



Independent observer
of the Global Fund

TRANSITION TO THE NFM MARRED BY UNANTICIPATED CONSEQUENCES

The letters sent on 12 March to the 123 countries eligible for Global Fund grants should have been heralded in Geneva with trumpets and the popping of champagne corks.

These letters, signed by Grants Management chief Mark Eldon Edington, represented two years of painstaking work to develop the new funding model (NFM): a new way of working for the Fund that aims to shift the focus towards high-impact, high-value programs in countries with the highest burdens of disease and the least ability to pay, and which sets out to achieve better programming, improve results and “do more with less.”

But instead of celebrating, there appears to be some grumbling at the country level, especially about how the transition was communicated. Decisions concerning the transition from the rounds-based system to the NFM have, perhaps inevitably, bred uncertainty and, I believe, have had unanticipated consequences (see below).

As the NFM was being designed, the perception was that the allocations methodology would apply only to new funding available for new grants. The numerous calculations – from the application of the income/burden formula to the graduated reductions for over-allocated countries – seemed designed specifically for new money: funding that would come from the Fourth Replenishment and that would be available for new grants.

It appeared, to me at least, that existing grants would run their course (under the “old rules”) and that the 2014–2016 allocations would be derived entirely from new funding.

Obviously, this was a misconception.

At its meeting in November 2012, the Global Fund Board decided that the allocations to country bands would take “both committed and uncommitted assets into account”. This was interpreted to mean that the allocations for 2014–2016 would include both funding for existing grants and additional funding for new grants. But neither the Board nor the Secretariat seemed to know exactly how it would work. Issues concerning the transition from rounds-based funding were discussed in some depth in the Board committees and in the Secretariat, but could not be made public until the Board formally adopted the transition provisions in March 2014.

Part of the problem was the size of the existing grants pipeline at 31 December 2013: \$9.06 billion. The money on hand to pay for these grants was only \$5.55 billion. This left a gap of \$3.51 billion which had to come from the \$10.22 billion raised in the Fourth Replenishment. This left \$6.71 billion for new grants (\$5.76 billion in base funding and \$0.95 billion in incentive funding).

In previous replenishments, it was common practice to use some of the funds raised to pay for grants previously approved. However, the size of the existing grants pipeline, which was influenced by two very large rounds of funding (Rounds 8 and 9), surprised a lot of people.

We, at Aidspan, ought to have been asking questions about the implications of the existing grants pipeline well before the NFM was formally launched.

Unanticipated consequences

In my opinion, the decision to combine existing and new funding in the allocations has had several unanticipated consequences:

1. Some components are receiving no funding for new grants.
2. Application of the global disease split to the total base funding available (\$14.82 billion) has created distortions in the allocations.
3. The new willingness to pay (WTP) requirements are being applied to components that are receiving no funding for new grants.

Some components getting no funding for new grants

By allocating some components only enough money to cover the costs of existing grants, the Global Fund is, in effect, re-balancing its portfolio retroactively using existing funding. Whether this is fair is debatable. What does “fair” mean in this context?

On the one hand, components that are receiving only enough money to cover existing grants are those that were getting way more than their fair share in recent years. From that perspective, maybe allocating these components no money for new grants is fair.

On the other hand, one could argue that the existing grants stem from past commitments that the Fund should honor and that the Fund should even allocate some new funding to these components, even if it is significantly less than the components had been receiving. Indeed, the graduated reduction provisions of the NFM were designed to do exactly that.

Global disease split: distortions

The global disease split is important because it is one of the first steps in the allocation methodology. The split is used to create three disease envelopes, and the envelopes then form the basis for calculating the

allocation for each disease component to each country.

The global disease split was decided by the Board (50% HIV, 32% malaria; 18% TB). It resembles, but is not identical to, the historical disease split. The problem is that when the Global Fund applied the 50:32:18 split to the total base funding of \$14.82 billion, it was applying it not only to new base funding available for new grants (\$5.76 billion), but also to that portion of the funding reserved for existing grants (\$9.06 billion).

But the existing grants already had a disease split. The grants had already been awarded. The split is whatever it is. (Precisely what it is, we don't know.) So once again, the Fund is retroactively applying to existing funding a formula designed for new funding. The result is that the disease split provided to countries is distorted. Surely that was not the intent when the methodology was designed?

Willingness to pay

The WTP provisions are being applied to the total base funding of \$14.82 billion. Under the WTP, 15% of a component's base allocation is held back unless the government invests more in its disease programs – more, that is, than what the government is already investing under the counterpart financing requirements. How much more is to be decided during the country dialogue.

To apply the WTP provisions to new funding for new grants is logical. But what about those components that are receiving only enough funding to cover existing grants? To ask governments to make additional investments just to get the money for already-approved existing grants is dubious policy. Yet this is exactly what is happening.

Uncertainty, muddle and a lack of communication

Whether or not the move to allocate some components only enough money to cover existing grants was fair, it certainly was not anticipated. There was no public announcement and no discussion at Board level. Aidsplan first learned about this when the allocation letters went out.

Neither the Board nor the Secretariat has said anything about the other unanticipated consequences of the way in which existing and new funding were combined in the allocations.

In addition, the decision regarding how existing and new funding were combined appears to have implications for how existing grants are handled under the NFM. The Global Fund has not explained publicly what those implications are.

What flexibilities do country have? Can they let their existing grants run their course and only then submit a concept note covering the additional funding they have been awarded? This does not seem to be the option favored by the Global Fund. Some countries have been told verbally that they must submit concept notes as soon as possible. Doing so would require considerable re-programming of existing grants.

Are all countries in a position to go this route? What about a country that is deemed to be over-allocated, that received only enough money to cover existing grants, and that has made considerable formal commitments for commodity purchases. How much flexibility does this country have to re-program?

Countries that are persuaded to re-program their existing grants may conclude that they have essentially “lost” part of their existing grants in the process.

Clearly countries require different approaches. And, to be fair to the Global Fund, the process for handling existing grants is evolving, just as the design of the NFM as a whole is still evolving. The Secretariat has been talking one-on-one with countries. I would welcome a more public explanation of what strategy the Global Fund is pursuing with respect to existing grants.

I would also welcome an explanation of the “four-year periods” we hear about. The decision on transition provisions taken at the last Board meeting said: “While each disease component’s portion of the Total Allocation will typically cover a period of four years starting from 1 January 2014...”

It is not clear to me what that means. And it appears that my confusion is also echoed at the country level. The allocation letters say nothing about a four-year period. I would welcome more information on this issue and on the other issues raised in this commentary.

As is Aidspace’s practice, we shared this commentary with the Global Fund. Their response is the [next](#) article in this week’s GFO.

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