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FURTHER DETAILS ON FUND'S TOUGH NEW POLICIES FOR GRANT RENEWALS

Funding will be severely restricted for some upper-middle-income countries

Transitional measures will “soften the blow” for countries hardest hit by the new policies

Editor’s note: This article is based on documents submitted to the Global Fund Board for its recent meeting in Accra, Ghana; on the decisions made by the Board at that meeting; and on information received from the Global Fund Secretariat. Not all of the decisions made by the Board had been anticipated in advance. The Secretariat is still thinking through the implications of these decisions for the Global Fund’s processes related to grant renewals. As a result, there may be changes to the processes described in this article. Readers are advised to watch for future communications from the Secretariat. The Secretariat said that questions should be directed to fund portfolio managers or to Grant.Renewals@theglobalfund.org.

As a result of decisions made at the Global Fund Board meeting in Accra on 21-22 November, significant changes are being made to the policies and procedures for grant renewals. (GFO first reported on this in Issue 167; this article provides more details.)

The main changes can be summarised as follows:

- A new, iterative process will be introduced for grant renewals.
- Effective 1 January 2012, Group of 20 (G-20) upper-middle-income countries (UMICs) will no longer

be eligible for grant renewals unless they have an extreme disease burden (as defined by the Global Fund).

- Effective 1 January 2012, certain provisions of the Global Fund's policies on eligibility, counterpart financing and prioritisation (ECFP), which currently apply only to new proposals, will be applied to renewals. The specific provisions are (a) counterpart financing and (b) focus of proposal.
- The one-year grace period for changes in country income classification will be rescinded.
- Funding for renewals will now be committed in one-year tranches. For a three-year renewal, therefore, the commitments will be 1+1+1, instead of the current 2+1 (the first two years and then the third year).
- Transitional measures will be introduced for countries renewing in 2012 that are significantly impacted by the new policies. (This is quite separate from the new Transitional Funding Mechanism which the Global Fund has established for grants that will be expiring before the next new funding opportunity; see Article 2.)
- Funding for low income countries must represent at least 55% of the total funding for renewals in each calendar year.

In the balance of this article, we explain the rationale for, and the implications of, these changes; discuss which grants are affected; describe what the new process will look like; and outline transitional measures that are being put in place.

Why are these changes being made?

The Global Fund is in a very difficult position with respect to the availability of resources to fund unsigned grants, grant renewals and new proposals. This is due to a host of factors, including possible delays in donors making their contributions, and the fact that the Global Fund is employing a more conservative forecasting methodology. As a result of the anticipated shortfall in resources, the Global Fund has cancelled Round 11. The Global Fund will not likely be able to fund new proposals until 2014, the first year of the next replenishment period.

For countries with grants that will reach their natural end before 2014, the Global Fund has announced a Transitional Funding Mechanism that will provide for continuation of essential prevention, treatment and care services (see Article 2).

Despite having cancelled Round 11, however, the Global Fund still did not have enough money to fund both all Round 10 grants that remain unsigned and the Transitional Funding Mechanism. Therefore, the Fund decided to look for savings in grant renewals, and it adopted the measures described in this article.

The Global Fund said that because of changes in country income levels over time, failure to make changes to the policies for grant renewals would result in a situation where new commitments would be more heavily skewed towards middle-income countries, with more than 20% going to UMIC by 2013 (well beyond the amount specified in the current policy that restricts funding to UMICs to no more than 10% of a funding round). The reason why this happens is that some countries, including some rapidly growing emerging economies, graduate to a higher income level between when they first applied for funding and when they request continued funding.

What are the implications of these changes?

As a result of the rule that G-20 UMICs will no longer be eligible for grant renewals unless they have an extreme disease burden, five G-20 countries – Argentina, Brazil, China, Mexico and Russian Federation – will not be eligible to apply for renewal of their existing grants.

(The G-20 is a grouping of the world's leading economies. Seven of the 20 countries were classified by the World Bank as upper-middle-income as of 1 July 2011. These countries were Argentina, Brazil, China, Mexico, Russian Federation, South Africa and Turkey. Of the seven countries, Turkey currently has no grants with the Global Fund and so is not affected. South Africa currently has only HIV and TB grants from the Global Fund. Since South Africa has extreme disease burdens for both HIV and TB, South Africa is not affected.)

For additional information on how this change will affect Argentina, Brazil, China, Mexico and Russian Federation, see the last section of this article.

All countries applying for renewal of a grant will have to meet the Global Fund's new counterpart financing requirements, which are stricter than the old counterpart financing requirements that were in effect when their original proposals were approved.

Under the new counterpart financing requirements, governments are required to make a minimum contribution to the country's national disease programme budget. The contribution is defined as a share of total government and Global Fund financing combined. The share varies by income level: for lower income countries, it is 5%; for lower lower-middle-income countries, 20%; for upper lower-middle-income countries, 40%; for UMICs, 60%. (For the purposes of the counterpart financing requirements, the "lower-middle-income-country" category is split into two parts: lower and upper.) UMICs are also required to explain how counterpart financing will increase to at least 90% during the proposal period.

Under the counterpart financing policies, applicants must demonstrate compliance with the requirements; or, if they are not compliant, applicants must present a justification and an action plan explaining how they will achieve compliance.

Similarly, all countries applying for renewal of a grant will have to meet the Global Fund's new focus of proposal criterion, which is stricter than the focus of proposal criterion that was in effect when their original proposals were approved. Under the new criterion, proposals from lower-middle-income countries must focus at least 50% on under-served and most-at-risk populations (also called "key populations") and/or highest impact interventions. Proposals from UMICs must focus 100% on key populations and/or highest impact interventions. Lower income countries are not affected. (The Global Fund's policies on eligibility, counterpart financing and prioritisation are available for direct download here.)

Abolishing the one-year grace period will have the effect of pushing some countries into a higher income category sooner than would have been the case otherwise. The higher the income category, the greater the restrictions on accessing funding.

Concerning the new rule that 55% of funding for grant renewals each year must go to low income countries, the Global Fund Secretariat is preparing information on what it called "the different scenarios this creates for countries with renewals." The Secretariat said that this information will be shared with all affected countries on 12 December 2011.

Which grants are affected?

The new policies and procedures will apply to all grants that will reach Month 18 on or after 1 January 2012. (Month 18 is when requests for continued funding [RCFs] are submitted; this is followed by a six-month period of review and negotiations, culminating in the signing of a new grant agreement in Month

24.)

(Note: The “Month 18 rule” applies to most grants coming up for renewal at this time, but for single-stream-of-funding grants and for Phase 1 of rolling continuation channel grants, Month 24 is the operative month.)

Grants that have already been renewed are not affected. For grants that have already hit Month 18 but which have not yet been renewed, the Secretariat said that it will communicate directly with the applicants. Applicants may be asked to re-submit their RCF or simply to provide additional information. If asked to re-submit, applicants may be granted an extension of up to three months. The Secretariat said that more information on different scenarios regarding the status of RCFs will be communicated to affected countries by 12 December 2012.

As an interim measure, in cases where applicants have already submitted or have been invited to submit an RCF and where the proposed RCF cost is over $100 million per grant or per principal recipient (PR), the Secretariat will send the RCFs to the TRP to determine whether the proposal should be updated, and how.

What will the new process look like?

The following diagram, provided by the Global Fund, illustrates the new process.

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The key new steps are as follows:

- Pre-assessment by Country Teams and "strong" guidance to CCMs (Months 17-18) – The guidance will include information about the uncertainty of resource levels; an explanation of the new process for renewals; and guidance concerning the importance of reassessing their programmes and reprogramming where appropriate.
- CCM request development (Months 19-21) – This will be an iterative process, with the local fund agent (LFA) contributing and with interaction between the CCM and the Global Fund Secretariat.

The remaining steps are basically unchanged from the current process. The CCM formally submits its request, the LFA assesses it, the Grant Renewals Panel or – as discussed below – the TRP recommends (or not) the request, and the Global Fund Board approves (or not) the request. If the Board approves the request, an agreement is prepared and signed. However, the Global Fund says that the reviews of requests will be better informed and more robust than was the case in the past.

(Note: Under both the current process and the new process, the Grants Renewal Panel refers requests for continued funding to the TRP if the Panel considers that the request constitutes a material change to the programmes funded by the grant. The Secretariat told GFO that it expects more requests to be referred to the TRP than has been the case up to now.)

What transitional measures have been established?

As a result of these new policies, some grants may be eligible for significantly less funding than they might have anticipated. Therefore, all grants with renewals scheduled for 2012 will be eligible to apply for one year of transitional funding, subject to a ceiling of one-third of the total reduction resulting from the new policies. The Board documents said that the transitional funding is intended to provide affected countries with additional time and flexibility to plan for any diminished funding from the Global Fund. The Global Fund Secretariat said that applicants will not automatically be entitled to the full one-third amount; their proposals will have to justify the amount of funding they are seeking. Further details will likely be announced by the Secretariat in the coming weeks.

Impact on countries affected by the G-20 rule

With about $883 million in grant renewals that had been scheduled over the next few years, China is by far the country most severely affected by the G-20 rule. Other countries affected, and the amounts involved, are Mexico ($36.7 million), Brazil ($25.9 million), Argentina ($7.6 million) and Russian Federation ($6.2 million). However, as indicated above, countries with renewals scheduled for 2012 will be eligible to receive a portion of their renewal funding as a result of the transitional measures being implemented. The net result for these five countries is shown in the table below.

Table: Impact of new G-20 rule on grant renewals

Country	Component	Year of renewal	$ million		
			A	B	C
			Renewal amount (i.e., "reduction in funding")	Amount of transitional funding theoretically available	Net reduction (A B)
Argentina	HIV	2013	$7.6	NIL	
Brazil	Malaria	2012	$17.4	$5.8	
		2012	$8.5	$2.8	
Total Brazil			$25.9	$8.6	
China	Malaria	2012	$79.0	$26.3	
	HIV	2012	$326.3	$108.8	
	TB	2013	$468.4	NIL	
	Malaria	2013	$9.9	NIL	
Total China			$883.6	$135.1	
Mexico	HIV	2012	$36.7	$12.2	

Rus. Fed.	TB	2012	$6.2	$2.1	
Grand Total			$960.0	$158.0	

Discrepancies in some figures are due to rounding

Notes:

1. Each row represents a separate grant.

2. Column A ("Renewal amount") shows the amount of funding that was potentially available through renewal, but which will no longer be available. In past renewals, the amounts that were agreed to, following negotiations of the revised grant agreements, were usually less than the amounts potentially available, often by as much as 15%, sometimes more.

3. Transitional funding is only available for grants renewed in 2012.

4. The maximum amount of transitional funding is one-third of the total reduction resulting from the G-20 rule.

5. This table shows only the impact of the G-20 rule. It does not show the impact on these and other countries of other changes in grant renewal policies.

Information for this article came from three sources: the Board decisions point document, posted at www.theglobalfund.org/en/board/meetings/twentyfifth; an announcement on the Global Fund website, available here ; and direct communications with the Secretariat.

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