



Independent observer
of the Global Fund

NEW FUNDING MODEL: A MODERN APPROACH

David Garmaise opens his commentary with an accurate observation: He had a misperception. But he arrives at a conclusion that is wrong. The consequences of the new funding model were not, in fact, unanticipated.

The most important point is that the new funding model is designed to optimize use of all available funding, from all sources, so that partners can work together to find the most effective solutions to health challenges. Mr. Garmaise asks about the implications of how existing grants are handled under the new funding model. We encourage all countries to reprogram grants where it makes sense. We said so in the opening sentence of a news item we issued when we announced the allocations on 12 March. In his commentary, he ignores that message, and seems to want the Global Fund to preserve the operating methods that he is accustomed to analyzing. But everything changes, especially the reality of HIV, TB and malaria. The new funding model was set up to adjust to change, not to block it.

In devising the new funding model, the Global Fund had to factor in material and human considerations, like finite resources and a need for a sensible weighing of competing factors. We had to consider all operating procedures in the shift from a rounds-based system to an allocation system, and we also had to work with decisions and compromises made by the Board along the way. It has been quite a challenge. Yet where we ended up was a broad consensus that we have to be looking all resources, including reprogramming existing resources, as the best way to deliver increased impact.

The Global Fund looked carefully at whether to keep 'existing' and 'new' funding separate. We concluded that it would have been even more complex, and deeply counterproductive, to carry out two parallel systems, with one standard for existing grants and another standard for grants coming from new funding. As the commentary notes, the groundwork for that decision was approved by the Board in 2012, and at

that time, the Board's Strategy Committee and Global Fund staff had not yet figured out how to best implement it. But we mapped a path forward, with a great deal of consultation and hard work.

All major strategic decisions on the new funding model were made by the Board, with the Board's SIIC and FOPC guiding the staff on what was needed and what was possible. There were extensive discussions around how to address the transition from the rounds-based system to the allocation-based methodology. These discussions were complex, and were held with senior management, Board Committees and the Board over the past two years, and intensely over the past year. The staff of the Global Fund played a big role in exploring all possibilities, and presenting them for Board consideration. That was true for all key financial decisions, including allocation and disease split. Each decision was carefully made, with extensive deliberation. Not everything came out perfectly, but we emerged with a strong consensus that the new funding model had to be set up to encourage optimized use of all available funding, from all sources, aligned with our partnership approach.

The consequences cited in the commentary were anticipated by the Global Fund. It was obvious, and not unanticipated, that some countries would not be allocated additional funds. Portfolio analysis and the country allocations were reviewed one by one. The consequences were well understood in advance of the allocation announcement – but it doesn't mean the decisions were easy. What makes most sense to the Global Fund is that it is a country decision how to use all the funds they have been allocated. They all know about the flexibility to combine existing with new funds or to plan sequential grants, discussed extensively with countries.

Applying willingness-to-pay provisions on all funds was similarly an intended, not an unintended, consequence. We are deliberately sending a very strong message that we are taking counterpart financing very seriously. In countries where the percentage of additional funds is low for a disease component, there is flexibility, and this was pointed out in the allocation letters for the relevant countries.

Disease split is part of managing the global portfolio. There was no distortion in the allocation due to applying the disease split to the total base – it's consistent with the intent of having a global disease split starting point. But the split in the allocation letters is a guide and not final. Allocation is for a country as a whole. Countries manage their own disease splits.

The four-year issue is tricky. By deciding to mobilize all resources, we realized that funding for countries needs to last until the next replenishment. Practically speaking, from the time of the allocation, it will take many countries until the end of 2014 before a concept note is completed, adjusted, approved and then new grants are signed. Grant periods are normally three years. There is flexibility in the implementation period, meaning the start date and end date, but the vast majority of grants will last three years. As a result, many grants will actually be implemented in a time frame that stretches into 2017. When we first spoke about a "four-year" period, some implementers got understandably (but inaccurately) concerned that we were trying to turn three-year grants into four year grants, which is not true. Instead, because the transition is taking into account existing funds as of January 2014, the year 2014 represents additional time, when CCMs are developing concept notes. So we decided to refer to it as part of the "implementation periods" even though we are talking about grants that will run from 2015 through 2017 for most implementers.

We will not pretend that evolving the funding model has been easy. One of the original desires of the Board was to simplify the overall process. But the combination of financial, logistical, practical, political, timing, historical, and equity factors made that hard. It remains complex, and shifting from one system to another is even more complex. Looking back, we could have been more explicit that "taking existing funds into account" could result in components not receiving new funds in the allocation. There are plenty of things we might have done sooner. Overall, we are implementing the new funding model with a broad consensus that we have the right approach for these times, working in partnership with all our

stakeholders.

Mark Eldon Edington is the head of Grant Management at the Global Fund Secretariat. Seth Faison is the head of Communications at the Global Fund Secretariat. The views contained within this commentary reflect the position of the Global Fund.

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