



Independent observer  
of the Global Fund

## The NFM Allocation Methodology Explained

There is a fair consensus among stakeholders that, in theory at least, the iterative process for funding applications under the new funding model (NFM) – which involves the development of concept notes and a process of country dialogue – is a significant improvement over the rounds-based applications process. The iterative process is being pilot tested now among early applicants. Conceptually, it is relatively easy to understand, though some questions remain about how the process is being implemented.

Much less is known about the methodology for allocating funding to applicants under the NFM. This methodology is far more complicated than the way in which funding was allocated in the rounds-based system. This is not surprising since there wasn't really any allocations process in the rounds-based system.

Many details of the allocation methodology have yet to be finalised. And exactly how this methodology will impact access to funding by middle-income countries – and particularly most-at-risk populations in those countries – is not yet clear.

This article summarises what Aidspan knows about the funding allocation methodology. We indicate where some decisions about the methodology have yet to be made. We also indicate where something is not clear. At the end of the article, we provide some comments from the Secretariat.

We identified five steps in the allocation methodology.

### First and second steps

At the beginning of the Global Fund's three-year allocation period, the Fund determines the total amount of resources available for the period. This is the first step. Once this information is available, the second step

is to determine a disease split for the resources available (referred to as the “portfolio-wide disease split”). In the transition phase, the portfolio-wide disease split was based on the Fund’s historical split. A different methodology will be in place for the full rollout of the NFM. This methodology is still being developed.

The Global Fund Secretariat told GFO that the portfolio-wide disease split will be used as an input into the allocation methodology and that, as such, it will influence the overall amount of funding allocated to a country. It is not clear exactly what this means.

### Third step

The third step is to run the country allocation model. For this purpose, countries are first assigned to one of four bands on the basis of ability to pay and disease burden. The bands are as follows:

Band 1 Lower income Higher burden	Band 3 Higher income Higher burden
Band 2 Lower income Lower burden	Band 4 Higher income Lower burden

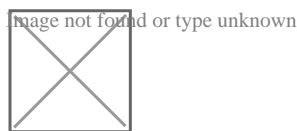
Precisely what the cut-off points will be for each band – and the composition of each band – is not yet known.

For countries in Bands 1–3, running the allocation model involves calculating the “notional” shares for each country. To do this, a formula based on income level (ability to pay) and disease burden is applied. (We call this the “income/burden formula.”) The formula looks something like this:

- First, for each disease, a country score is derived by multiplying a disease burden factor by an ability to pay factor.
- Second, for each disease, the notional country share for the disease is derived by dividing the country score by the total scores of all countries.
- Third, the notional country shares for each disease are added up to determine the total notional country share.

This is depicted in the following diagram, taken from a paper prepared for the Strategy, Investment and Impact Committee (SIIC) in October 2012.

Figure 1: Income/burden formula for calculating notional country shares



A version of this formula was used for the applicants in the transition phase. We do not know the precise details of the formula that will be used for the full rollout. The SIIC is working on refining the formula. The final formula will be adopted prior to the full rollout of the NFM.

The notional shares cover all funding, indicative and incentive. At a later stage, when the country shares are added up to determine the total funding for each band, amounts for the incentive funding stream will be carved out of the total funding.

The amount generated by the income/burden formula is then adjusted to take into account two factors that can be quantified: (a) available sources of external funding; and (b) minimum required level of funding. For

the Transition Phase, prior to funding amounts being communicated to early applicants, further adjustments were made based on two qualitative factors: (a) performance and impact; and (b) absorptive capacity.

Table 1 contains the information we have on how these quantitative and qualitative factors are being applied during the transition period.

Table 1: How the quantitative and qualitative factors are applied during the transition when the country allocation model is run

Factor	Application
Available sources of external funding	Adjustments are made to account for the distribution of support from other major donors. Adjustments are limited to +/- 50%.
Minimum required level of funding (MRL)	It may be necessary to adjust allocations to countries to ensure that their financial commitments not fall below an MRL. MRLs are calculated per disease by holding constant their average disbursement level over 2010-2012 for the first year and then reducing it by 10% in each of the following two years of the allocation period.
Performance and impact	This adjustment is based on an average for past grants for (1) programmatic results against targets and (2) progress towards impact. The range is generally between -30% and +10%. In a memo to the Board on 7 March, Executive Director Mark Dybul cited the following example based on a fictitious country: The weighted average performance for the disease component was 95% (A). Regarding impact, the component was initially assessed as “having limited progress towards impact,” but this was later revised to “having progress towards impact.” Consequently, the amount was adjusted upwards by 5% to \$105 million.
Absorptive capacity	The amount derived from the income/burden formula for the disease component is compared to the spend rate and the amount spent over the past three years. A review is held to judge whether a downward adjustment is warranted. Dr Dybul said the following concerning the example he cited: “The \$100 million represented 90% of what that country had spent annually over the last three years, so no adjustment was made for this factor.”

The Global Fund has said that these adjustments are based on general guidance, including standard adjustment ranges, and that they take into account country-specific contexts. The Grant Approvals Committee makes the final determination concerning all adjustments.

The Global Fund told GFO that for the full rollout of the NFM, the application of the qualitative factors will be adjusted based on lessons learned during the transition.

Additional qualitative factors (see Table 3 below) may alter the final allocations for each country. In the transition phase, these were not applied until after the country had been provided with its indicative funding amount.

For Band 4, the countries with lower disease burden and higher income levels, the Global Fund Board mandated that a separate methodology be developed so that these countries would not be disadvantaged as they might have been if their allocations were based on disease burden and income. The Global Fund says that the Band 4 methodology approved for the transition phase is as follows: The amount for each country, as determined by applying the income/burden formula, was compared to set funding amounts based on the country’s population size; whichever amount was higher was used for that country’s allocation. The Global Fund Secretariat told GFO that the population-based amounts for the transition period were set such that total funding to countries in Band 4 was kept at its current level of 7%.

For the full rollout of the NFM, the population-based ceilings will be determined only after the amount of available funding is known. During discussions on the allocation methodology at the SIIC at the beginning of 2013, an example of population-based ceilings was provided. See Table 2.

Table 2: Example of possible population-based ceilings

Population	Potential ceiling
Fewer than one million	\$5 million
Between one and five million	\$11 million
Between five and 10 million	\$21 million
Over 10 million	\$27 million

We stress that the above is ONLY an example of how this might work.

Band 4 countries are also subject to possible adjustments based on (a) available sources of external funding; and (b) minimum required level of funding. The Band 4 methodology may be revised for the full rollout.

The Secretariat told GFO that to ensure that countries in other bands were not unfairly disadvantaged, if their formula-based amounts were lower than the equivalent population-based amounts, their final allocation was also based on the higher population-based amounts.

#### Fourth and fifth steps

The fourth step is to determine the split, for each band, between indicative and incentive funding. Before that can happen, the allocations for each country in a given band need to be added up in order to arrive at the total for that band.

In the past, this is what the Global Fund said about how the amounts of incentive funding will be determined:

The Fund will determine what resources are required to meet applicants' prioritised needs and then allocate resources to the indicative stream sufficient to cover these needs. The difference between prioritised needs identified and total available funding will be allocated to the incentive stream.

However, the Secretariat told GFO that the methodology for determining the split between indicative and incentive funding is being "re-thought" by the Secretariat and will be considered again by the SIIC. As part of that process, the SIIC will be reviewing whether and how the concept of "prioritised needs" will be used. Decisions on these matters are expected to be made by the end of 2013.

The fifth step is to provide each country with its indicative funding amount, and to let the countries know how much incentive funding is available for the band that the country is in. (The idea is that countries compete for incentive funding with other countries in their band.)

When the Secretariat provides each country with its indicative funding amount, it also provides the country with what the Global Fund calls the "calculated" disease split. This split is based on the calculations that were used to arrive at the notional share for that country.

However, each country will be able to determine the actual split for its allocation. In the transition phase, a country may vary the calculated split by up to 10% without having to explain why. Anything over 10% has to be explained. Something similar will be applied to the full rollout. Countries that choose to apply for a separate health systems strengthening component will need to carve the money for that component out of the indicative funding amount provided.

After a country has been given its indicative funding amount, and during the country dialogue, the amount may be adjusted based on the following qualitative factors: (a) willingness to pay (counterpart financing); (b) need to mitigate risk; and (c) increasing rates of new infections in lower prevalence countries. Table 3 contains information on how these qualitative factors are being applied during the transition.

Table 3: How the additional qualitative factors are applied during the transition at the stage when each country is provided with its allocation

Factor	Application
Willingness to pay	Based on the percentage of funds that countries commit above counterpart financing requirements, the Global Fund may increase its contributions by up to 15%. Dr Dybul said that the country in the fictitious example was assessed by the Fund’s Counterpart Financing team as contributing donor resources far above the minimum threshold defined by the counterpart financing policy. Thus, Country A was a strong candidate for upward adjustment, but the country had to commit that the current trend will continue and provide evidence of this commitment.
Need to mitigate risk	The Global Fund may increase the amount for a country if there is a need to finance risk mitigation measures to bring the country up to the minimum standards for risk.
Increasing rates of new infections in lower prevalence countries	If increasing rates of new infections can be at least partially attributed to insufficient funding, upward adjustment may be considered. The ceiling for this adjustment is 5%.

As indicated above, for the full rollout of the NFM, the application of the qualitative factors will be adjusted based on lessons learned during the transition.

#### Comments from the Secretariat

In response to concerns expressed by Aidsplan that many critical details of the allocation methodology have yet to be determined, the Secretariat said that developing a new funding model is a tremendous undertaking; and that it is a work in progress, and will be until it is fully implemented in 2014. That is what was envisioned, the Secretariat said, and that is what is happening.

The Secretariat said that it understands the desire by many implementers to have a simple system, and one that is fair. But it said that for the system to be fair – and to reach the goals of increasing impact, accessing full expression of demand, and keeping the portfolio global – the details will not be simple. It is intended that, wherever possible, the complexities are kept at a Secretariat level and not passed down to the countries.

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