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## Secretariat Provides Quarterly Update on the NFM

In April, the Global Fund Secretariat provided its first quarterly update on the new funding model (NFM) to the Strategy, Investment and Impact Committee (SIIC). The update could not be made public until after the Board meeting just concluded in Sri Lanka. In this article, we provide a summary of what the Secretariat said in the update.

### Early lessons learned

One section of the update was devoted to a discussion of the lessons learned from the experience so far with the NFM. The lessons were as follows:

The underlying approach of the allocation model requires further communication and explanation. The Secretariat said that the underlying approach is not well understood. Countries, and even the country teams in the Secretariat, questioned why the NFM did not start with the funding gaps of countries, and then derive the funding amounts. They also were concerned about the level of funds provided, which they worry will be low unless the replenishment is successful or a country is awarded a significant proportion of the incentive funding, the Secretariat said.

There was a strong upward bias from country teams during the qualitative adjustments. Because most of the allocation amounts are less than the needs in countries, the country teams were strong advocates for increasing the funding allocated to countries. The Secretariat said that it will likely need to reduce the amount of funding communicated to applicants or reduce the allowable upward adjustments so that the amounts balance out across countries.

Certain situations may require special consideration in the allocation approach. The Secretariat said that special consideration may be required for historically under-allocated countries that currently receive more

funds from donors, and for countries with low coverage rates. The Secretariat said that the need for special consideration in these instances is driven by the fact that a generous minimum required level (MRL) is being applied as part of the qualitative adjustments in the allocation methodology. If the Global Fund decides to continue to apply the MRL, the Secretariat said, it may need to find a way to provide assistance in scaling up to high-burden countries with low coverage.

In Myanmar, the disease split discussion was difficult. The Secretariat said that Myanmar, the only early applicant receiving funding for all three diseases, found it difficult to determine what the disease split should be. The indicative funding amounts were seen by the disease programmes as “their” funds which they strongly resisted reallocating. The Secretariat said that it will present a paper to the SIIC on potential options for the disease split.

Any communication by the Global Fund around funding amounts is eagerly awaited and should be carefully communicated. Because the Global Fund is a major donor for all three diseases, the Secretariat said, there is significant interest in, and attention paid to, any communication around funding decisions.

It is significant work to describe a country’s indicative request as well as the full expression of quality demand. Countries would prefer to work towards one financial request in the concept note and offer a narrative explanation for the above indicative request, the Secretariat said. Both Myanmar and El Salvador raised this issue, it said. One country wanted to describe only the indicative amount; the other country wanted to describe the full expression. In addition, the Secretariat said, countries were concerned that neither approach represented what their likely grant ceiling would be after review by the Technical Review Panel (TRP), which meant that they would have to redo their budget and performance framework.

The budgeting and performance tool (the modular tool) was challenging for applicants. The Secretariat outlined several reasons for this. First, countries found it complex to budget for two different scenarios (indicative funding and full expression of demand). Second, the categories for modules, interventions and activities was seen as not flexible enough to allow countries to tailor the tool to their needs. Finally, there were several instances of technology malfunction. The Secretariat said that improving this tool is a major priority.

Productively engaging key affected populations is rewarding, but CCMs may need support to effectively facilitate the dialogue. In several countries, the Secretariat helped to coordinate key affected population (KAP) input into the concept note, which helped to enhance the level of input, the Secretariat said. However, this required significant effort. Before the full roll-out, the Secretariat said, the Secretariat should work with partners to identify a neutral organisation or individual that can coordinate the input of KAPs where this is needed.

Because of the inclusive nature of country dialogue, participants may use it to lobby for funds. The Secretariat said that some participants who provide input to the CCM come from organisations that would like to be funded by the Global Fund or are currently funded by the Fund. The Secretariat said it will need to work with CCMs to ensure feedback from organisations with strong knowledge about implementation can be sought without creating a conflict of interest situation.

#### Process for selecting countries for the transition phase

In its update, the Secretariat described the five-step process it went through to determine which countries would participate in the transition phase. The steps were as follows:

1. identifying disease programmes at risk of interruption in essential services or activities;
2. selecting of the most “under-allocated” disease programmes;
3. prioritising programmes according to how well positioned they are to achieve rapid impact;

4. determining the mechanism for funding (e.g., new grant, extension of existing grant); and
5. applying the diversity test.

For Step 2, the determination of “under-allocation” was based on a comparison of (a) the formula-based recommended amount of funds for each country according to the NFM allocation criteria approved by the Board; and (b) the amount of funding committed and projected to be committed for implementation during 2013–2014.

For Step 3, in order to identify countries that were well positioned for impact, the Secretariat looked at the level of coverage (between 40% and 80% for key indicators by disease) and trends in the reduction of incidence. The Secretariat also looked at how well positioned the CCM and PR(s) were to use additional funds rapidly and effectively, and whether the programmes being implemented were considered a priority by technical partners.

Step 5, the diversity test, refers to the desire to ensure that the list of participants in the transition phase was diverse in terms of disease, region, proposal type and capacity.

### Early applicant countries

One of the factors taken into consideration in determining the amounts of funding for each applicant is external sources of funding. In its update, the Secretariat said that to ensure the information for external financing was as accurate as possible, the Secretariat collected data from large donor institutions as well as from public databases. The Secretariat said that a discount factor of 50% was applied to external financing data to account for potential data quality issues.

The Secretariat outlined the criteria being used by the Grant Approvals Committee (GAC) to award incentive funding to early applicant countries. A key criterion is that there be a high-quality expression of full demand, as expressed in robust national health and disease strategies. In addition, the GAC takes into account the recommendation of the TRP. Finally, the GAC assesses to what extent additional resources will:

- allow a country to accelerate and reach the Millennium Development Goals;
- leverage the mobilisation of additional government and other donor resources;
- reward good performance and progress towards quantifiable impact; and
- constitute investment in the Global Fund’s strategic priority areas and interventions.

During grant making for early applicants, the Secretariat said that it may adjust the amount of funding downward if it finds that the principal recipients or sub-recipients do not have the capacity to execute portions of a proposed programme.

### Regional early applicants

The Secretariat said that for regional early applicants, the funding amounts were calculated based on (a) discussions with country teams, technical partners and other stakeholders about what was needed; and (b) a review of existing costing information, where available. The Secretariat said that this funding was meant to catalyse other donors to contribute to the effort rather than to fulfill the entire need.

The Secretariat said that in the full roll-out of the NFM, the funding for regional grants should come directly from countries that agree to put a portion of their allocated funding toward a regional initiative. For the transition only, it said, the funding for regional applicants will not be counted against the amounts that will be allocated to the countries participating in the regional grants.

## Interim applicants

The Secretariat said that it is discussing with interim applicants when is the best time to access funding. Many interim applicants have Phase II reviews scheduled for 2013 and early 2014, which is a logical time to access the funding. For interim applicants without Phase II reviews scheduled for this time period, the Secretariat developed a differentiated process.

Under this process, in straightforward cases (e.g. where the funding amounts less than \$10 million, where service interruptions are anticipated, and where there is no material reprogramming), the Secretariat said, the country teams provide a memo describing the proposed use of funds and then update their grant documents to include the new funds. All other interim applicants will follow a process similar to the Phase II process (which requires more comprehensive documentation and review). The Secretariat said that the documents from these latter applicants may go through TRP review.

## Other matters

The Secretariat said that in determining how much funding would be provided for the transition period, it used a conservative estimate of the donor pledges for 2014–2016. If the Fourth Replenishment generates more funds than the estimate used, the indicative funding amounts awarded to early applicants could be adjusted upwards.

Editor's Note: In a letter sent to three Board delegations on 6 June, this is how Executive Director Mark Dybul phrased it: "When the calculations are made for the full roll-out of the NFM, if [a country's] share of funding ... results in a higher number than was calculated for the transition phase, [its] funding will be adjusted upwards accordingly."

The Secretariat said that it is in discussions with technical assistance funders and providers to support standard applicants to strengthen their national strategies before they transition to the NFM. The Secretariat said that for standard applicants, the NFM will start in late 2013. (Standard applicants are all applicants that are not early and interim applicants.)

Information for this article was taken from "New Funding Model of the Global Fund: First Quarterly Update to the Strategy, Investment and Impact Committee." This document is not available on the Global Fund website.

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