

**OPTIONS PAPER ON
THE SIZE OF THE GLOBAL FUND**

Outline: This paper discusses the strategic issue of the size of the Global Fund and proposes several options for a possible target size.

Part 1: INTRODUCTION

A. Summary of the Issue

1. The Global Fund's founding vision was that it be a significant financing mechanism to mobilize massively increased resources in the fight against the three pandemics. The Global Fund's purpose, as defined by the Framework Document, is to "attract, manage and disburse additional resources through a new public-private partnership that will make a sustainable and *significant* contribution to the reduction of infections, illness and death, thereby mitigating the impact caused by HIV/AIDS, tuberculosis and malaria in countries in need, and contributing to poverty reduction as part of the Millennium Development Goals."¹

2. Early external discussions about the Global Fund indicated that the scale required to make a significant impact against the pandemics was of the order of US\$ 5 to 10 billion per year for AIDS alone.² More recent estimates put the total global resource needs at closer to US\$ 3 billion for malaria, US\$ 5 billion for tuberculosis, and US\$ 18 billion for AIDS in the year 2007.³

3. The total size of the Global Fund has grown faster since its inception than any other comparable institution. Because donors often spread their pledges to the Global Fund over several years, the annual availability of resources over the last two biennia has increased by approximately 50 percent, from about US\$ 1 billion per year in 2002 and 2003 to US\$ 1.5 billion in 2004 and 2005. These figures have allowed the Global Fund to have a funding "share" in 2005 of global external resources provided to the country level of approximately 20 percent for HIV/AIDS, 66 percent for tuberculosis and 66 percent for malaria.

4. Discussions to date on the possible future size of the Global Fund have explicitly focused only on a two-year forward time horizon, which is the timeline currently used in the context of the replenishment effort. Specific estimates have been produced for the 2006-2007 window based on projecting forward the current Global Fund portfolio.

5. Given the above considerations, the Policy and Strategy Committee (PSC) and Board have recognized that there is a need to discuss the question of the Global Fund's possible target size in the medium/long-term time horizon that goes well beyond 2007. They have asked that the issue be taken up as part of the 2006-2010 strategy effort currently under way. Specifically, the strategic question and sub-questions at hand are:

- a. What is the appropriate target size that will enable the Global Fund to attain its purpose?
 - i. Should the Global Fund set an aspirational target size for itself?
 - ii. If so, how would it best be determined?
 - What are the demand-side essential drivers of target size that should be considered?
 - What are the supply-side essential drivers of target size that should be taken into account?
 - How to best determine a target size from these factors?
- b. What are a few possible scenarios to consider for the target size of the Global Fund? What are their associated assumptions and implications?

B. Approach to the Issue

6. Based on the strategic questions above, the size issue has been divided into three separate sub-issues: whether to set a target size for the Global Fund (sub-issue 1), how to determine such a size from the possible drivers of size (sub-issue 2), and what possible size

¹ The Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria.

² Organization of African Unity. Abuja Declaration on HIV/AIDS, Tuberculosis and Other Related Infectious Diseases (OAU/SPS/Abuja/3) (April 2001).

³ Roll Back Malaria Partnership, Kisewski with Schapira. Unpublished study. (February 2006); Stop TB Partnership. "The Global Plan to Stop TB 2006-15." (January 2006); UNAIDS. "Resource Needs for an Expanded Response to AIDS in low and middle-income countries." (August 2005).

scenarios might be – which covers a description of the scenarios, their inherent assumptions and their implications (sub-issue 3). The paper is organized into these three sub-issues.

Part 2: SUB-ISSUE 1: WHETHER TO SET AN ASPIRATIONAL TARGET SIZE FOR THE FUND

1. This section considers in turn the possible benefits of setting a target size for the Global Fund, the possible downsides of doing so, and some of the success factors in effectively setting a target size.

A. Benefits of Setting a Target Size

2. One of the core benefits of setting a target size would be *to give recipients an increased sense of medium- and long-term predictability about likely Global Fund financing*, which would be of value to them for their planning purposes. Recipient countries need a reliable forecast of resources being made available not only for solid planning on the delivery of services but also for important policy decisions. Countries are faced with decisions on commitment to life-long treatment as in the case of anti-retroviral treatment (ART) or on changing national guidelines on treatment for malaria as in the case of artemisinin-based combination therapies (ACTs); these kinds of decisions have significant long-term cost implications and so depend critically on countries' confidence in the availability of external resources. While a target size for the Global Fund would not provide certainty on actual resource flows to particular countries, it would indicate opportunities for funding provided that there was a clear demonstration of need and that performance-based funding targets were being achieved.

3. A target size would also *give the Global Fund itself increased predictability about its own trajectory*, which has benefits at many levels: it would help from a strategic perspective – enabling the Global Fund to be more deliberate, less reactive and more long-term-oriented than the current framework allows; it would help for planning and management purposes, and it would also to help set a more explicit, long-term goal to aim toward for resource mobilization than the Global Fund currently has (which in turn would allow the Global Fund to fully consider, plan for and address the long-term implications and requirements of meeting this level).

4. In the context of the replenishment, some donors have expressed their preference for a *long-term indication of future resource needs of the Global Fund* so that this can be taken into account in donors' budgetary processes. A target size agreed upon by the major stakeholders would be very helpful in addressing this request.

5. A target size would plant a indicative stake in the ground that would help *signal the relative importance the Board* (both donors and recipients) *accords the Global Fund as compared to other financing channels* in the fight against the three pandemics and would *give partners clarity as to how the Global Fund fits in to the global architecture of the fight against the diseases*. A statement in this regard is important given the Global Fund's parallel reflection on its strategic positioning within the international architecture, in particular in the context of the recommendations for donor role clarification and rationalization of the Global Task Team.⁴ It would also help indicate the Global Fund's likely contribution towards mitigating the impact of the three diseases and achieving the Millennium Development Goals.

6. An agreed target size that is larger than the current level of contributions and linked to an inspiring and accepted vision might also *help encourage contributions to the Global Fund*, thus aiding it to attain its purpose.

⁴ The recommendations of the Global Task Team, and the underlying principles of country leadership, harmonization and aid effectiveness, argue for a rationalization of development financing focusing on a small number of cost-effective, focused funding mechanisms with a clear division of labor.

7. Conversely, not setting a target size may leave people assuming, as recent writings have suggested, that the Global Fund is likely to plateau or stagnate around the current size; this risks creating a sense that the stakeholders of the Global Fund have effectively given up on its founding vision. Setting a target size would help to *keep the focus on the founding aspiration*.

B. Downsides of Setting a Target Size

8. A concern is that *setting an inappropriate number for the size has inherent risks*:

- too low a target size could risk artificially constraining the growth of the Global Fund;
- too high and unattainable a number could risk creating a situation where the Global Fund could not meet the expectations it has raised among recipients and which makes the Global Fund look weak if it fails to reach the target;
- an inappropriate number could risk ultimately undermining the value of setting a target size at all.

9. The Global Fund brings together a diverse group of stakeholders, including recipient and donor countries, nongovernmental organizations (NGOs), private foundations, the business private sector, and representatives of people living with and affected by the three diseases. It is unlikely that there will be an easy consensus on a target size or even a range of options. *Setting a target size that might not find basic agreement among major groups of stakeholders could be counterproductive*.

C. Key Success Factors in Setting a Target Size

10. From the above discussion of possible benefits and downsides, it is clear that much depends on how a target size is set and how it is used and communicated. What then are the success factors for usefully developing a target size – in a way that strives toward the benefits described while mitigating the possible downsides?

11. In terms of what a target size means, the most useful concept is likely that of *an aspired size to strive strongly toward, but which will not be considered as a formal commitment by the stakeholders*. Communication of the target size idea should reflect this positioning.

12. In terms of determining an appropriate target size, the numbers need to strike the right balance between – on the one hand – *being aspirational enough yet attainable* so as to mobilize efforts and – on the other hand – *being sufficiently broadly agreed* by key stakeholders (donors, recipients, NGOs, people living with or affected by the diseases) so as to give some indication of alignment behind the aspired target. In particular, there is a big value to getting donor buy-in for the target size.

13. The target size *need not be a single number* with a single trajectory; using a reasonable range or a couple of scenarios might be most helpful.

14. It should be made clear that the Board will periodically revise the target size of the Global Fund (in particular during every strategy cycle) to take into account key changes. For example, there will be changes in the status of the diseases and the landscape of actors fighting them, in the economic development status of the recipient countries, in the cost and selection of tools available to fight the diseases (e.g., new treatments, vaccines), in the information on the relative value for money of the different financing deliverers, etc.

15. A target size needs to be *informed by the relevant expertise of Global Fund partners* (including multilateral institutions, bilateral donors and community stakeholders, the United Nations Joint Programme on HIV/AIDS (UNAIDS) and the World Health Organization (WHO), the Roll Back Malaria and Stop TB Partnerships and academic institutions) who are supporting the Global Fund in its efforts to provide updates on its resource needs and target size.

Part 3: SUB-ISSUE 2: HOW TO SET A TARGET SIZE – ANALYSIS OF POSSIBLE SIZE DRIVERS

1. This section examines the range of drivers that may affect the size of the Global Fund. In each case, an analysis is given of the current situation, of the link to the Global Fund's size, and of the likely evolution of these factors.

2. The discussion begins with the drivers that affect the demand for Global Fund financing; these are:

- international commitments and goals, and overall resource needs (which take into account the disease burden);
- the Global Fund's "share" of overall funding and of the needs for each disease;
- the effect of possible increased availability of domestic funding;
- country absorptive capacity;
- expected future Global Fund grant volume;
- the effect of the Global Fund's architecture.

3. Subsequently, the size drivers related to the supply of financing are examined; these are:

- the availability of traditional donor funding;
- the emergence of new aid sources.

A. Demand-Side Drivers of Size

International commitments and goals and overall resource needs

4. International goals and total resource needs estimates provide an overall reference point which is an important backdrop for the discussion of size.

5. In terms of needs-driven goals and estimates, the major reference point is the set of health-related Millennium Development Goals (MDGs), which provide among them specific objectives related to the three pandemics. The MDGs are also important because there is a broad, international commitment to meeting them; all 193 United Nations member states have signed on. Also there is a specific reference in the Global Fund's founding purpose that it should contribute to these goals. Specifically, the relevant MDG goals are to:

- have halted by 2015 and begun to reverse the spread of HIV/AIDS;
- have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.

6. Based on the MDGs, UNAIDS, the Stop TB Partnership and Roll Back Malaria have made estimates of the global resource needs that are required over the years to meet the goals. Figure 1, below, provides the latest estimates for the total global resource needs.⁵

- The methodology used to estimate the global resource needs is based on meeting targets set by international partners within specific time frames, taking into account the disease burden in affected countries, the effectiveness and cost of interventions, the capacity for implementation and the roles of various partners. They were developed in conjunction with the most authoritative global partners – WHO, UNAIDS, and the Roll Back Malaria and Stop TB Partnerships.⁵
- These estimates cover the cost of the required interventions at the level of systems and infrastructure needed to scale up the interventions, including program and human resource costs (but not the costs of broader health infrastructure, such as health

⁵ Roll Back Malaria Partnership, Kisewski with Schapira. Unpublished study. (February 2006); Stop TB Partnership. "The Global Plan to Stop TB 2006-15." (January 2006); UNAIDS. "Resource Needs for an Expanded Response to AIDS in low and middle-income countries." (August 2005).

⁶ The methodology used here is the same one as employed to calculate resource needs for the Global Fund report "Addressing HIV/AIDS, Tuberculosis and Malaria: The Resource Needs of the Global Fund 2005-07" (February 2005). The figures have been updated to reflect the most recently available data.

- information systems and hospital construction – so the overall resource needs necessary to effectively combat the diseases in the long-term is likely much higher).⁷
- There are clearly many caveats and some degree of uncertainty attached to the estimates, but they represent the best that is available and they are certainly a useful indication in terms of order of magnitude.

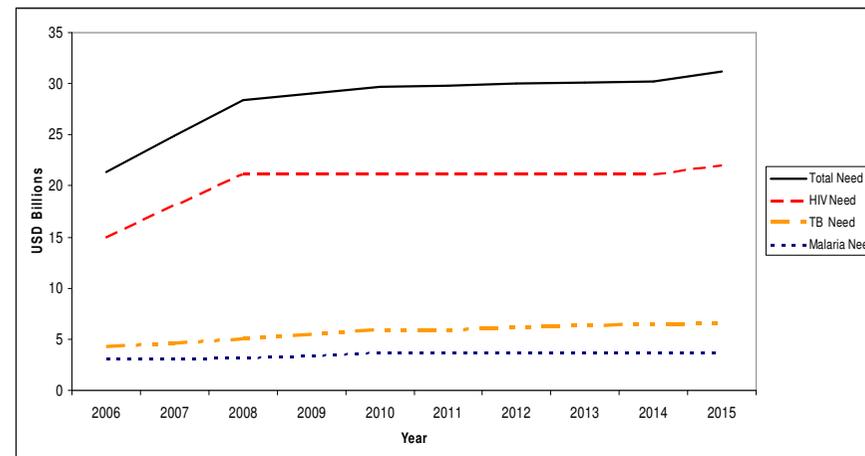


Figure 1: Estimated global resource needs for 2006-2015; by disease and total

7. An important international goal in HIV/AIDS is the effort that aims to scale-up access to HIV prevention, care, treatment and support through a country-driven approach.⁸

- World leaders have committed to "developing and implementing a package for HIV prevention, treatment and care with the aim of coming as close as possible to the goal of universal access to treatment by 2010 for all those who need it" (G8 Summit Gleneagles, 2005).
- This commitment to scaling up a comprehensive response to achieve as close as possible to universal access was broadened to include all UN Member States at the 2005 World Summit, and repeated at the UN General Assembly in December 2005.
- The scale-up toward universal access is a multi-partner, country-led effort, with the aim of identifying solutions to key obstacles blocking comprehensive and integrated scale up of prevention, treatment, care and support. This involves the development of nationally-agreed plans, building on existing processes, and in line with the Three Ones and Global Task Team recommendations.
- UNAIDS and the government of the United Kingdom have established a Global Steering Committee on scaling up towards universal access. This committee will produce a report for the UN meeting to review the UNGASS declaration of commitment at the end of May 2006.
- The resource needs will depend on viable national plans. So far there is no aggregate number available.

⁷ In general, they rely on models that use fixed unit costs and predicted coverage data to generate estimates of what levels of spending are required to meet the stated targets. All of the numbers are estimates based on the best available information at January 2006. The estimates present total needs for HIV/AIDS and tuberculosis, and incremental costs for malaria. Incremental costing methodology estimates what additional resources are required, over current spending. This method presents limitations, as it is often difficult to determine actual spending. However, this is less problematic for malaria, where current spending is a small proportion of the resources required to meet needs.

⁸ The UNAIDS exercise costs scale up to reach a comprehensive response for prevention, full coverage of support for orphans and vulnerable children (OVC) and universal access to treatment globally.

8. The most important goals for malaria were established by the African Summit on Roll Back Malaria in Abuja on 25 April 2000. These include the following goals:

- that at least 60 percent of those suffering from malaria have prompt access to, and are able to correctly use, affordable and appropriate treatment within 24 hours of the onset of symptoms;
- that at least 60 percent of those at risk of malaria, particularly children under five years of age and pregnant women, benefit from the most suitable combination of personal and community protective measures such as insecticide-treated mosquito nets and other interventions which are accessible and affordable to prevent infection and suffering;
- that at least 60 percent of all pregnant women who are at risk of malaria, especially those in their first pregnancies, have access to chemoprophylaxis or presumptive intermittent treatment.

9. The Global Fund, being the major provider of international resources for the fight against malaria, will be a key partner to achieve these goals that are crucial for meeting several MDGs.

10. Similarly, there are international commitments for reducing the enormous disease burden caused by tuberculosis. The *Washington Commitment to Stop TB* issued on 23 October 2001 declared: "As partners, including representatives of the national governments of 18 of the highest TB burden countries, we recognize that urgent and specific action is needed over the next 50 months to accelerate progress against tuberculosis and to achieve the global targets, which are to detect 70 percent of infectious cases, and cure 85 percent of those detected." Investment in the order of US\$ 4 to 6.5 billion per year from 2006 to 2015 are required to meet these goals.

Global Fund share of overall funding and needs for each disease

11. For HIV/AIDS, the Global Fund's current share of international spending is about 20 percent.⁹

- The two largest other funders are the President's Emergency Plan for AIDS Relief (PEPFAR) and the World Bank's MAP program. Other important funders include the United Kingdom's Department for International Development (DFID) and other bilateral programs, as well as private foundations, in particular the Bill & Melinda Gates Foundation.
- There is no international consensus on the most appropriate shares of various financing mechanisms. It has to be recognized that these mechanisms represent different approaches and their effectiveness and appropriateness will depend on specific circumstances in specific countries and with implementing partners. The recently-published study on the comparative advantages of the World Bank and the Global Fund HIV/AIDS Programs provides an interesting analysis of two quite different models.¹⁰
- The international commitment to scaling up to universal access requires considerably larger financial resources than those that are currently available.

12. There remains significant unmet need in the fight against malaria. The US government recently announced the President's Malaria Initiative, which will provide US\$ 1.2 billion over five years. The World Bank has committed to provide US\$ 500 million of malaria funding in Africa. Also bilaterals (like DFID) and foundations (like the United Nations Foundation and the Bill & Melinda Gates Foundation) contribute significant resources. These additional resources are highly welcome to cover the annual need of approximately US\$ 3 billion. This is an expression of the

⁹ The methodology used to estimate the Global Fund's share of international spending is the same one employed for "Addressing HIV/AIDS, Tuberculosis and Malaria: The Resource Needs of the Global Fund 2005-07" (February 2005). The figures have been updated to reflect the most recently available data.

¹⁰ http://www.theglobalfund.org/en/files/links_resources/library/studies/GFWBReportFinalVersion.pdf

increased awareness of the importance of malaria as a relatively easily preventable and treatable disease that is one of the root causes of poverty in highly affected areas.

13. For malaria, the Global Fund currently provides about 66 percent of international resources. There remains significant unmet need in the fight against malaria. The U.S. government recently announced the President's Malaria Initiative, which will provide US\$ 1.2 billion over five years. The World Bank has committed to provide US\$ 500 million of malaria funding in Africa. Also bilaterals like DFID and foundations like the United Nations Foundation and the Bill and Melinda Gates Foundation contribute significant resources.

14. For tuberculosis, the Global Fund is the largest financer of programs outside of national governments, accounting for about 66 percent of international spending. Support for tuberculosis has long been neglected by the international community although this disease comes close to malaria in terms of global disease burden. Even today, TB does not receive the same kind of attention as do HIV/AIDS and, increasingly, malaria. Therefore, it is unlikely that other funding streams will emerge, particularly as the Global Fund is firmly established as the most important provider of resources for TB programs worldwide.

15. A different view is provided by examining how current spending levels compare to current need. Figure 2, below, illustrates the extent of the contributions to the overall 2005 need by the Global Fund, other international funders and domestic spending. The gap between funding available and resource needs is considerable for each disease (and the gap shown in Figure 2 represents a minimum estimate), which highlights the headroom available for a global increase in spending in the fight. Furthermore, unless additional financing becomes available, this estimate of the gap is projected to increase as future estimates of need grow at greater rates than spending on the diseases. Clearly, there exists a large gap between the amount of funding available and the need.

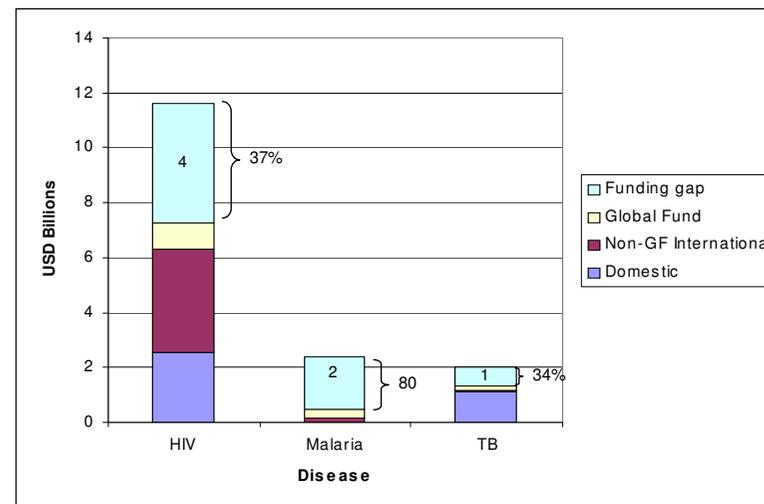


Figure 2: Resources contributed by disease from various sources as compared to needs (absolute value and relative value) – 2005¹¹

¹¹ Estimates of resource gap are most accurate for malaria, where spending represents actual disbursements by various sources. For TB, resources contributed represent 2005 commitments and for HIV contributed resources represent 2005 approvals. Both of these are likely to overestimate 2005 disbursements. As a result, these graphs represent a minimum gap for these diseases.

Effect of possible increased availability of domestic funding

16. The current level of domestic funding for the fight against the pandemics is fairly low, in particular for malaria and TB. For HIV/AIDS, domestic resources have been slowly increasing over the last years. It can be expected that middle-income countries, particularly those with fast-growing economies such as China, India and Russia, will cover an increasing share of the resources required for their countries in the future. UNAIDS estimates that domestic resources for HIV/AIDS will be at a level of US\$ 2.8 billion (including out of pocket expenses) in 2006. Most of this will come from middle-income countries. However, low-income countries with a high disease burden are unlikely to be able to increase domestic spending significantly. All three diseases have a negative effect on economic growth, thereby limiting the national response even further.

17. Calculations show that average health spending as a proportion of GDP is lower in the high-burden region of Africa than in any other continent. In 2001, average government spending on health as a proportion of GDP was 2.4 percent in sub-Saharan Africa. The Abuja Declaration on HIV/AIDS, tuberculosis and other related infectious diseases signed by the heads of state and government of the Organization of African Unity (OAU) in Abuja, Nigeria in April 2001 acknowledged the need to establish a sustainable source of resources to fund HIV/AIDS and set a target of at least 15 percent of annual national budgets being allocated to the improvement of the health sector. Little progress has been made to achieve this target, which might be partly due to a lack of political will but which is largely a result of insufficient economic development in sub-Saharan Africa.

Country absorptive capacity

18. All funding organizations supporting large AIDS, TB and malaria programs are facing the question of whether countries have sufficient capacity to usefully absorb additional financing.

19. Many highly-affected countries have relatively weak health systems and are facing a very severe shortage of human resources. They would certainly benefit from additional investments in infrastructure, human resources, supply chain management, program management, etc.

20. Nevertheless, the Global Fund experience to date demonstrates that there is considerable existing capacity. Grants coming up for Phase 2 funding have undergone thorough evaluations showing that, on average, 80 percent of grants have performed satisfactorily against their targets. While the Global Fund's Technical Review Panel (TRP) did note some concerns about the absorptive capacity of countries with existing large grants to further scale up, such countries make up a small portion of the Global Fund's overall grant portfolio.

21. There are a number of cases in the Global Fund portfolio where countries have defied assumptions about their absorptive capacity and shown an ability to utilize significantly more funds than was imagined possible. This is often, but not exclusively, related to the fact that the Global Fund model allows (and even encourages) the use of nongovernmental channels, in effect increasing the "distributive capacity" of countries (about half of all money to date is committed to these nongovernmental recipients).¹²

- a. For example, Zambia has shown an ability to funnel large amounts of money effectively through NGOs and faith-based organizations – 48 percent of overall Global Fund funding and over half of its grants (8 out of 15) – which has allowed it to add to the throughput of its government spending channels;
- b. The Global Fund is also increasingly leveraging the private sector as a further channel, including through the co-investment model.
 - i. For example, Global Fund financing of the Lubombo multi-country malaria program covering Swaziland, Mozambique and South Africa allowed scaling up of a program originally developed and funded by two private

¹² Expansion in absorptive capacity can come from accessing existing but under-used channels to absorb funds and provide services, such as the private sector ("horizontal" expansion of 'distributive capacity'), but also as a result of expanding the sheer amount of resources, such as through funding additional health workers or building clinics ("vertical" capacity increase).

sector partners, BHP Billiton and the South African Business Trust. To date, this program has been highly successful and has led to a significant decline in malaria prevalence in the affected areas (88 percent reduction of malaria prevalence in targeted area of southern Mozambique and malaria incidence in Swaziland and much of South Africa reduced to below five in 1,000);

- ii. In Swaziland, the Royal Swazi Sugar Corporation provides a range of HIV/AIDS prevention and treatment activities through a co-investment scheme with the Global Fund PR in Swaziland.¹³
- c. The success so far in so-called "fragile states" provides evidence that distributive capacity can be accessed even in countries where difficult political circumstances have a negative effect on existing infrastructure.¹⁴

22. It is becoming apparent from a number of cases that some countries have experienced start-up bottlenecks due to initial capacity building (e.g., setting up an adequate procurement system) but that once this basic level of capacity is in place, the ability to utilize money ramps up significantly and durably. For example, in the case of Ethiopia's malaria grant, the major bottleneck was procurement. When the procurement problems were solved and strong performance conditions were placed on the grant, the delivery of insecticide-treated bed nets accelerated from zero to two million in a matter of months. As a result, Ethiopia was able to reach or exceed most of its targets by the time of Phase 2 review and is now on a regular disbursement schedule in Phase 2, receiving and using large amounts of money from the Global Fund.

23. More generally, this example illustrates the fact that country capacity is not static but can be improved over time. It further highlights the crucial role in unlocking country capacity that is played by technical assistance from Global Fund partners and also by technical assistance funding from donors. It can thus be expected that absorptive capacity of countries will increase over time as investments being made in infrastructure and human resources become available.

Expected future Global Fund grant volume

24. Two different components have to be taken into account in estimating future resource needs under the current business model; they are :

- a. experiences with new rounds of funding (Phase 1);
- b. experiences with Phase 2 extensions of existing Phase 1 grants.

25. *Experiences with new rounds of funding (Phase 1):* between 2002 and 2005 the Global Fund has financed five rounds.

- a. The size of individual rounds ranged from US\$ 576 million (Round 1) to US\$ 1.014 billion (Round 4). The size of the last and fifth round (US\$ 780 million, including successful appeals) comes very close to the arithmetic average of all rounds;
- b. The first four rounds were approved at an interval of nine months between individual rounds. Only between the fourth and the fifth rounds was the interval longer, with a 15-month duration;
- c. The share of the three diseases varied between the rounds, as well as the relative emphasis on prevention or treatment, with Round 4 clearly having a strong emphasis on ART after the introduction of the "3 by 5" initiative. Round 5 had, relatively speaking, a stronger emphasis on TB and malaria.
- d. Finally, acceptance rate by the Technical Review Panel (TRP) varied between 30 and 40 percent.
- e. It is difficult to discern any clear pattern that might guide the prediction of the size of future rounds. The following factors seemed to have played a role:

¹³ From a program initially just for its employees, the company has been able to expand its service offerings – voluntary counseling and testing (VCT), peer education, condom distribution and anti-retroviral treatment (ART) – to inhabitants of neighboring communities.
¹⁴ See Global Fund Replenishment Report: "Development Aid in Fragile States – Is the Global Fund Model Working?"; 2005

- i. The availability of technical assistance in the preparation of proposals particularly from UNAIDS/WHO for HIV/AIDS, RBM for Malaria and Stop TB for TB;
 - ii. The focus at country level on particular diseases;
 - iii. Intervals and predictability of rounds giving countries time for preparation;
 - iv. TRP criteria for the assessment of capacity for implementation by the proposed recipients.
- f. In summary, the size of individual rounds has proven to be difficult to predict. One might regard as reasonable an estimate based on the average of round sizes to date (about US\$ 750 million) plus an upward adjustment that reflects growing overall needs coupled with increasing capacity to scale-up as a result of previous investments and the greater availability of improved technical assistance. Therefore, the Secretariat has estimated future round size to be around US\$ 1 billion.

26. *Experiences with Phase 2 extensions of existing Phase 1 grants:* Experience with more than 100 grants that have reached the end of their first two year phase provides the basis for estimates of resources required for the Phase 2 extension of existing grants.

- a. Following the principle of performance-based funding, underperforming grants are discontinued and, for those grants that are continued, the Phase 2 budget for the following three years is reduced in some cases;
- b. Taking account of experience to date with regard to these two factors, renewals are estimated at an average of 85 percent of the original Phase 2 budget;
- c. Based on this model, projections of the resource needs can be made for future needs being determined largely by the approval of new Phase 1 grants.

27. In conclusion, the predictable elements largely favor the volume of new proposals growing or at least remaining the same. In addition, there are a number of factors that may impact the level of future demand but which are particularly difficult to predict. For instance:

- a. The prices of key commodities could go down because of bulk procurement or reductions in production costs (e.g., ACTs, ARVs).
- b. At the same time, the mix of products and interventions could change over time: an example of this would be shifts towards more expensive second-line treatments because of growing resistance.
- c. Also, important new health products could be introduced that have high market prices, at least in their early phase (as was the case for ACTs).

28. In summary, the size of new rounds and the resources required for ongoing programs are not likely to decrease in the next five to ten years.

Effect of the Global Fund's architecture

29. The Global Fund's architecture is clearly a factor that must be related to its size, since it is critical to ensure that the Fund has the capability to manage the volume of work that comes with any given size.

30. The Fund's architecture is not a fundamental limiting factor affecting the size of the Fund; this is because:

- a. The target size is the fundamental parameter which determines the impact against the diseases; this suggests that size should drive the architecture, not vice-versa;
- b. The Fund's architecture can be adapted to deal with whatever grant volume is selected to enable a better fulfillment of the mission and principles; the Fund's founding principles in fact allow much flexibility for different types of architecture (the current architecture is just one possible embodiment of the principles and can be evolved);
- c. Architecture adaptations to cope with increased volume are feasible. Some concrete ways to help make grant management more efficient include:

- i. Encouraging larger grants;
 - ii. Rethinking timelines of grants;
 - iii. Risk-differentiating the grant management workload;
 - iv. Moving to a more programmatic grant management mode by requiring the submission of one consolidated disease proposal per country.
- d. Depending on the trajectory chosen to change the Fund's size, the required architecture changes to appropriately adapt could be made over time.

B. Supply-Side Drivers of Size

Availability of traditional donor funding

31. At its creation, the Global Fund benefited from an increased political awareness and commitment towards HIV/AIDS demonstrated particularly around the UN and G8 Summits. At the same time ODA budgets allowed for increased funding. "The birth of the Global Fund coincided with an especially robust period of fiscal support to international development. Following a cumulative decline of about 30 percent over the decade 1991-2001, Official Development Assistance (ODA) rose by 7 percent in real terms from 2001 to 2002 and by a further five percent in 2003. ODA attained its highest-ever level in 2004, both in nominal and real terms."¹⁵

32. There are indications that ODA has not peaked yet and that it will continue to grow. A number of studies show that ODA in general is on an increase, following commitments made at the Monterrey conference on Financing for Development, statements by the European Commission and the European Parliament and at the G8 Summit in 2005. A number of major donor countries have announced clear deadlines for reaching the target of ODA budgets at 0.7 percent of GNP (apart from those countries who already meet that target: Denmark, Norway, Luxembourg, the Netherlands and Sweden).

- a. France pledged to increase its official development assistance (ODA) to 0.5 percent of gross national income (GNI) by 2007 (i.e. US\$ 9 billion) and ultimately to 0.7 percent by 2012;
- b. Ireland announced that it will proceed in three stages: ODA will first reach 0.5 percent of GNP in 2007 (€773 million / US\$ 936 million), then will reach 0.6 percent of GNP in 2010 (€1.2 billion / US\$ 1.45 billion) and 0.7 percent in 2012 (€1.5 billion / US\$ 1.8 billion);
- c. The UK's current plans are that ODA will rise to 0.47 percent in 2007-2008, and reach 0.7 percent by 2013. If the proposed International Finance Facility (IFF) were accepted, the UK could expect to reach the equivalent of 0.7 percent by 2008-2009;
- d. Germany's new government has reaffirmed in its coalition agreement the country's long-standing commitment to the UN target of 0.7 percent ODA/GNI, according to which Germany's objective is to reach 0.51 percent by 2010 and 0.7 percent by 2015;
- e. Spain plans to attain a level of ODA equivalent to 0.5 percent of Spain's GNP by the budget for the 2008 tax year, through the intermediate target of 0.33 percent of GDP in 2006. It can be noted that this increase is to be combined with a net increase of multilateral aid;
- f. Belgium is strongly engaged and has set up a legal framework to achieve 0.7 percent of gross national income (GNI) by 2010.

33. Some non-European countries have also indicated significant increases in development aid:

- a. Without specifically committing to the 0.7 percent target, Canada announced that it will double (relative to 2001) its international assistance to more than CAN\$ 5 billion (US\$ 4.3 billion) per year by 2010;
- b. Having renewed its commitment to make progress towards the 0.7 percent goal and further to Prime Minister Junichiro Koizumi's declaration at the G8 Gleneagles Summit

¹⁵ Keith Bezanson: Replenishing the Global Fund: An Independent Assessment. 2005, p. 4

in July 2005, Japan intends to increase its ODA volume by US\$ 10 billion in aggregate over the next five years, compared to the level of ODA on the basis of 2004 net disbursement;

- c. The United States is spending already almost US\$ 20 billion for development, a large part of which is dedicated to the fight against HIV/AIDS. The total amount is projected to increase by 22 percent in 2006.

34. Overall, the OECD-DAC Secretariat predicts an increase in ODA of 23 percent in 2006, as compared to 2005 levels. This will lead to a considerable increase in available resources. And in this context, it is likely that the Global Fund is well positioned to benefit in some way.

- a. There is a huge recognition of the impact of the major infectious diseases not only on human lives but also on socio-economic development, making it likely that a significant share of this increased aid will go towards the fight against AIDS, tuberculosis and malaria.¹⁶
- b. The OECD anticipates that the Global Fund could benefit from increased ODA, (as for example countries will recognize that not all of their funding should go to bilateral assistance). "The arrival of more single-purpose multilateral funds, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, may increase the multilateral share in the future. Donors are in practice putting a larger share of their country funding through multilateral agencies for specific projects or programmes." (OECD DAC Development Co-operation Report, 2005).

Emergence of new aid sources

35. New sources of funding may also open up or expand. There are three principal possible such sources: new donors, innovative financing mechanisms and private sector contributions.

- a. *New/non-traditional donors*: There are several non-G8 and non-European countries that are expected to increase their ODA. In addition to pursuing increased aid from G8 and non-G8 members, the Global Fund is currently working to obtain donations from new donor countries, particularly the oil-producing states.
- b. *Innovative financing mechanisms* could be a significant long-term source of new resources for the Global Fund. However, when considering the potential of innovative financing mechanisms, it is vital to keep in mind their high level of uncertainty. Some rough estimates are given below to provide a general order of magnitude of each mechanism's potential, but their actual impact on the Global Fund is very difficult to ascertain at this point in time.
 - i. An *air travel solidarity levy* proposed by France and supported by Algeria, Brazil, Chile, Germany and Spain is to become operational in 2006. Its intent is to provide a secure and predictable source of fresh financing for development, with a major portion projected to be directed to the fight against HIV/AIDS, tuberculosis and malaria. It is estimated that this could provide upwards of \$400 million/year to the Global Fund.¹⁷
 - ii. The Global Fund has been engaged in a *debt conversion initiative*, which would take the form of "an agreement by key creditors to [...] write off part of their public debt [...] for conversion into funds for Global Fund-approved programs." The first such debt conversion deal is proposed for 2007, with a value of \$180 million. By 2010, the cumulative amount available from this initiative could be \$600 million.¹⁸
 - iii. The UK-proposed *International Finance Facility (IFF)* is a mechanism that "frontloads" future ODA from donor countries by issuing bonds to raise immediate cash from the international capital markets. An initial version of the

¹⁶ An analysis by the Center for Global Development of the projected increase in the United States' share of this overall increase – estimated at an additional US\$ 4.3 billion by 2010 – suggests that nearly half will go towards U.S. bilateral programs in AIDS and malaria. <http://www.cgdev.org/content/publications/detail/2870>

¹⁷ Announcement by Dominique de Villepin, Foreign Minister of France, at the United Nations General Assembly Session on Development Financing, (14 September 2005).

¹⁸ Advocacy International and Global AIDS Alliance. "Joint Report on Global Fund Debt Conversion." (July 2005).

concept is now being piloted with a focus on immunization through the Global Alliance for Vaccines and Immunization (GAVI), a public-private initiative. There are plans for a broader IFF, which could benefit the Global Fund. While the potential upside for the Global Fund from this initiative has been estimated around \$1 billion, there is much uncertainty around if and when this mechanism will be launched.¹⁹

- c. *Private sector contributions*: Since the Global Fund's inception, the private sector has played an important role in supporting the Global Fund's mission and work through a wide range of contributions. One such area of support, cash contributions, has been limited to date. However, the focused development of key partnerships and initiatives in the last two years opens up the prospect of promising results in the medium and long term.
 - i. With the recent launch of RED, and several other key initiatives to be announced in the near future, private cash contributions to the Global Fund could potentially increase to US\$ 50 million by 2010 and up to US\$ 200 million by 2015. These estimates are based on the assumption of continued support and investment from key private partners as well as the evolution of supporting Global Fund policies;
 - ii. The Global Fund is also working with the private sector to increase private sector participation in the Global Fund, through financial contributions, provision of pro bono services, and co-investment activities that link public and private financing.

Part 4: SUB-ISSUE 3: WHICH POSSIBLE TARGET SIZE – SCENARIOS FOR THE TARGET SIZE

1. The purpose of this section is to present a range of *structurally different types of possible scenarios*, which are based on fundamentally different driving forces. This allows discussion of the relationship between the driving forces underlying a given scenario type and the scenario's implications – numerical and qualitative. It also enables comparison between different scenario types.
2. For each type of scenario, there are many possible variations on the overall theme which are obtained by changing the value of some of the input variables. To take this into account, this paper presents, *for each scenario type, a range of figures* – graphically shown as a *band* – that corresponds to varying the input parameters within a reasonable range of values. (For simplicity of language, the text often uses the term 'scenario' to mean 'scenario type' – i.e. the set of scenarios with a given set of structural assumptions, but with some of the specific parameters varied within a reasonable range.)
3. Based on the numerical output from the scenarios, some *possible strategic options for the target size of the Global Fund* are suggested.
4. The purpose of the scenarios presented here is first and foremost to provide some mental reference points in considering *the possible target sizes that the Global Fund might aim to reach by 2010*. To give a long-term perspective of the possible evolution of the Global Fund's size, the scenarios are computed till 2015. The medium-term question of how the Global Fund might evolve toward a given 2010 size – the issue of *trajectory* – is currently considered by the Finance and Audit Committee (FAC) in the context of replenishment. As a result, this paper does not explicitly discuss the possible 2006-2010 trajectory and it should be kept in mind (especially in considering the graphs) that *a number of different medium-term trajectories might be possible toward any given 2010-2015 target size*.

¹⁹ The Global Fund. "Financing the Fight Against AIDS, Tuberculosis and Malaria: Prospects of the International Finance Facility." (July 2005).

5. This section begins by presenting the different types of scenarios sequentially. For each, the specific scenario is described, and its underlying assumptions and implications are discussed. At the end of the section, some strategic options for the Global Fund's target size are proposed.

Scenario 1: Maintenance

A. Description

6. This scenario type aims to show what size of the Global Fund corresponds to entirely *abolishing the ability to fund any new grants* and simply *maintaining all currently funded grants* (in Phase 1 or Phase 2), by extending funding to them into the future subject to continued satisfactory performance.

B. Assumptions

7. A decision is taken – for any number of possible reasons, including funding constraints – that, starting in 2007, the Global Fund no longer funds any new grants (e.g., programs in countries without any Global Fund grants, or new interventions and/or new disease components in currently funded countries), but only supports all current well-performing grants that demonstrate the need for continued funding.

8. Continuation of funding of existing grants beyond the end of Phase 2 (and at the relevant subsequent renewal points) is subject to a less-than-100-percent renewal rate that takes into account the fact that some grants will not be extended due to poor performance or lack of need for continued Global Fund financing.

9. To reflect developments over time in the pandemics or the interventions (e.g., changing demographics of infection, impact achieved, new interventions, etc.), the actual interventions carried out by each grant may change over time, but stay on average at the same level as the originally-approved grant amount that is continued.

10. A range of figures for this scenario is obtained by allowing the level of funding of continuing grants beyond Phase 2 to vary:

- a. At one end of the range, funding of continuing grants is kept at the exact same yearly level as during Phase 2. This allows only "strict maintenance" of existing activities and coverage;
- b. At the other end of the range, the funding to continuing grants is allowed to grow somewhat to permit some degree of expansion of continuing programs (which may arise from scale-up of existing programs and/or from the addition of new, complementary programs for the *same* target geography or population²⁰) and to reflect potential increases in costs over time.

B. Implications

11. The resulting evolution of the Global Fund's size is represented by the lower band (in purple, labeled "Sc. 1") in Figure 3. As the band shows, the Global Fund's size stays mostly around the same order of magnitude over time and hovers around *the US\$ 1 to 3 billion level over the period 2010-2015*, depending on the specifics. (The zigzag shape of the curve is an expected effect due the Global Fund's current grant portfolio being built up from an alternation of years where two funding rounds were held and years where one round was held.)

12. Under this scenario, the Global Fund is at most only able to fund some scale-up of existing programs (existing interventions for specific diseases in specific regions); but beyond that, it is not able to fund broad expansion of the fight against the diseases to cover new regions or new target populations within currently funded countries or countries not yet funded for a specific disease.

²⁰ For the sake of illustration, a treatment program could be added where there was only a prevention program previously.

This gives a de facto advantage to countries and programs that already happen to be financed by the Global Fund – especially to those that are already large amounts of funding. The Global Fund will not be able to respond to new developments in the pandemics, such as outbreaks or significant increases in disease burden in currently unfunded geographies.

13. As a result of this scenario, the Global Fund makes only a limited contribution to international goals, and its share of fulfilling the global needs decreases over time (from ten percent in 2005 to about five percent in 2010-2015) as the global needs increase.

14. The architecture of the Global Fund does not need to change in any significant way as this scenario keeps the Global Fund close to its current size.

15. Broadly speaking, current funding sources and levels would be sufficient to finance this scenario, so no additional resource mobilization efforts would be required.

Scenario 2: Continuing Allowance for New Programs

A. Description

16. Scenario 2 starts with Scenario 1, the *maintenance of all currently funded grants* (subject to continued satisfactory performance), on top of which it reintroduces the *current ability to fund entirely new grants*.

B. Assumptions

17. A decision is taken to always maintain a "new funding window" for the funding of entirely new grants in addition to supporting all current grants that remain well-performing and need continued Global Fund financing.

18. As with Scenario 1, continuation of funding of grants beyond the end of Phase 2 (and at the relevant subsequent renewal points) is subject to a less-than-100-percent renewal rate that takes into account the fact that some grants will not be extended because of poor performance or lack of need for continued Global Fund financing.

19. The size of the new funding window is set at US\$1 billion per year, based on the reasonable estimate discussed above of US\$1 billion per future round.

20. A range of figures is obtained for this scenario by allowing different assumptions on the evolution over time of the new funding window's size:

- a. at one end of the range, the new funding window is kept at a constant size over time;
- b. at the other end of the range, the new funding window is allowed to grow modestly year over year, accounting for the possibility of yearly increasing demand for Global Fund financing.

21. The above considerations about the size and evolution of the new funding window assume that countries are able to continue to submit technically sound proposals worth about US\$ 1 billion per year (with some possibility for modest growth); factors that might support this include countries learning from past proposal failures how to apply successfully, increasing use of existing but currently unexploited nongovernmental channels (NGOs, faith-based organizations, private sector), countries learning from the implementation of current programs how to expand the scope of their national activities, and the opening-up of new country capacity (e.g., as technical assistance and health systems strengthening efforts increasingly bear fruit).

C. Implications

22. Scenario 2 leads to the evolution of the Global Fund's size, as represented by the blue band (labeled "Sc. 2") in Figure 3. The Global Fund's size grows over the next few years to reach *US\$ 4 to 5 billion by 2010 and US\$ 5 to 7 billion by 2015.*

23. The Global Fund is able in this scenario to fund the scale-up of existing programs as well as to contribute US\$1 billion or so a year to more broadly expanding the fight against the diseases (to cover new regions or disease components within currently funded countries or new countries). The Global Fund makes an increasing contribution toward international goals, with its share of international needs increasing from 10 percent in 2005 to 15 to 22 percent in 2010-2015.

24. The architecture of the Global Fund could have to change to accommodate the size increase (by a factor of about two) that comes with this scenario

25. The financing of this scenario will require an amplification of resource contribution efforts to the Global Fund. Additional resources could come from any combination of: an increase in traditional donor funding and/or an increase in new aid sources, such as innovative financing and the emergence of new donors.

Scenario 3: Growth In Line with Announced Increases in Resources

A. Description

26. Scenario 3 grows the Global Fund's size in *proportion to international commitments for increased resources.* Specific commitments include the countries that have formally set a timeline to meet the ODA target of 0.7 percent of GNI by 2015, as well as a number of innovative mechanisms intended to finance the fight against AIDS, TB and malaria.

B. Assumptions

27. This scenario assumes that international spending commitments give an indication of the possible increase in resources to the Global Fund. This increase in Global Fund resources comes about – in some way that is not explicitly specified – as a direct or indirect result of the more plentiful funding environment that follows from the spending commitments. (In other words, the Global Fund need not actually receive the specific additional ODA money for example, as long as it sees an increase of the same order from *any* source.)

28. A range of figures is obtained for this scenario in two distinct ways:

- a. *ODA contribution only:* In the first method, called *Scenario 3A*, the Global Fund's size is grown based on the pledged ODA increase – accounting only for such growth in the contributions of countries that have formally set a specific timeline for meeting the 0.7 percent goal; a range of figures is determined by using different numerical estimates of the starting point (e.g., those countries' current ODA levels) as well as by allowing a reasonable range of variation in the modeled evolution over time of other donor countries' contributions to the Global Fund.
- b. *ODA contribution + innovative financing mechanisms:* In the second method, called *Scenario 3B*, a best-case estimate about the possible contribution to the Global Fund of innovative financing is added onto the figures obtained through the first method.²¹ This Scenario 3B (including innovative financing mechanisms) is clearly an uncertain scenario, but it is nevertheless informative to consider its impact; for this reason, the effects of Scenarios 3A and 3B are deliberately considered separately.
 - i. Scenario 3B makes the assumption that the innovative mechanisms – particularly the airline solidarity contribution, Global Fund debt conversion and

²¹ Scenario 3B is modeled based only on the additional contribution of innovative financing mechanisms, but could equally well come about through a combination of a lower level of contribution from these mechanisms *coupled with* a contribution from new donors and the private sector.

the planned IFF – do eventuate and do generate a certain amount of resources; estimates for this amount are based on the best current estimates of "expected minimum amounts" announced (at this time, these are early, approximate, "order-of-magnitude" estimates of the expected minimum; the potential full upside in unpredictable);

- ii. On top of that specific assumption basis, a further assumption is made – for the sake of constructing a best-case estimate based on current expected minimum amounts – that the Global Fund benefits from a large proportion of the amounts generated;
- iii. Because the IFF is the most significant and the most uncertain vehicle at this stage, separate graphs are done with and without its contribution.
- iv. The total contribution of innovative financing mechanisms is taken as US\$ 0.6 billion for 2007-2015 without the IFF, with an extra US\$ 1 billion for the period 2010-2015 in cases where the IFF is counted – for a total of US\$ 1.6 billion from innovative financing for 2010-2015.

29. Scenario 3 assumes that countries are able to successfully apply for and absorb the total financing resulting from the above increases; factors that might enable this are the same as those discussed under Scenario 2.

C. Implications

30. The evolution of the Global Fund's size that results from Scenario 3A (ODA contribution only) is represented by the dark orange band, labeled "Sc. 3A", in Figure 3. The Global Fund's size grows over the next few years to reach the US\$ 4 to 6 billion level by the period 2010-2015. This is the same order of magnitude as Scenario 2. In other words, increases in funding of the order of those assumed for Scenario 3A could help to fund the types of program funding assumed by Scenario 2.

31. The comparison with Scenario 2 demonstrates that, in Scenario 3A, the Global Fund is also able to fund the scale-up of existing programs while contributing about US\$ 1 billion a year to more broadly expanding the fight against the diseases. In other words, increases in funding of the order of those assumed for Scenario 3A would allow the financing of the types of program funding assumed by Scenario 2.

32. Again, in Scenario 3A as in Scenario 2:

- a. The Global Fund makes an increasing contribution toward international goals, with its share of international needs increasing from 10 percent in 2005 to 15 to 20 percent in 2010-2015;
- b. The architecture of the Global Fund could have to change to accommodate the size increase (by a factor of about two) that comes with this scenario; attention would have to be paid to lowering transaction costs both for the Global Fund and for recipients.
- c. The financing of this scenario will require an amplification of resource contribution efforts to the Global Fund. Additional resources could come from any combination of: an increase in traditional donor funding and an increase in new aid sources, such as innovative financing, the emergence of new donors and private sector contributions.

33. The evolution of the Global Fund's size that results from Scenario 3B (ODA contribution + contribution from innovative financing mechanisms) is represented by the light orange band, labeled "Sc. 3B" in the figures. The Global Fund's size grows over the next few years to reach *the US\$ 5 to 6.5 billion level by the period 2010-2015 without any IFF contribution* (see Figure 3); the number is *US\$ 6 to 7.5 billion with the IFF* (see Figure 4, which includes the IFF).

- a. Such a size for the Global Fund would clearly enable an expanded level of program financing compared to scenarios 2 and 3A, allowing the Global Fund to grow its share of international needs from ten percent in 2005 to 18 to 21 percent in 2010-2015 (21 to 24 percent with the IFF).

- b. Again the architecture of the Global Fund could have to change to accommodate its greater size.
- c. New resources of this level would likely have to include some significant contribution from the innovative financing mechanisms themselves, though contributions from new donors and the private sector would also help.

Scenario 4: Growth Based on Global Effort to Meet International Targets for the Pandemics

A. Description

34. Scenario 4 is based on the Global Fund scaling up its size in line with the effort required to meet the Millennium Development Goals – by either taking on its “proportionate share” or possibly an extra share of the total global effort required.

B. Assumptions

35. The Global Fund decides to scale up its financing as much as necessary to do its part to help reach the MDGs by 2015 (i.e. to help fund the global resource needs that are required to meet the goals).

36. The Global Fund works out a way to calculate its “proportionate share” of that global effort, using for instance its current share of global spending (66 percent for TB, 66 percent for malaria, and 20 percent for HIV/AIDS) to guide its future share of the international resource needs.²²

37. A range of figures is obtained for this scenario by allowing different assumptions on the share of the future needs that the Global Fund takes on:

- a. At one end of the range, the Global Fund simply takes on its proportionate share of the needs, as defined above;
- b. At the other end of the range, the Global Fund takes on an extra and significant share of the effort required for the three diseases (for a total share of need of 75 percent for TB, 75 percent for malaria, and 35 percent for HIV/AIDS).²³

38. The above assumes that countries are able to successfully apply for and absorb the additional funding arising from the Global Fund scaling up toward the international financing needs; factors that might enable this include countries learning from past proposal failures, countries learning from the implementation of current programs how to expand the scope of their national actions, and the opening up of new country distributive channels (e.g., civil society, private sector) and absorptive capacity (e.g., as technical assistance and health systems strengthening, as well as the work being done on scaling up toward universal access, increasingly bear fruit).

C. Implications

39. The resulting evolution of the Global Fund’s size is represented by the upper, green band (labeled “Sc. 4”) in Figure 3. The Global Fund’s size grows and levels out at *the US\$ 8 to 11 billion level by the period 2010-2015*.

40. The comparison with Scenario 2 demonstrates that, in Scenario 3A, the Global Fund is also able to fund the scale-up of existing programs while contributing about US\$ 1 billion a year to more broadly expanding the fight against the diseases. In other words, increases in funding of the order of those assumed for Scenario 3A would allow the financing of the types of program funding assumed by Scenario 2.

²²“International needs” is the portion of global resource needs not met by domestic funding. For tuberculosis, this is based on only the portion of the total global TB resource needs that costs interventions comparable to those financed by the Global Fund (i.e. research and development expenditures and Stop TB Secretariat operating expenses are excluded).

²³ The 35 percent HIV/AIDS share is chosen to be consistent with the original vision that the Global Fund would be a leading funder in HIV/AIDS. An intermediate situation was also modeled, though it is not shown here, where the Global Fund takes on an extra share of only the HIV/AIDS effort required (for a total share of needs of 30 percent, up from 20 percent), while keeping the same 66 percent share in TB and malaria. Not surprisingly, this falls between the two extremes discussed above.

41. The Global Fund takes on a significantly increased contribution, which corresponds to its proportionate share or more of the effort toward international goals. The Global Fund’s resulting share of international needs (aggregated across the funding for all three diseases) rises from ten percent in 2005 to a considerable 26 to 35 percent in 2010-2015, making it a truly exemplary player in helping to meet the international funding need.

42. The architecture of the Global Fund could have to change substantially to accommodate the size increase (by a factor of about three to four) that comes with this scenario. As discussed above for Scenario 3, and even more so here, particular attention would have to be paid to lowering transaction costs, both for the Global Fund and for recipients.

43. The financing of this scenario will require a significant increase of resource contribution efforts to the Global Fund. Additional resources would likely have to come from a large growth in traditional donor funding, coupled with a major increase from new aid sources – including new donors, but with innovative financing mechanisms representing the best hope for a large-scale funding boost. For instance, a total US\$ 2.5 billion yearly contribution from such mechanisms in 2010-2015 would allow the attainment of the lower range of Scenario 4.

44. A parallel scaling-up effort would be required by partners to help support Global Fund grants, either directly through provision of technical and management assistance, or by helping to finance such activities. Such an effort would play an important role in opening up the required country absorptive and distributive capacity.

45. While the curve for Scenario 4 shown in the figure rises very quickly (which reflects the “hockey-stick” shape of the underlying needs curve), more progressive trajectories over 2007-2010 for the Global Fund to reach the final US\$ 8 to 11 billion size could be considered. These would allow time for the Global Fund to adapt its architecture, for financing supply to adjust to the increased level, and for countries to open up sufficient new capacity.

Part 5: POSSIBLE STRATEGIC OPTIONS FOR GLOBAL FUND TARGET SIZE

1. The section above considered four structurally different types of scenarios²⁴ and a reasonable range of assumptions for each, to obtain rough estimates of the ensuing size of the Global Fund.

2. Examination of Figure 3 shows that these four scenarios lead to three broad bands for the possible size of the Global Fund. This is because two of the scenarios (Scenario 2 and Scenario 3) yield numerical estimates of the same order of magnitude.

3. These three broad bands suggest *three possible strategic options for a Global Fund target size*:

- a. *Option A*: a target size of about US\$ 1.5 to 3.5 billion in 2010;
- b. *Option B*: a target size of about US\$ 4 to 6 billion in 2010;
- c. *Option C*: a target size of about US\$ 8 to 11 billion in 2010.

This document is part of an internal deliberative process of the Fund and as such cannot be made public. Please refer to the Global Fund’s documents policy for further guidance.

²⁴ Scenarios 3A and 3B are considered as variations on the same theme (they are based on indicated commitments by donors), and so counted as just one scenario for the purpose of this discussion.

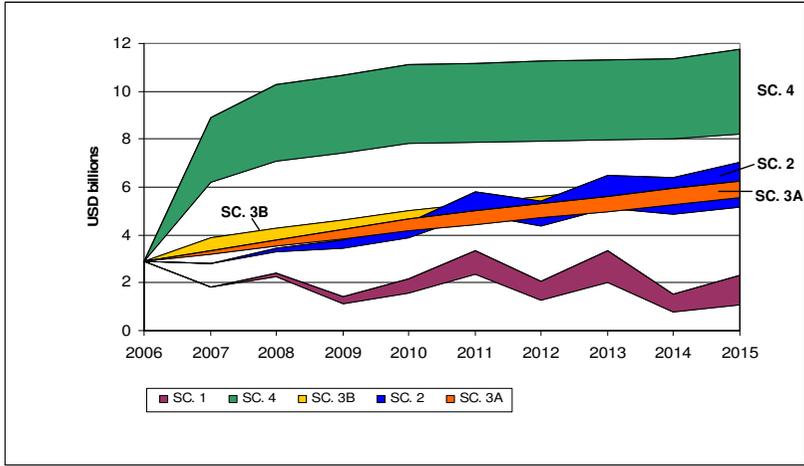


Figure 3: Scenarios 1-4; Scenario 3B is shown without an IFF contribution

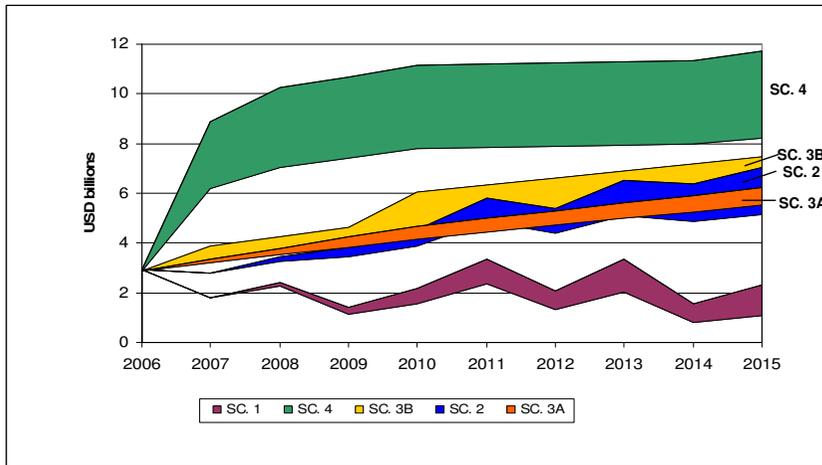


Figure 4: Scenarios 1-4; Scenario 3B is shown with an IFF contribution