, which under certain circumstances could be made before the end of 2003.) The second half will come from the EC general budget. (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 be either increased or decreased, depending upon the views of the EC regarding the Fund.)

If the above pledges are spread evenly over the years specified, and if the US pledge for each year 2004-2008 is restricted to the \$200 m. annually that President Bush has called for, the totals pledged are as follows:

Region	% of	2002 - 2004	2002 - 2008
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Moving on to costs: The Fund has already committed \$567 m. and \$887 m. for the first two years of Rounds 1 and 2, respectively.

The Fund has received about \$2,000 m. in proposals for Round 3. The Fund is projecting that the TRP will recommend 50% of these for approval. But this may be too low, 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. Thus, a more realistic acceptance rate for Round 3 is 60%, meaning that the TRP could recommend \$1,200 m. in proposals for approval. If we use that figure, and if we accept the Fund's projection (which seems low) that Rounds 4 and 5 will each lead to \$1,200 in TRP-recommended proposals, we find that despite all the new pledges, each of Rounds 3, 4 and 5 will be under-funded by about \$800 m., i.e. by about two thirds of what each Round needs, as follows:

+-----+-----+-----+		2002-2003	2002-2004	+-----
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Despite this gloomy news, there are many things that could, in aggregate, make it possible to fully fund Rounds 3, 4 and 5:

- Italy might be persuaded to move its new €200 m. pledge from 2004-6 to 2003-4.
- Germany might be persuaded to move its longstanding \$183 m. pledge from "unspecified years" to 2003-4.
- The UK might be persuaded to move its new \$80 m. pledge from 2006-7 to 2004-5.

- The EC might be persuaded to provide its €168 m. EDF grant during 2003, and to move its €168 m. general budget grant from 2003-6 to 2003-4, and to provide an additional €168 m. grant for 2005-6.
- President Chirac has suggested that the EU countries might decide to increase their collective pledge to one billion euros for 2004 (and maybe also for later years). This will be discussed at the EU summit in Greece on 20 June. For this to be achieved in both 2004 and 2005, it would require new grants from EU countries equal to \$614 m. in 2004 and \$736 m. in 2005. An extra \$50 m. in 2003 would also be helpful.
- Global Fund Chairman Tommy Thompson might then persuade US Congress to provide the full \$1,000 m. in each of 2004 and 2005 that is permitted under the recent US legislation.
- However, to prevent the US contributions then taking the US over the 33% limit that it has imposed, contributions would be needed, in addition to those discussed above, equal to \$25 m. in 2003, \$360 m. in 2004, and \$720 m. in 2005. These would most appropriately come from countries other than the US and Europe, and from the private sector and foundations.

If all these things happened, the result would be:

Region	% of	2002 - 2004	world	pledges
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To provide a margin of safety, the Fund might need to change one of its accounting rules. At present, the rule states that before the board can approve grants, there must be pledges such that by the end of the year in which approval occurs, sufficient money will be received to cover the first two years of the grants. The Fund is reviewing whether this should be extended to include one quarter of pledges that are due for payment during the year following grant approval.

A detailed spreadsheet containing all the data underlying this analysis is available at www.aidspace.org/gfo/docs/gfo56.xls.

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