

OPTIONS FOR A NEW FUNDING MODEL

Purpose: The purpose of this paper is to provide an update to the Board on the work to date in designing a new funding model and to facilitate a decision by the Board in selected areas

PART 1: INTRODUCTION

- 1.1 This paper outlines several options for the Global Fund's new funding model, as a core element of implementing the organization's *Strategy 2012-2016*, for consideration by the Board.
- 1.2 The document contains seven parts:
 - Part 1: Introduction
 - Part 2: Overview and Vision for the New Funding Model
 - Part 3: Areas of Broad Agreement
 - Part 4: Areas for Continued Discussion
 - Part 5: Options for the New Funding Model
 - Part 6: Other options
 - Part 7: Viewpoint of the Secretariat

PART 2: OVERVIEW AND VISION FOR A NEW FUNDING MODEL

- 2.1 In November 2011, the Board adopted a new, four-year *Strategy 2012-2016*, which envisioned using ten years of experience in grant-making to create a bold, new way of investing the organization's portfolio. Extensive consultations with implementers and partners provided evidence of the need for such a change as part of the larger reform of the organization laid out in the Comprehensive Transformation Plan that flowed from the *Strategy*. September 2012 represents the point at which the Board can respond to the requests of beneficiaries to create a smoother, more-strategic way for the organization to manage its grant making.
- 2.2 The Strategy, Investment, and Impact Committee (SIIC) has been working over the past four months to support the development of a new funding model, as envisioned in the *Global Fund's Strategy 2012-2016*, and as instructed by subsequent Board decisions that requested expedited work in this area.
- 2.3 The Committee's efforts have focused on reviewing a range of options against a set of principles:
 - a. Consistency with the *Strategy – Investing for Impact*;
 - b. Greater alignment with country-level schedules, context, and priorities;
 - c. Focus on countries with the highest disease burden and lowest ability to pay, while keeping the portfolio global;
 - d. Simplicity for both implementers and the Global Fund;
 - e. Predictability of process and financing levels, consistent with global accords in Paris, Accra, and Busan; and
 - f. Ability to elicit full expressions of demand and reward ambition.
- 2.4 At its last meeting, the SIIC was able to forge broad agreement on a number of elements of a new investment model, while identifying others for which additional discussion and Board input would be useful. Therefore, this report from the SIIC to the Board seeks to highlight those areas of agreement, and, for the areas that still require further discussion, to present a few options that have advanced from those originally presented to the SIIC by

the Secretariat (see GF/SIIC 04/02). The intent of this paper is not to foreclose discussion, but rather to allow the Board to take advantage of, and build on, work done by the SIIC.

PART 3: AREAS OF BROAD AGREEMENT

- 2.5 The SIIC discussed the following elements of a new funding model, and they reflect broad agreement or consensus.
- 2.6 The Committee agreed the new investment model would consist of three broad stages, as outlined in Figure 1.

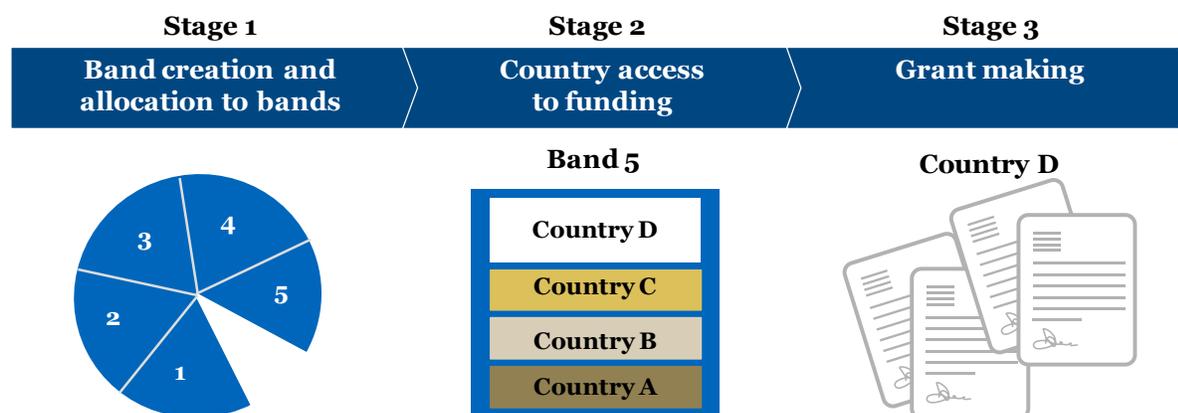


Figure 1: Main stages of a new funding model

Allocation of resources by the Board

- 2.7 The Committee reached general agreement about a regular process by which the Board would allocate resources for a given period of time, which would include the following steps:

1. Initial allocation by disease

- a. The first step in the apportionment of funding would be a division of resources between the three diseases:
 - To begin, the division would be based on the historical levels of investment in each disease in the Global Fund's portfolio.
 - This split would be only as an interim approach, needed to start the new funding model.
 - The Secretariat would develop a more demand-based model for allocation by disease to implement within one year (subject to approval by SIIC and the Board).

2. Distribution to groups, or “Bands,” of countries

- a. The Board would apportion resources by distributing funding to Bands of countries.
- b. The purpose of these Bands of countries would be to accomplish the following:
 - Enable a more-strategic investment of resources to achieve greater impact and focus on where the need is greatest;
 - Provide funding predictability to groups of countries; and
 - Allow flexibility in assigning funding within a Band.
 - How to compose the Bands would depend on decisions on other aspects of the new investment model.

3. Secondary allocation based, at a minimum, on disease burden and “ability to pay”

- a. After the initial allocation by disease, a secondary allocation would take place, likely using a formula based, at a minimum, on measures of disease burden and “ability to pay” (income level). Other factors in such a formula could include, for example, “willingness to pay” (commitment of domestic resources).
- b. The disease-burden measures would largely be based on those used for the current Eligibility and Prioritization Criteria adopted by the Board for Round 11, but might be improved in consultation with technical partners:
 - i. The measure of “ability to pay” would likely be based on Gross National Income (GNI) *per capita*.
 - ii. The methodology would need to include measures to avoid penalizing countries that have achieved recent improvements in disease morbidity and mortality.
- c. This secondary allocation would result in an apportionment of resources to each of the Bands.

4. Allocation to a channel for most-at-risk populations (MARPs)

- a. A permanent funding mechanism for MARPs within the Bands should address concentrated epidemics, especially for HIV and TB in regions that could lose financing by the new emphasis on disease burden and ability to pay.
- b. While the previous MARPs channel approved by the Board had a fixed maximum grant size of \$5 million over two years, regardless of the size of a country and the extent of its need, a new MARPs channel could have a range of maximum grant sizes, adjusted by population level so that more populous countries would have a higher maximum.
- c. Funding for MARPs in generalized epidemics is also important, and the new iterative application process provides an excellent opportunity for the Global Fund and its technical partners to help ensure National Strategies address these groups.

5. Provision for special strategic investments initiatives

- a. The Board could also consider allocating resources outside of the Bands, for programs, activities, and strategic investments not adequately accommodated through the distribution to Bands.

- b. This amount should represent a small percentage of the organization's overall funding, since most resources (no less than 90%) should go to the Bands.
- c. The Board would not develop a prescriptive list of specific eligible uses for this money, but a key test for any special initiative would be that allocation to Bands could not adequately cover the intended purpose.

PART 4: AREAS FOR CONTINUED DISCUSSION

- 4.1 In addition to the elements on which the Committee reached strong agreement, others issues remained open.
- 4.2 A key debate has been when, or even if, the Secretariat should provide applicant countries with an indication of their potential funding level before they are ready to enter the grant-making stage. In any event this would be the latest possible point in the process to provide a final funding level:
 - a. Some constituencies have expressed considerable concern that providing a number "too early" in the process would lead applicants to limit the size and scope of their proposals to fit that number, and, therefore, the Global Fund and other donors would not benefit from a full expression of what countries need to finance a comprehensive responses to the three diseases (and address related health and community-systems issues).
 - b. Others are concerned that providing a number early in the process would be technically challenging, because there could be significant variation between what a formula might suggest and what could come from a more-thorough, qualitative assessment of a proposal and the negotiation of a subsequent grant.
 - c. On the other hand, some constituencies favor using up-front country-level funding amounts as the basis for discussions with applicants, to reduce the amount of iteration needed and otherwise simplify the process for them.
- 4.3 To inform a discussion on these issues, this report from the Strategy Committee to the Board includes several options:
 - a. The options include an assessment of their strengths and limitations, especially in relation to the principles that have guided the Committee's discussion of the vision for a new funding model.
 - b. While these options cannot include all potential variations, they are intended to build on discussions at the SIIC. Agreement on an option would allow the process for developing a new funding model to continue so the Board could approve the final details at its next meeting, in November 2012.

PART 5: OPTIONS FOR THE NEW FUNDING MODEL

Common elements across possible options

5.1 All options include a number of common elements, shown in Figure 2. This paper describes these consistencies once, to avoid repetition in the description of the presented options.

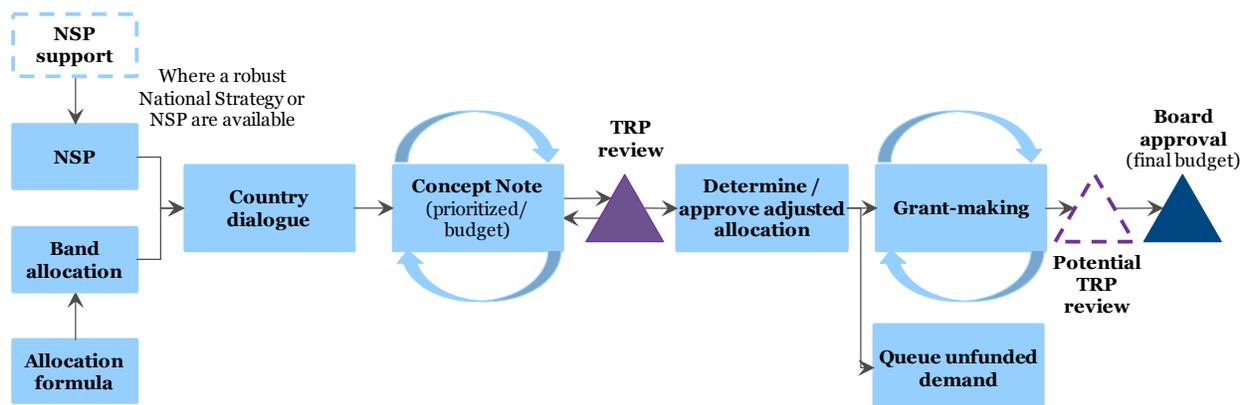


Figure 2: common elements of the access to funding process

5.2 An open dialogue is at the core of any new funding model. Ideally, applicants could request financing from the Global Fund at any time best suited to their national planning cycles. Applicants (most likely CCMs) would then enter into a dialogue with relevant in-country stakeholders and partners, with guidance from the Secretariat's Country Teams. At this point the Secretariat will inform the applicant of the overall level of resources available to the Band of countries in which they fall.

5.3 As previously recommended, applicants would present proposals in a two-step, iterative process that would start with a **Concept Note**. The Secretariat would design guidance² to help applicants develop their requests.² Applicants would present information on their country's epidemic (Need), funding required and available (Budget), what they want the Global Fund to pay (Demand), and what financing deficit remains to fully address their Need (Gap).

- a. The Concept Note would specifically request support for one of the three diseases, or for support in the area of cross-cutting health- and community-systems strengthening. Applicants could submit Concept Notes for more than one disease at the same time.
- b. Applicants would be encouraged to utilize Global Fund resources to support comprehensive responses to the diseases, but should have flexibility in how they choose to allocate money between the three diseases.
- c. Ideally, the Concept Note would feature a basic presentation of a National Strategy, including the following:

² Possible components of this guidance could include investment frameworks, information and analysis from existing Global Fund grants and information on minimum standards

- i. Need: Epidemiology, including absolute numbers and trends in the diseases, and current and target coverage levels of treatment, prevention, and care services;
 - ii. Budget: Costs related to achieving the target coverage levels, and sources of financing to pay for those costs (domestic, other donors, and existing Global Fund support);
 - iii. Demand: Costs for which the applicant is requesting additional Global Fund support; and
 - iv. Gap: Additional costs for which no current source of financing exists.
- d. A Concept Note would need to be kept as brief and simple as possible, but also would have to provide enough information to allow for preliminary review.
 - e. Based on national strategic plans, investment frameworks and other tools, applicants would prioritize their demand and indicate different priority levels, linked to budget scenarios.
 - f. A back-and-forth discussion would take place between the Secretariat and applicants to clarify information or address issues with the technical approach, implementation arrangements, co-investment, etc., with the goal of reaching agreement on a direction before the applicant progresses into the grant-making stage; The iteration period would have to be time-limited for countries and the Global Fund.
 - g. To preserve the integrity of the process, however, the Secretariat would not be involved in writing or editing proposals.
 - h. Under some options under consideration, a Concept Note could move directly into grant-making, while in others additional work would be necessary to determine optimized funding levels based on funding available and current proposals.
- 5.4 The Technical Review Panel (TRP) will remain a critical part of any funding model, and will be engaged in reviews of the Concept Note (and in other steps depending on the various options). The TRP would assess Concept Notes with respect to technical soundness, implementation, feasibility, and sustainability, among other things.
- a. Possible outcomes for an applicant might be (i) to move to the next step in the grant making process; (ii) to revise/adjust or clarify certain aspects; or (iii) to resubmit a completely revised Concept Note.
- 5.5 After the TRP's review of a Concept Note, the final country-level funding amount, which could be derived in a number of ways, as described below, is determined (see Part 6).
- 5.6 Once the funding level is determined, the Secretariat would work with an applicant to turn their Concept Note into a disbursement-ready grant. Before going to the Board for approval, the Secretariat would seek further input from the TRP if the Grant is substantially different from the Concept Note.
- 5.7 The Board would approve the disbursement-ready grant.
- 5.8 The Secretariat would "queue" any quality demand, as reviewed and recommended by the TRP in a Concept Note, that the Global Fund could not finance immediately. Funding of the queue would depend on the availability of additional resources, whether from the Global Fund or others. The Global Fund could use this queued demand to raise further resources, but this would also represent an opportunity for applicants and advocates to seek additional resources from others.

Key choices for distribution of funding within a band of countries

5.9 The main elements that currently lack agreement are the following:

- a. Whether and when to use an indicative funding level to determine the amount of financing that an applicant will receive from the Global Fund;
- b. How and when final funding allocations to applicants are determined, and by whom; and
- c. How the TRP is involved.

Option A: Early communication of an indicative funding range

5.10 In this option, during the country dialogue, before submission of a Concept Note, the Secretariat would provide applicants with an indicative funding range, based on the same methodology used to apportion funds to the Bands, adjusted up or down by the qualitative criteria described in 5.13 (see Figure 3).

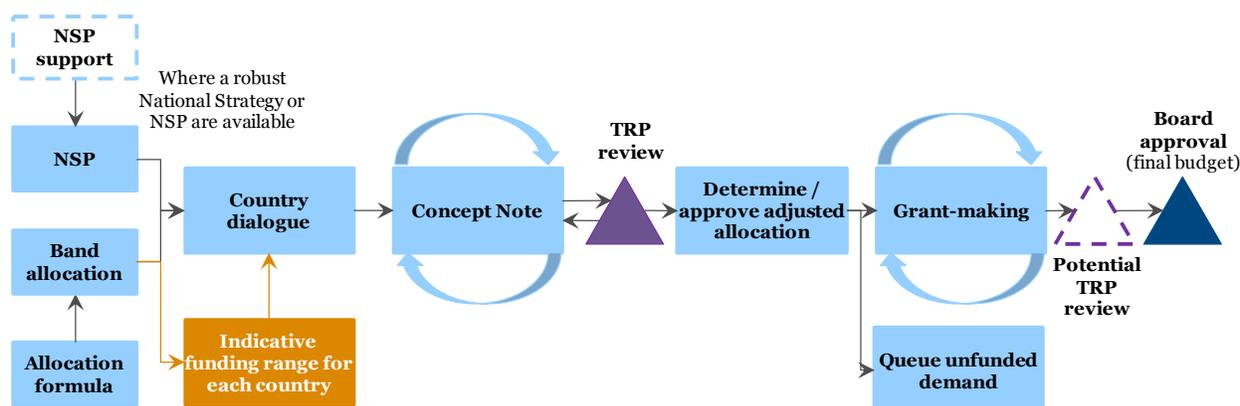


Figure 3: Overview of Option A (additions to common elements highlighted)

5.11 In this model, applicants would still have to submit their Need, Budget, Demand and Gap (as defined above). Instead of a prioritized list of interventions, they would submit a Concept Note aligned with the indicative funding range, and would also highlight what additional interventions they would undertake if more money were to become available.

Option B: Introduction of an indicative funding range after submission of a Concept Note

5.12 An alternative to the approach described above is that the Secretariat would not provide any information on indicative funding levels up-front. Instead, the funding level would be provided after the submission of a Concept Note, as shown in Figure 4.

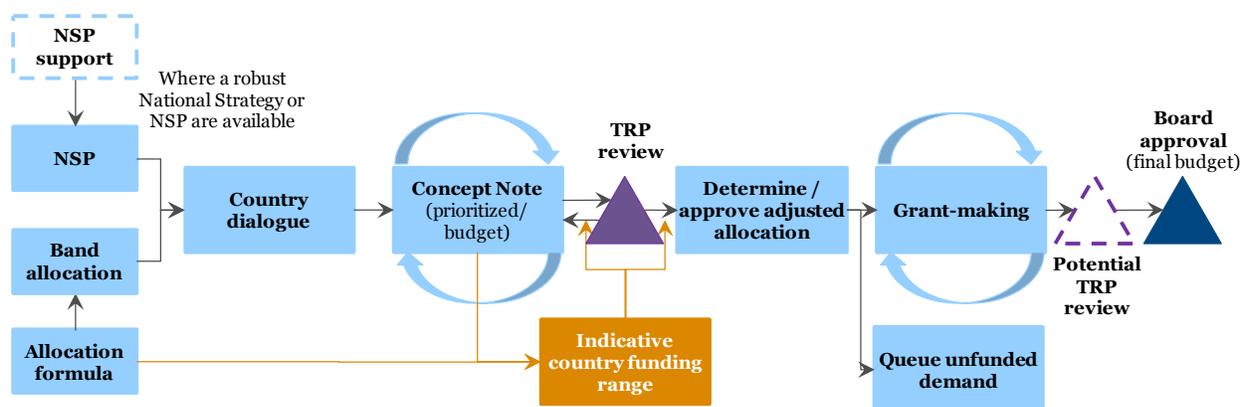


Figure 4: Overview of Option B (additions to common elements highlighted)

5.13 After the development of the Concept Note, the Secretariat would determine an indicative funding range by applying a number of qualitative criteria discussed during the country dialogue and development of the Concept Note, such as:

- a. Existing funding landscape;
- b. Existing Global Fund commitments and ethical obligations;
- c. “Willingness to pay”;
- d. Past performance of Global Fund grants; and
- e. Absorptive capacity and other risk considerations.

5.14 An applicant’s share of the overall Band allocation would be one of the inputs in this determination, but the indicative funding amount could vary substantially from this number.

5.15 There are two alternatives for when and how this indicative funding range could be used in prioritizing within an applicant’s demand:

- a. Under Alternative A, the Secretariat would provide the number to the Technical Review Panel (TRP) as a factor to consider in its recommendation on a Concept Note; or
- b. In Alternative B, the TRP’s review would not consider any indicative funding level but follow a process similar to that of a Rounds-based model. The TRP’s recommendation would be an additional consideration for establishing the funding level for each applicant. In the case of a large difference between the TRP’s recommendation and the original Concept Note, another TRP review would be required.

Option C: Funding Levels Determined Among Multiple Applications

5.16 In a third option, applicants would submit their proposals in groups according to pre-established funding windows, such as the approach shown in Figure 5.

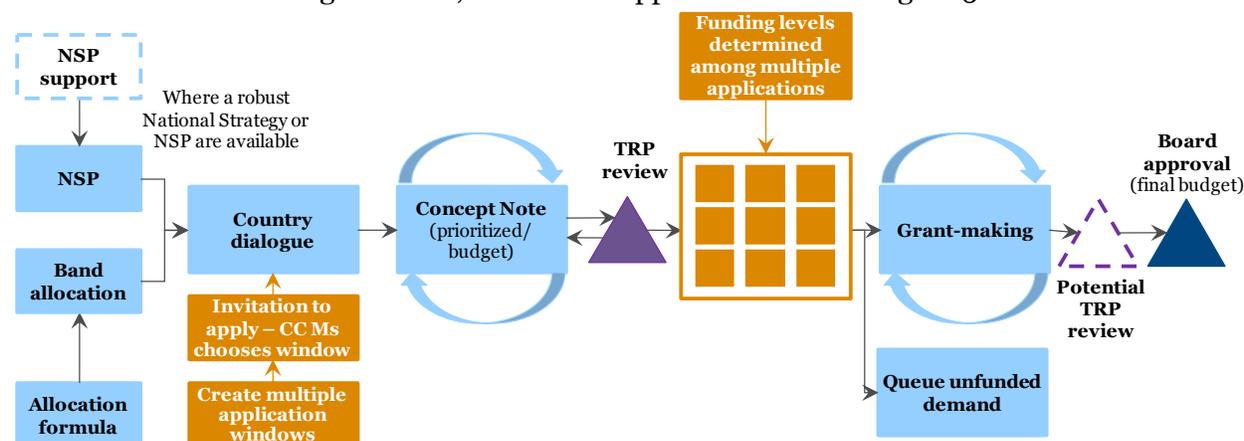


Figure 5: Overview of Option C (additions to common elements highlighted)

5.17 The Secretariat would invite applicants from each Band to submit their Concept Notes during several windows of time, with pre-determined closing dates.

- a. Applicants would select at which window to submit their Concept Notes, based on their own schedule and National Strategies. The frequency and timing of these windows would need more-detailed assessment.

5.18 The Secretariat would then apportion funding to each window.

5.19 The TRP would review at the same time all the Concept Notes submitted during each application window.

5.20 Funding levels for each Concept Note submitted during an application window would then be determined both by the merits of each and by comparing them so as to identify the optimum investment strategy. This allocation among the applicants could be done by the Secretariat, the TRP, or a panel similar to that used for Phase 2 renewals (led by the Secretariat but with technical and funding partners).

Comparing the different options

5.21 Figure 6 in the next page contains a summary assessment of the advantages and disadvantages of the four Options

	Option A	Option B	Option C
Consistency with Strategy 2012-2016 objective to invest strategically	<ul style="list-style-type: none"> + Method for allocating to Bands focuses on countries with highest burden and least ability to pay + Iterative dialogue allows focus on promoting use of high-impact interventions, addressing human rights and other policy issues, and higher proposal success rate + Allow for a strategic deployment of resources at the level of bands of countries 		
	<ul style="list-style-type: none"> + Flexibility to adjust results of the formula later in the process - <i>Estimates could lead to a sense of entitlement and/or discourage ambition</i> 	<ul style="list-style-type: none"> + Potentially uses better metrics for indicative funding level + Avoids sense of entitlement by applicants and encourages ambition - <i>Indicative funding level not as transparent</i> 	<ul style="list-style-type: none"> + Redistribution between proposals grouped together allows for strategic choices in investments + Avoids sense of entitlement by applicants and encourages ambition - <i>Indicative funding level not as transparent</i>
Conformance with country schedules and context	<ul style="list-style-type: none"> + Applicants start the process at a time of their choosing (enables alignment with their national planning cycles) 		<ul style="list-style-type: none"> - <i>Application windows limit alignment with country schedules</i>
Focus on Burden/Ability to Pay, while staying Global	<ul style="list-style-type: none"> + Relies on a methodology based on burden and ability to pay, with indicative funding levels that lead to a strong alignment between these criteria and the composition of the portfolio + Qualitative adjustments beyond burden/ability to pay provide tools to ensure appropriate variation from formula-based allocation 		<ul style="list-style-type: none"> + <i>Relies on a methodology based on burden and ability to pay</i>
	<ul style="list-style-type: none"> + <i>All the approaches, especially with the inclusion of a MARPs allocation, keep the portfolio global</i> 		
Simplicity	<ul style="list-style-type: none"> + Does not require applicants to develop prioritized budget scenarios in the Concept Note - <i>Flexibility in the funding levels could generate complexity</i> 	<ul style="list-style-type: none"> - <i>Applicants would have to prepare a more-complex budget</i> - <i>If indicative funding is only communicated after TRP, an added review may be required</i> 	<ul style="list-style-type: none"> - <i>Added reviews by the TRP may be required</i> - <i>Complexity around managing resources within windows of Bands</i>
	<ul style="list-style-type: none"> + <i>Longer grant period (three years), and more proactive dialogue with Secretariat, will provide countries with more assurance of funding levels once grants are approved</i> 		
Full expression of demand	<ul style="list-style-type: none"> + All the options allow applicants to express their full demand in the Concept Note + Likely gap between quality demand and available funding levels would be put in a queue and funded when additional resources are available (whether from the Global Fund or other sources) 		
	<ul style="list-style-type: none"> - <i>Upfront knowledge of the indicative funding might limit applicants' ambition</i> 	<ul style="list-style-type: none"> + Avoids putting early limits on applicants' funding demands 	

Figure 6 – Summary assessment of the advantages and disadvantages of the four options

PART 6: OTHER POLICY CHOICES

6.1 The choices presented below could fit in any of the options for the investment model put forward above, because they do not affect the basic architecture.

Options for basic proposal types

6.2 The Committee had an initial discussion about differences between proposals based on National Strategies, as envisioned in the Global Fund's *Strategy*, and others that would not fit this approach. Further work by the Secretariat on this topic would be needed to inform discussions by the Committee and the Board and Committee.

6.3 One potential approach put forward by the SIIC Chair would distinguish two basic types of Concept Notes, which would work with any of the options presented in this paper, as follows:

- a. Concept Notes based on National Strategies: These would be the preferred path for most countries.
- b. Project-Based Proposals: More limited in scope, these would be appropriate for MARPs, countries in transition, regional and non-CCM proposals, as well as for countries with National Strategies that require significant improvement.

The time period for allocations

6.4 In any of the options presented above, the time horizon for the model could either be one year or multiple years:

- a. If the period is one year, the allocations would only use available, uncommitted assets.
- b. If the allocations extend over several years, the calculations could include both committed and uncommitted assets.

Decision authority for country-level allocations

6.5 The approval of the final, country-level allocation in any of the options in this paper could rest with the Secretariat, or use another governance structure:

- a. The Management Executive Committee of the Secretariat could make the determinations itself, based on Country Teams' knowledge of recipients.
- b. Partners could assist in the decision-making, in a process like that now used in the Phase-Two Panel to assess grant renewals.

PART 7: VIEWPOINT OF THE SECRETARIAT

- 7.1 Of the options presented, the Secretariat views Option A as preferable. Option B, although not the first choice, would still be aligned with the Global Fund's strategic objectives.
- 7.2 In the Secretariat's assessment, both Options A and B would increase flexibility, predictability and strategic focus. They would also be an important enabler of other fundamental changes proposed, in particular, the substantially enhanced way implementers would apply for funding, as well as the administrative reforms underway to create more-effective grants. The Secretariat believes Option C would maintain some of the features of the current Rounds system, and would be less likely to deliver on some key, agreed objectives of the new *Strategy*, including increased predictability and alignment.