OUTLINE:

1. This report provides a summary of the Second Replenishment for the Global Fund to Fight AIDS, Tuberculosis and Malaria.

EXECUTIVE SUMMARY:

1. The replenishment process itself was established by the Global Fund in 2004 and the First Replenishment (for two years, 2006-2007) was carried out in 2005. The Second Replenishment (for three years, 2008-2010) was carried out in 2007 with two formal replenishment meetings – in Oslo in March 2007 and in Berlin in September 2007 (the Chair’s Summary of the Oslo meeting and the Communiqué of the Berlin meeting are attached as Annexes 1 and 2, respectively). In addition, the Secretariat of the Global Fund and the Chair and Vice-Chair of the Replenishment consulted a large number of donors and other stakeholders throughout the process.

2. Following the Berlin meeting, the overall size of the replenishment already stands at about $9.7 billion for 2008-2010. The size of the replenishment is expected to increase over the coming year as several donors complete their internal decision making processes. The attached table (Annex 3) indicates pledged and projected contributions for each donor as of the Berlin meeting.

3. The attached graph (Annex 4) illustrates the outcome of the Second Replenishment in terms of sources and uses (supply and demand) of funds over the coming three years. The graph shows that: (1) ongoing programs, including the Rolling Continuation Channel, would require a total of $6.5 billion, (2) meeting the demand for new programs at the current level of about $1 billion in annual demand would require an additional $3 billion, and (3) the total funding available as of the Berlin meeting ($9.7 billion) matches the total amount of $9.5 billion required at the current level of annual demand. Hence, a major challenge for the Global Fund and its partners is to demonstrate an increase in effective demand over the current level in order to meet the needs of affected countries and to justify requests for additional donor contributions. The size of Round 8 in 2008 will be a key indicator of progress and also a key determinant of the agenda for the mid-term meeting in 2009 that is part of the replenishment process.
PART 1: FACTORS THAT CONTRIBUTED TO THE OUTCOME

1. A number of factors contributed to the positive outcome of the Second Replenishment and enabled donors to make significant medium-term commitments. In particular, the Global Fund responded very effectively to issues and concerns raised by donors during the First Replenishment. The following list illustrates the factors at play:

   a. Since the First Replenishment, a strategy statement has been prepared, which also improves and clarifies the Fund’s business model. The strategy document “Accelerating the Effort to Save Lives” was well received and helpful in donor discussions.

   b. Progress has also been made on harmonization and country-level coordination. The Fund now monitors and reports on progress vis-à-vis the Paris Declaration on Aid Effectiveness.

   c. The Fund is now able to report results on the ground and the publication “Partners in Impact” has been very helpful in convincing various constituencies to support the Fund.

   d. The special efforts made by Norway and Germany, the donor governments hosting the two replenishment meetings, were of tremendous help. For instance, during the months leading up to the Berlin meeting, the Chancellor, Angela Merkel, reached out to her colleagues in other countries and helped raise both the visibility and the credibility of the Global Fund and its replenishment.

   e. The hard and effective work of many others also contributed in major ways to the outcome, including the Chair of the Replenishment, the many champions of the Fund in each capital and within each donor organization, the Friends of the Fund organizations, and, of course, the Global Fund staff, Management and Board.

2. The fact that the Global Fund replenishment process now begins to be embedded within the internal processes of donors has been helpful and contributes to the predictability and sustainability of the funding. Decisions on donor contributions are in many cases no longer ad hoc but part of a deliberate process that involves staff and officials at all levels. Contributions to the Global Fund are now decided in the broader context of other replenishments and funding demands that donors face. This year, the Global Fund replenishment took place in parallel with but slightly ahead of the replenishments for the International Development Association and the African Development Fund, both of which are major three-year replenishments that expect to conclude in December.

PART 2: FUTURE CHALLENGES

1. Looking ahead, it will be important to continue to make progress on the “success factors” listed above. In addition, a number of issues have been highlighted during the Second Replenishment and require attention. They include the following:

   a. Efforts to broaden the donor base must continue and be intensified in order to ensure the long-term sustainability of funding. The Private Sector strategy is encouraging and should show more significant results over the coming couple of years. Innovative financing approaches, such as Debt2Health, are also promising and should provide major new inflows. More efforts should be focused on new donors and current donors who could provide more support, including donors from emerging market economies.

   b. Among current donors, some provide particularly large shares of the total replenishment relative to their economic capacity. They have emphasized that this is
not sustainable as the total size of the Global Fund replenishments continue to increase and that more attention therefore must be given to the “fairness” of the current shares. This issue should be further analyzed and addressed before these donors find themselves in an unsustainable position and reduce their shares.

c. Little progress had been made on the use of promissory notes. As a result, the liquidity of the Fund continues to increase, creating a growing challenge for donors who must justify providing additional funding when the Fund appears to have ready access to large amounts of cash. In the short term, and within the current policy framework of the Fund, the only practical solution is the use of promissory notes or similar obligations and this should receive more attention.

d. Following an initiative by the United Kingdom, several donors have indicated that they would consider making long-term commitments of funding for the Global Fund, beyond the three-year time frame of the replenishment process as currently designed. This should be followed up and also further discussed at the mid-term meeting. In this context, options for revising the Comprehensive Funding Policy to reflect longer term and more innovative financing approaches should also be considered.

e. With the growing size of the Global Fund and its financing flows, the Fund will increasingly be dependent on health systems capacity in recipient countries – with regard both to the demand for resources and to program implementation. The Fund will also be more vulnerable to often misguided criticism of vertical programs that are said to distort country-level priorities. These issues have been recognized for some time but have not yet been effectively addressed. A concerted effort with key partners should be launched. In view of the outcome of the Second Replenishment, the Executive Director of the Global Fund may wish to call for a meeting of the Heads of the main international organizations concerned to discuss actions that should be taken and responsibilities for carrying them out.

PART 3: MID-TERM MEETING

1. As noted in the Berlin Communiqué (Annex 2, para 16), donors agreed “to hold a mid-term meeting in 2009 as part of the replenishment process to review the performance of the Global Fund and to consider additional funding dependent on an updated demand estimate by the Global Fund, and Global Fund performance.” At this meeting, donors “will also plan for the third replenishment, for 2011 and beyond.” Progress on the “Future challenges” listed above should be reviewed. As noted in para 4 above, the effective demand for Global Fund resources as expressed through Round 8 would influence the agenda for the meeting and the extent to which the meeting should focus on mobilizing additional resources.

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