

EVOLVING THE FUNDING MODEL

PURPOSE:

1. This report presents for the decision by the Board additional elements of the new funding model, to allow for its implementation, as called for in GF/B27/DP7.
2. This report also presents for decision by the Board an approach for transition to the new funding model.

This document is part of an internal deliberative process of the Global Fund, and, as such, cannot be made public until after the Board meeting.

EXECUTIVE SUMMARY

This paper focuses on six areas of the new funding model:

1. The length of the allocation period, and of grants;
2. Country Bands and principles for allocation;
3. The split between indicative funding and incentive funding;
4. Access to incentive funding;
5. Management of unfunded, quality demand; and
6. Transition to the new funding model.

For the first three, and the last one, the Board has asked for a recommendation from the SIIC to further advance the new funding model. For the fourth and fifth areas, the document outlines principles for implementing these two operational elements.

Length of the allocation period and grants (See Part 2): The Board needs to decide what periodicity the Global Fund should establish for its allocations of resources and the duration of grants.

Country Bands and principles for allocation (see Part 3): The SIIC recommends for Board approval a set of principles to guide the methodology for allocating funding and describes several building blocks for the concept of grouping countries into Country Bands. It also recommends an approach to construct Country Bands, as well as a method for apportioning funding to them (and onward to individual countries).

Split between indicative and incentive funding (see Part 3): The Board has agreed that it will apportion resources within a Band between indicative funding, by country, and incentive funding. The SIIC recommends for Board approval an approach to determining this split.

Transition to the new funding model (see Part 6): The Board has called for using available resources to implement a new funding model in 2013, and this paper presents SIIC recommendations for a path forward for transitioning and evaluating many aspects of the new funding model in 2013.

This document contains seven parts:

| | |
|---------|---|
| Part 1: | Introduction |
| Part 2: | Broader Architecture to House the New Funding Model |
| Part 3: | Establishing Country Bands |
| Part 4: | The Access-to-Funding Process |
| Part 5: | Determining Applicants' Recommended Funding Amounts |
| Part 6: | Transition to the New Funding Model |
| Part 7: | Path Forward |

PART 1: INTRODUCTION

1.1 The Global Fund's *Strategy 2012-2016* committed the organization to pursue a new business model, to invest more strategically, to make the most of its resources and maximize the impact and value-for-money of its grants. In adopting the *Strategy*, the Board highlighted the limitations of the Rounds-based approach, and directed the Secretariat to design a new method

of apportioning funds as part of the broader new business model. Consultations over the past two years have shaped this new direction.

1.2 At the Twenty-Seventh Board Meeting, the Board decided, in principal, on key structural elements of a new funding model (GF/B27/DP7 and shown in Figure 1) and requested the Strategy Investment and Impact Committee to make recommendations on additional aspects so as to enable implementation commencing in 2013.

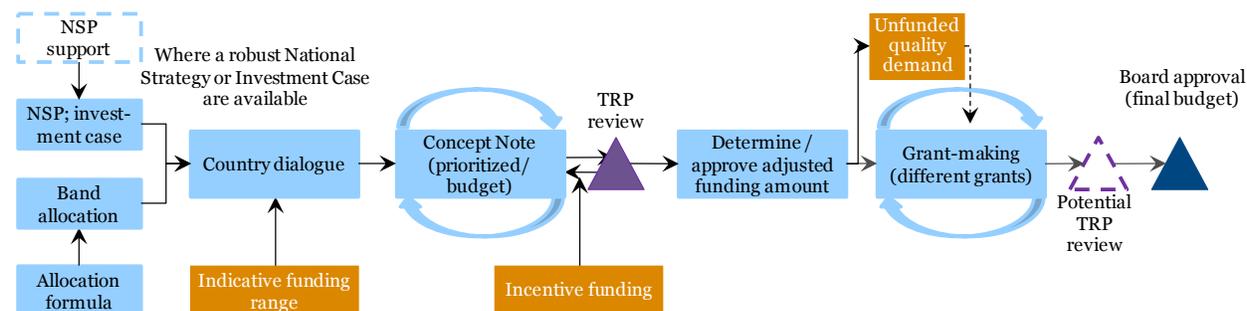


Figure 1: Overview of components of the new funding model approved by the Board

1.3 Within the new business model, the Global Fund will remain demand-driven, but will, among other things:

- i. Establish more cooperative and iterative interactions between the Secretariat and implementers, partners and other donors;
- ii. Leverage more effectively the funding and expertise of other organizations;
- iii. Create processes that will be more flexible, and more aligned with the priorities and strategic direction of those who implement grants;
- iv. Allow the Board to re-balance and give strategic direction to the organization's portfolio of investments;
- v. Focus funding on those countries with the highest needs and least ability to pay, while remaining global and supporting the highest-impact interventions;
- vi. Increase the Global Fund's ability to support national programs, and continue to accommodate specific circumstances in which project support is most appropriate;
- vii. Provide incentives for both the creation of robust National Disease and/or Health-Sector Strategies (National Strategies) and investment cases¹, as well as the full expression of an applicant's quality demand;
- viii. Continue to find ways to accommodate proposals not from Country Coordinating Mechanisms (CCMs), regional proposals, and those that target most-at-risk populations (MARPs); and
- ix. Promote equity, gender and human rights in programming for HIV, tuberculosis (TB) and malaria.

¹ Here, "investment case" refers to a set of documents, typically developed through collaboration between implementers, partners, and, possibly, the Secretariat, which identify a subset of interventions/program elements, grounded in thorough analysis of the epidemiology and state of the current response in a given country, into which investing resources would have a high security of return within a certain period of time.

1.4 The Global Fund, recognizing the benefits of a multi-sector approach, will continue to encourage the routine inclusion of both Government and non-governmental implementers ('Dual-track financing') in applications.

1.5 As part of this approach, the institution's ways of working and processes will also recognize more fully that the Global Fund is one of many stakeholders in a country-centric, comprehensive response to the three diseases. This also increases the Global Fund's alignment with international agreements on development financing reached in Busan, Accra, Monterrey and Paris.

1.6 In the new model, applicants will have access to two streams of funding through one common process so as to avoid duplication and minimize complexity. The larger and more-predictable one is an **indicative funding stream** ("**indicative funding**"), based on an allocation to countries. The second is an **incentive stream** ("**incentive funding**"), to reward ambitious, high-quality expressions of full demand, based on robust National Strategic Plans or investment cases, and to invest in well-performing programs with a potential for increased, quantifiable impact.²

1.7 In the new funding model, the Secretariat will also maintain a register of **unfunded quality demand** that the Global Fund and others can utilize when additional financing becomes available.³

1.8 The new funding model is part of a broader effort to change the Fund's operational culture, including the interactions between the Secretariat and the Board (and its Committees), the Technical Review Panel (TRP) and other stakeholders.

1.9 During the transition period to the new business model, the Secretariat will remain guided by the spirit and letter of the Framework Document, the By-Laws (Both can be found at: <http://www.theglobalfund.org/en/library/documents/>) and the relevant Decision Points issued at the September and November 2012 meetings of the Board (<http://www.theglobalfund.org/en/board/decisions/>). The Secretariat will present to the relevant Committees any revisions to the Comprehensive Funding Policy (<http://www.theglobalfund.org/en/library/documents/>) and Related Board Decisions, and to the Policy and Eligibility Criteria, Counterpart Financing Requirements and Prioritization of Proposals for Funding from the Global Fund (known as the Eligibility and Counterpart Financing Policy, <http://www.theglobalfund.org/en/board/meetings/twentythird/documents/>, attachment to GF/B23/14⁴), and to other applicable policies, for approval by the Board in November 2013.

1.10 The paper presents the SIIC's recommendation for a transition period in which elements of the new funding model will be piloted by using a portion of uncommitted resources.

² GF/B27/DP7 refers to "*incentiviz[ing] high-impact, well-performing programs and the submission of robust, ambitious requests based on national strategic plans or investment cases,*" and "*motivat[ing] full expressions of quality demand.*"

³ GF/B27/DP7 refers to "*unfunded quality demand*" as "*any activities which the TRP determines to be technically sound but which cannot be supported through the resources available to a Country Band [within a set period of time].*" Unfunded quality demand is neither an entitlement nor a Global Fund financial commitment.

⁴ As amended by GF/B25/DP16 and B25/ER/05.

1.11 This paper builds upon concepts already discussed in previous Board and SIIC papers (GF/B27/04 and GF/SIIC 05/02). Readers unfamiliar with this topic are therefore encouraged to refer to these materials.

For decision

PART 2: BROADER ARCHITECTURE TO HOUSE THE NEW FUNDING MODEL

2.1 In the current architecture, grants have typically lasted five years, with two distinct phases of funding separated by a “Phase 2” or “Periodic” review. While this approach has worked reasonably well over the past ten years, a single, streamlined process for accessing funding would remove the inefficiencies of having separate processes for new applications and the renewals of existing grants.

The length of grants under the new funding model

2.2 The SIIC considered two, high-level principles in debating different approaches to the length of grants: 1) ensuring programs continue to respond to current country circumstances, and 2) lessening the burden on implementers. Experience has demonstrated that a grant that is going through renewal almost always needs significant adjustments in scope and approach, to take into account the most-recent epidemiological context and normative guidance, an evolved funding landscape, and new interventions. Furthermore, the processes for requesting additional financing from the Global Fund can be burdensome and time-consuming.

2.3 In light of these considerations, the SIIC recommends that **three years be the standard length of a grant**. Depending on country-specific considerations, the Secretariat should have the flexibility to extend the continuity of resources beyond the three year’s duration, or to provide programs with short-term infusions of funds while a new grant is being established. The SIIC also recommends that a brief explanation of variation from this standard be provided to the Board when it is asked to approve the relevant grant.

The length of the allocation period under the new funding model

2.4 The SIIC recommends a **three-year allocation period, aligned with the Global Fund's replenishment cycle**, to take into account the most-reliable, three-year outlook of income, minimize the need for revisions and increase predictability for implementers over the allocation.

2.5 While the recommended allocation period is for three-years, the Chief Financial Officer (CFO) will maintain a rolling, annual six-year forecast of committed and forecast assets, estimated expenditure and available uncommitted assets, so as to inform discussions with countries on potential future funding.

For Decision

PART 3: ESTABLISHMENT OF COUNTRY BANDS

2.6 Bands are a way of grouping countries, to meet the following objectives:

- i. Allow the Board to **shape the profile of the Global Fund’s portfolio**, to ensure it is consistent with the organization’s objectives and *Strategy*; and

- ii. Allow for **flexibility in assigning funding within a Band**, and **enable fair competition** (for incentive funding).

2.7 The Board will apportion to each Band a share of total funding available for the chosen period, calculated by adding up shares produced by the allocation formula for the countries in each Band, adjusted for external financing and, if necessary, a transitional provision to ensure the Global Fund's financial commitments in some countries do not fall below a “minimum required level”⁵ over the allocation period.

2.8 Key design principles for establishing Country Bands are the following:

- i. **Sufficient critical mass:** Each Band should have a large enough number of countries and sufficient resources to enable flexibility within it;
- ii. **Logical coherence within each band:** As the incentive funding introduces a need for comparison between applications, countries in each Band should be roughly comparable;
- iii. **Bands should not be disease-specific**, as a country should only be part of one Band; and
- iv. **Simplicity:** Easy to communicate and implement.

3.6 To best achieve these principles, the SIIC recommends that the Board assign countries to Country Bands using “ability to pay,” measured by Gross National Income (GNI) *per capita* and disease burden. The following principles should apply to these criteria:

- i. **Transparency:** The factors ability to pay and disease burden should be objective and use widely accepted and available data;
- ii. **Proportionality:** The disease-burden measures should take into account the scale of affected persons (in terms of absolute numbers, not percentages) by the three diseases in each country;
- iii. **Comprehensiveness:** To ensure that a given country is situated in only one Band, the burden metrics for each of the three diseases in a country should be aggregated into a composite disease burden measure.

3.7 The SIIC recommends that the Board place countries in one of four Country Bands, based on the above criteria. Furthermore, it recommends that one of these four Bands be a “Targeted Band.” This Targeted Band would contain countries where funding should exclusively finance strategies, projects or plans targeted at MARPs⁶, as well as those with higher income and lower burden.

3.8 The SIIC recommends that the Board revisit the composition of the Bands as necessary, based on recommendations from the SIIC, prior to each allocation period.

⁵ Based on recommendation from the Secretariat, the Finance and Operational Performance Committee (FOPC) and SIIC, as appropriate, will define this “minimum funding level” before the first full allocation period under the new funding model.

⁶ In this context, “MARPs” will be defined as subpopulations, applying to HIV/AIDS, malaria and tuberculosis (TB), within a defined and recognized epidemiological context:

- That have significantly higher levels of risk, mortality and/or morbidity;
- Whose access to or uptake of relevant services is significantly lower than the rest of the population;
- Who are culturally and/or disenfranchised and therefore face barriers to gaining access to services.

Principles of determining the funding allocation to each Country Band

3.9 The SIIC recommends that the Board approve the following principles for guiding the methodology for allocation of funding to each Country Band:

- i. **Strategic focus:** Focus funding on countries with the highest needs and least ability to pay;
- ii. **Simplicity:** The methodology should be easy to communicate to implementers and other stakeholders;
- iii. **Transparency:** The allocation methodology should use objective and publicly accepted and available data;
- iv. **Global Reach:** The funding distribution should remain global;
- v. **Comprehensive scope:** The calculation of funding available for the allocation period should take both committed and uncommitted assets into account; and
- vi. **Flexibility:** The output of the allocation formula is a guiding number, to be adjusted by pre-determined qualitative criteria.

3.10 To respond to these principles, the SIIC recommends an allocation methodology that utilizes both quantitative and qualitative factors.

Quantitative variables for allocation to Country Bands

3.11 In line with the Board's earlier decision and the principles stated above, the SIIC recommends that the allocation formula be based on “ability to pay,” measured by GNI *per capita*, and disease burden *only*.

3.12 Prior to each allocation period, the SIIC would assess the indicators used, and approve changes deemed appropriate. In this context, the construct of the formula used to apportion funding to country bands should follow the principles below:

- i. **Proportionality:** As the allocation formula takes into account a country's share of the global disease burden and its ability to pay, the resulting split of funding per disease at a country level would differ from that at a global level;
- ii. **Flexibility:** The funding model should feature flexibility in how to apportion funding between the three diseases and HCSS at the country level;
- iii. **Sensitivity:** Qualitative factors should adjust the initial figures derived from the allocation formula, to account for the specific circumstances in each country the allocation formula might not capture; and
- iv. **Calibrated Eligibility:** Not all countries are eligible for all three diseases and HCSS, as reflected in current Global Fund policy.

3.13 For countries in the Targeted Band, the SIIC recommends the shares of funding per eligible disease be based on a separate methodology currently under development by the Secretariat. The Secretariat would present this methodology to the SIIC for approval.

Qualitative variables for allocation to Country Bands

3.14 Because the quantitative variables of need and “ability to pay” do not represent all the relevant factors that should affect a country's funding allocation, the SIIC recommends that the following two qualitative factors also be considered prior to the allocations to Country Bands:

- i. **Major sources of external financing:** An adjustment may be required for Country Bands that contain countries receiving substantial support from other major donors to ensure that a Band with many multi-donor-supported countries does not receive a larger overall share of funding than would be warranted; and
- ii. **Minimum required level:** Over a transitional period, until the Global Fund's portfolio is transformed in line with the principles described in this paper, it may be necessary to adjust allocations to countries to ensure that their financial commitments do not fall below a minimum required level⁷ over the allocation period.

Process to allocate resources to Country Bands

3.15 The SIIC recommends that the Board allocate funding to Country Bands by using the following three-step procedure:

Step 1: Distribution of funding by disease: At the start of each allocation period, a share of total projected resources for a given allocation period would be apportioned between the three diseases. As agreed by the Board in GF/B27/DP7, the Secretariat would, under the oversight of the SIIC, develop a measure to estimate disease burden and financial demand across all three diseases for approval by the Board no later than September 2013.

Step 2: Apportion to Bands of countries based on formula and the selected qualitative criteria: The Board would apportion to each Band a share of total funding available for the allocation period, calculated by adding up shares produced by the allocation formula for the countries in each Band, adjusted for the qualitative factors identified above.

Step 3: Split funds within each Band between indicative and incentive funding: see below.

Indicative and incentive funding

3.16 As agreed in GF/B27/DP7, the Board will divide the total amount of resources allocated to each Country Band into indicative and incentive funding. The SIIC recommends that the Board decide the required resource levels to meet the applicants' prioritized needs through the indicative funding ranges, and then apportion to the incentive funding the difference between prioritized needs and the amount of available assets identified at the start of each allocation period. The SIIC will present additional principles to guide the division between indicative and incentive funding, including a final definition of "prioritized needs," for approval by the Board at its Twenty-Ninth Meeting.

⁷ Based on recommendation from the Secretariat, the Finance and Operational Performance Committee (FOPC) and SIIC, as appropriate, will define this "minimum funding level" before the first full allocation period under the new funding model.

PART 4: THE ACCESS-TO-FUNDING PROCESS

4.1 The Country Dialogue process is aimed at enabling applicants to plan programs that have the greatest potential for success. It should build on, and be informed by existing national planning processes. The Country Dialogue will enable the Global Fund to engage more consistently with partners, enabling it to work with CCMs, implementers, technical partners, other donors and in-country stakeholders in the planning of the Global Fund's contribution to broader national planning and funding needs (not just those relating to the Global Fund's processes and structures). Country Program Reviews⁸ provide an important opportunity at which partners and implementers can assess country-level evidence and develop strategic investments and applications. The Global Fund will be working with partners to support these Reviews as a likely venue for Country Dialogues and investment discussions.

4.2 To assist applicants in this important planning, the Secretariat will provide guidance on the operational elements applicants should address, as well as facilitate support from partners on technical issues. The Secretariat will capture the recommendations and information provided to applicants and feed them back to key stakeholders (including the TRP), to ensure alignment. The Secretariat will provide information on available funding and operational issues as part of its overall guidance to applicants.

4.3 The Secretariat will apply qualitative factors to create indicative funding ranges. These qualitative factors will also highlight the key operational challenges the country will need to address to obtain maximum funding. The Secretariat will also use these criteria during and after the Country Dialogue to determine the positioning of an applicant within its range. These factors would be evaluated against each country's specific context, and could lead to both upward and downward adjustments. These qualitative factors would include the following:

- i. Major sources of external financing;⁹
- ii. Minimum funding levels;¹⁰
- iii. Willingness to pay;
- iv. Past program performance and absorptive capacity; and
- v. Risk.

Concept Notes

4.4 Applicants will request funding through the submission of a Concept Note (a request for funding), which they can submit when they want.¹¹ A single Concept Note could cover one, two or three diseases, and/or cross-cutting HCSS; optimally, they would be presented in a coherent

⁸ In "Country Program Reviews," implementers and partners review the progress of programs and strategies (health or disease), identify gaps, and make adjustments and new investments. As most programs and strategies are now on-going, this is the key in-country point to adjust investments. The Country Dialogues and Concept Notes should be based on these Country Program Reviews, as much as possible. CCMs will be part of this process.

⁹ This criterion has already been applied prior to aggregating resource allocations to the level of Bands, but will be revisited during and after the Country Dialogue.

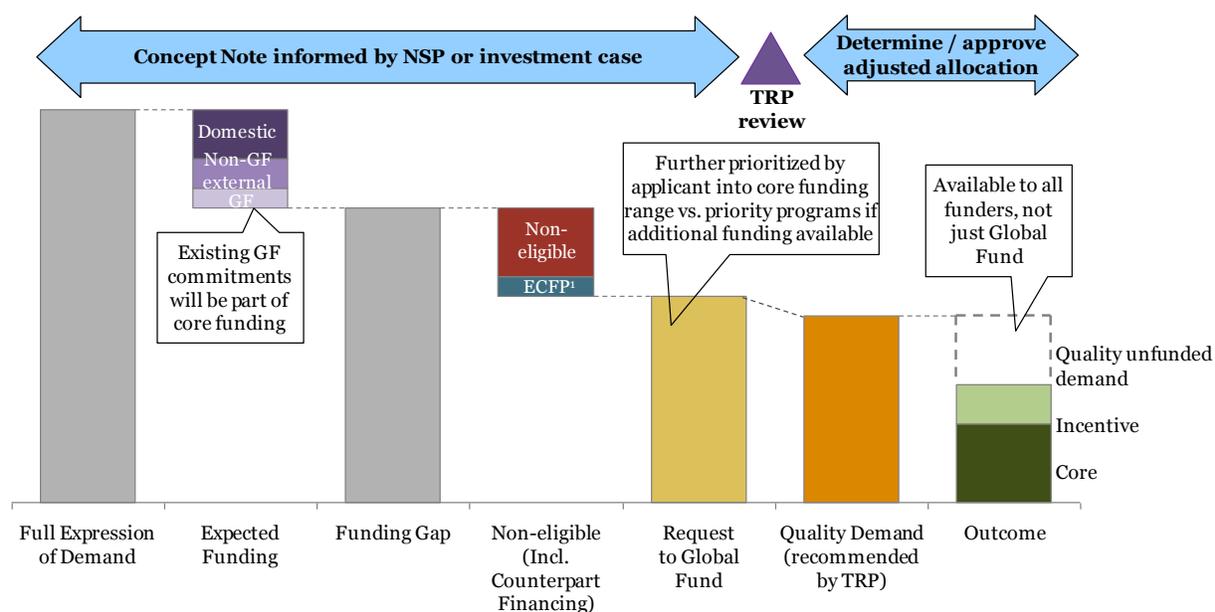
¹⁰ This criterion has already been applied prior to aggregating resource allocations to the level of Bands, but will be revisited during and after the Country Dialogue.

¹¹ Technical review of Concept Notes by the TRP will be on a periodic basis, during several windows of time each year.

and comprehensive health strategy. Each Concept Note will be expected to describe clearly the alignment of its funding request to an overall National Strategy.

4.5 A Concept Note should articulate the “full expression of demand” for the component(s) in question, defined as the total amount of funding needed to finance a technically appropriate response to the disease that is both ambitious and achievable. This should include the collection and analysis of data on disease epidemiology, existing funding and services, demand, and estimated costs of any unmet demand. The Concept Note should also outline which portion of that demand an applicant expects the Global Fund to pay for (taking into account the Eligibility and Counterpart Financing requirements, as well as contributions from other donors and national Governments in implementing countries).

4.6 While the Concept Notes will be kept as short and simple as possible, they must provide enough information for the technical assessment of the funding request by the Secretariat and the TRP. For countries a submitting Concept Note based on robust national strategies or investment cases, the additional information required would likely be reduced (providing another incentive to utilizing a strategy-based approach).



1. Eligibility, Counterpart Financing, and Prioritization requirements (if not already covered by domestic secured funding)
 Figure 2: Moving from “full expression of demand” to a request for Global Fund financing

4.7 The TRP will review an applicant's prioritized full expression of demand, and determine its technical quality. While it is unlikely that the Global Fund would be able to fund all of the quality demand received, the articulation of a prioritized full expression of demand in the application could support further resource-mobilization. As noted above, the Secretariat would maintain a register of quality unfunded demand for possible future funding.

4.8 Under the new funding model, the Global Fund will continue to accept non-CCM proposals (subject to applicable rules) and regional applications. In these circumstances, Concept Notes would likely be project-based applications, and therefore differ in content.

Adapting the TRP to fit the needs of the new funding model

4.9 The TRP will review Concept Notes for technical merit. The new review process will be designed to ensure the Secretariat assesses operational aspects of proposals, with the aim of achieving early risk-mitigation and obtaining better information ahead of the negotiation of a final grant. The TRP's role, composition, working methods and relationship with the Secretariat will need to change to adapt to the new funding model, and will be shaped during the recommended transition.

Information

PART 5: DETERMINING APPLICANTS' RECOMMENDED FUNDING AMOUNTS

5.1 Prior to the roll-out of the new funding model, the Secretariat will develop the process and methodology for awarding incentive funding and present them to the SIIC for approval during 2013. They should , conform to the following principles:

- i. **Ambition.** Additional funding should foster quality expressions of full demand to address the totality of the response to a disease;
- ii. **Strategic focus.** Additional funding should reward robust National Strategies and investment cases, and well-performing programs with a potential for increased, quantifiable impact;
- iii. **Alignment.** The process for awarding should ensure that applicants can access funding aligned to national planning cycles, by avoiding unintended incentives to apply either early or late in an allocation period;
- iv. **Sustainability.** Additional funding should leverage contributions from other sources, including domestic budgets;
- v. **Simplicity.** The processes for awarding additional funding must minimize complexity and transaction costs for implementers, and avoid disruptions to grant-making; and
- vi. **Co-investment or "Willingness to Pay".** Additional funding should also leverage financing from Governments in implementing countries.

Incentive funding and determining an applicant's recommended funding for grant-making

5.2 While many of the details will have to be established during the course of 2013 in anticipation of the full roll-out of the new funding model, the Secretariat has considered that certain approaches would be necessary to make this most feasible:

- i. An applicant's funding amount, including any amount from the incentive stream, should be determined as early as possible, prior to the time a Concept Note proceeds into grant-making;
- ii. All applicants in a Band should be eligible for incentive funding, although there would be no guarantee that they would receive funding;
- iii. Incentive funding should be available throughout the allocation period, and when an applicant submits a Concept Note should not affect the decision;
- iv. The Secretariat should apportion the incentive funding to each of the TRP review windows per Band per year, and may make recommendations to the TRP about distribution of this funding to applicants under review; and
- v. Within a window, incentive funding should be awarded based on the comparative merits of the applicants' Concept Notes.

Supporting unfunded quality demand

5.3 Robust and ambitious funding requests will likely go beyond the level of resources immediately available from the Global Fund. Unfunded quality demand may have to wait for additional resources from domestic sources, the Global Fund, or other donors.

5.4 The Board has agreed that the Secretariat should maintain a register of unfunded quality demand, recognizing that this register is neither an entitlement nor a Global Fund funding commitment. The Secretariat will present a methodology for prioritizing and awarding financing to unfunded quality demand to the FOPC and/or SIIC, as appropriate, for approval in 2013, prior to the roll-out of the new funding model.

5.5 The methodology for prioritizing and awarding financing to unfunded quality demand shall conform to the same set of principles as described above in 5.2.

Decision Point

To advance the development of the new funding model approved in principle in GF/B27/DP7, the Strategy, Investment and Impact Committee (SIIC) recommends that the Board confirm certain additional strategic elements of the model and approve the transition to the new funding model by adopting the following Decision Points:

Decision Point GF/B28/DP4: Evolving the Funding Model (Part Two)

Building on its previous decision *Evolving the Funding Model* (GF/B27/DP7), the Board decides the following:

- 1. Allocation Period:** Every three years, aligned with the replenishment cycle, the Secretariat shall (i) identify the amount of resources available for allocation to the Country Bands, and (ii) update the country-specific information required to use the allocation formula described below.
- 2. Implementation of Grants:** While the allocation period will be aligned with the replenishment cycle, the planning and implementation of grants will be aligned with country planning cycles. The standard period of Global Fund financing for an applicant will be three years, subject to flexibility where deemed appropriate by the Secretariat¹².
- 3. Establishment of Country Bands:** The Board approves the following approach to determine the composition and structure of Country Bands (groups of countries) for the purposes of allocating resources:

¹² Justifications for variations from the three-year standard will be provided to the Board as part of the Secretariat's grant approval requests.

- a. Principles for Determining Country Bands: The Board approves the following principles for determining Country Bands to ensure focus is placed on countries with the highest disease burden and least ability to pay:
- i. **Sufficient Critical Mass**: Each Country Band should have a large enough number of countries and sufficient resources to enable flexibility within it;
 - ii. **Logical Coherence within Each band**: As the incentive funding introduces a need for comparison between applications, countries in each Country Band should be roughly comparable;
 - iii. **Bands Should Not Be Disease-Specific**: Each country should only be part of one Country Band; and
 - iv. **Simplicity**: The system of Country Bands should be easy to communicate and implement.
- b. Composition Criteria for Country Bands: Countries will be allotted to Country Bands based on a composite score generated based on a combination of a country's (i) Gross National Income (GNI) per capita and (ii) disease burden. The principles for these criteria are as follows:
- i. **Transparency**: The factors for "ability to pay" and disease burden should be objective and use widely accepted and available data;
 - ii. **Proportionality**: To adjust funding to population size, the disease-burden measure should take into account the scale of affected persons (in terms of absolute numbers, not percentages) by the three diseases in each country; and
 - iii. **Comprehensiveness**: To avoid putting a country in more than one Country Band, the burden metrics for each of the three diseases in a country should be aggregated into a composite disease-burden measure.
- c. Number of Country Bands: Based on these composition criteria, eligible countries¹³ will be placed in one of four Country Bands based on a combination of: (i) higher or lower disease burden; and (ii) higher or lower income (GNI per capita). One of these Country Bands, corresponding to higher income (GNI per capita) and lower disease burden, will include countries that should finance strategies, projects or plans targeted at most-

¹³ Country eligibility will follow existing criteria approved by the Board in the Policy and Eligibility Criteria, Counterpart Financing Requirements and Prioritization of Proposals for Funding from the Global Fund (<http://www.theglobalfund.org/en/board/meetings/twenty-third/documents>, attachment to GF/B23/14), GF/B25/DP16 and B25/ER/05.

at-risk populations (MARPs); however, countries in this band with generalized epidemics will not be restricted to MARPs related funding.¹⁴

- d. Revising the Bands: Prior to each allocation period, the Board may revisit the composition of the Bands, based on recommendations from the SIIC.

4. Allocation of Available Funding to Each Country Band: As outlined in GF/B27/DP7, the Board will undertake, on a regular basis, a strategic allocation of resources to Country Bands, and this will serve as the primary pool for funding grants. Such allocation will be based on a forecast of available resources approved by the Finance and Operational Performance Committee (FOPC). The Board approves the following approach to the allocation methodology and formula:

- a. Principles for Allocating Funding to Country Bands: The Board agrees on the following principles for allocating funding to Country Bands:
- i. **Strategic Focus:** Focus funding on countries with the highest needs and least ability to pay;
 - ii. **Simplicity:** The methodology should be easy to communicate to implementers and other stakeholders;
 - iii. **Transparency:** The allocation methodology should use objective and widely accepted and available data;
 - iv. **Global Reach:** The funding distribution should remain global;
 - v. **Comprehensive Scope:** Taking committed and uncommitted assets into account; and
 - vi. **Flexibility:** The output of the allocation formula is a guiding number, to be adjusted by pre-determined qualitative criteria.
- b. Allocation Formula: The formula for apportioning funding to Country Bands will be based on each country's "ability to pay" (measured by GNI *per capita*) and disease burden. The SIIC will assess the indicators used in the formula prior to each allocation period, and approve changes deemed appropriate. The specific construction of the formula shall follow the principles below:
- i. **Proportionality:** The disease split implied by the allocation formula at the country should be based on each country's share of global

¹⁴ It is anticipated that some countries will have MARPs-related epidemics for one disease, and not for others.

- disease burden and its ability to pay, applied to each of the three diseases;
- ii. **Flexibility:** The system should feature flexibility in how to apportion funding between the three diseases and health and community systems strengthening (HCSS) at the country level;
 - iii. **Sensitivity:** Qualitative factors will adjust the initial figures derived from the allocation formula to account for the specific circumstances in each country the allocation formula might not capture; and
 - iv. **Calibrated Eligibility:** Not all countries are eligible for all three diseases, as reflected in current Global Fund policy.
- c. Disease Split: As previously agreed by the Board (GF/B27/DP7), to apportion resources to the Country Bands at the start of each allocation period, the Board will first split the total projected resources for a given allocation period between the three diseases. As the Board previously agreed (GF/B27/DP7), the Secretariat will under the oversight of the SIIC develop a measure that can be used to estimate disease burden and financial demand across all three diseases for approval by the Board no later than September 2013.
- d. Apportionment to Country Bands: After making the global disease split described in GF/B27/DP7, the Board will then apportion to each Band a share of the total funding available for the chosen period. These shares will be calculated by adding up the shares produced by the allocation formula for all of the countries in each Band, adjusted for major sources of external financing and, if necessary, a transitional provision to ensure the Global Fund's financial commitments in some countries do not fall below a minimum required level¹⁵ over the allocation period. For countries in the band with lower disease burden and higher income, this aggregation of shares will be based on a separate methodology that is currently under development by the Secretariat which recognizes the particular needs of countries in this band including multi-country grants, regional grants, small island states and MARPs. The Secretariat will present this methodology to the SIIC for approval. Although countries' initial funding ranges will be dependent on the outcome of the Global Fund replenishment, countries will be encouraged to apply to the Global Fund for their full quality demand.

¹⁵ Based on a recommendation from the Secretariat, the FOPC and SIIC, as appropriate, will define this "minimum required level" before the first full allocation period under the new funding model.

- e. New Resources: Any resources that become available during an allocation period in addition to the initially allocated funding can be used by the Secretariat to (i) increase the amount of funding available in the Country Bands, (ii) fund “unfunded quality demand” (see paragraph 6), or (iii) propose to the SIIC to use some of these resources to fund special initiatives as described in GF/B27/DP7.

5. Indicative and Incentive Funding: As part of its allocation, the Board will divide the total amount of resources allocated to each Country Band into indicative and incentive funding:

- a. Purpose of Indicative Funding: Indicative funding should ensure predictability for applicants, and should defend the Global Fund’s aggregate investments in ways that go beyond the Continuity of Essential Services.
- b. Purpose of Incentive Funding: As the Board previously agreed (GF/B27/DP7), a portion of funds will be used to establish a funding stream to incentivize high impact, well-performing programs and the submission of robust, ambitious requests based on national strategic plans or investment cases. The apportionment of funding to this stream will be substantial so as to ensure sufficient funds are available to motivate full expressions of quality demand.
- c. Determining the Division between Indicative and Incentive Funding: The Board will decide the required resource levels to meet the applicants’ prioritized needs through the indicative funding ranges for the allocation period, and apportion to the incentive funding the difference between prioritized needs and the amount of available assets identified at the time of the allocation. In this way, additional resources mobilized during the given replenishment period may be apportioned to incentive funding. Additional principles to guide the division between indicative and incentive funding, including a final definition of prioritized needs, will be approved by the Board at its Twenty-Ninth Meeting, based on recommendations of the SIIC.
- d. Access to Funding: The access to funding process will be based on country dialogue and reviews where the Global Fund is part of joint country-led processes, including within the CCMs and with other relevant partners, and will result in the development of a Concept Note.
 - i. Access to Indicative Funding: The determination of indicative funding ranges will be supplemented by qualitative factors including, but not limited to, the following:

1. Major sources of external financing;
 2. Minimum funding levels;
 3. Willingness to pay;
 4. Past program performance and absorptive capacity;
 5. Risk; and
 6. Increasing rates of new infections in lower prevalence countries.
- ii. Access to Incentive Funding: The Secretariat will develop the process and methodology for awarding incentive funding. Prior to the full implementation of the new funding model, the Secretariat will present to the SIIC for approval this methodology, which shall conform to the following principles:
1. **Ambition**: Additional funding should foster quality expressions of full demand to address the totality of the response to a disease;
 2. **Strategic Focus**: Additional funding should reward robust National Strategies and investment cases, and well-performing programs with a potential for increased, quantifiable impact;
 3. **Alignment**: The processes for awarding additional funding should ensure that applicants can access funding aligned to national planning cycles, by avoiding unintended incentives to apply either early or late in an allocation period;
 4. **Sustainability**: Additional funding should leverage contributions from other sources, including domestic budgets;
 5. **Simplicity**: The processes for awarding additional funding must minimize complexity and transaction costs for implementers, and avoid disruptions to grant-making; and
 6. **Co-investment or Willingness to Pay**: Additional funding should also leverage financing from Governments in implementing countries.
- 6. Managing Unfunded Quality Demand**: Since quality demand by countries could exceed the level of resources available, the Secretariat will maintain a register of unfunded quality demand. The Global Fund will prioritize this demand for future

funding should additional resources become available, as well as invite other donors to finance this demand directly:

- a. Prioritizing and Awarding Financing to Unfunded Quality Demand: The Secretariat will determine how to prioritize and award financing to unfunded quality demand and will present this methodology to the SIIC, as appropriate, for approval prior to the full implementation of the new funding model. This methodology for prioritizing and awarding financing to unfunded quality demand shall conform to the same set of principles as set forth in paragraph 5.d.ii above.

For Decision

PART 6: TRANSITION TO THE NEW FUNDING MODEL

6.1 This Section presents the SIIC's recommendation to the Board for a transition to the new funding model that would enable the Secretariat – together with implementing countries, technical partners, other donors and the TRP – to pilot critical elements of the new system, thereby allowing for any revisions required, including any needed further consultation with the Board, prior to its full roll-out.

Funds available to pilot the new funding model

6.2 The SIIC recommends that the Board will approve a portion of currently available uncommitted assets, after a recommendation by the FOPC before the end of 2012, to be used in a transition phase to pilot elements of the new funding model. The Board will vote electronically to approve the FOPC's recommendation.

Eligible Countries

6.3 The Secretariat would invite a select number of countries to participate in the Transitional Phase ('the pilot'), focusing on countries that are:

- i. Significantly "underfunded" over the 2013-2014 period;
- ii. At risk of service interruptions;
- iii. Positioned for rapid impact; and
- iv. Diverse across size, geography, capacity and proposal modalities (including non-CCM and regional applicants), such that lessons learned can be derived from all aspects of the funding model, including funding for underserved populations and MARPs.

6.4 This approach would enable the testing of the allocation formula and ensure the Global Fund makes new financing available to recipients in countries with the greatest unmet need. The above factors would allow for a meaningful, yet manageable, pool of applicants for the pilot. Participation in the pilot would not preclude accessing new funds through the full new funding model.

Distributing funding under the pilot

6.5 As previously agreed by the Board (GF/B27/DP7), the Board would first split the total projected resources for a given allocation period between the three diseases, which for the transition period will reflect the historical distribution of the Global Fund's portfolio.

6.6 The Secretariat would then determine and communicate an indicative funding range for each country in the pilot. These ranges would be informed by the degree to which each country is underfunded and the level of funding required to prevent programmatic service interruptions, as well as other qualitative factors described in Section 5.1. The Secretariat would provide applicants with a guidance package, which would include Investment Frameworks, Minimum Standards, and Investment Guidance. Current Global Fund eligibility criteria would still apply.

6.7 Similar to the Targeted Funding Pool established in the Eligibility and Counterpart Financing policy, the pilot would also provide an opportunity for some applicants to request funds for targeted interventions, including those that specifically support MARPs. All upper-middle-income (UMI) countries included in the pilot would be in this group. Similar to the conditions under the ECFP¹⁶, UMI countries with a "high" disease burden would be limited to a certain ceiling per year for each relevant disease, differentiated according to population size. For country disease programs with "extreme" or "severe" burden, no such limitation would apply.¹⁷

6.8 Finally, the Secretariat would invite a subset of countries to pilot the full access-to-funding process, including the submission of a Concept Note, with the opportunity to obtain incentive funding in addition to indicative funding. The Secretariat would establish the amount of incentive funding available to these countries.

6.9 The primary vehicle for funding all of the above groups would be existing grants, although it is possible that new grants will be recommended. In requests for additional funds, applicants would be expected to maximize the use of existing funds through reprogramming when necessary. Depending on context and needs, funding secured could increase the amount of funds for a program either a) over the existing duration of the grant, or b) through an extension of the existing grant by up to two years.

Guidance on funding requests

6.10 Shortly after the Board's approval of the proposed pilot, the Secretariat would engage the relevant CCMs to begin discussions on the use of these funds, by noting performance and programmatic issues that would be important to address. Existing external funding would also be taken into consideration at this stage, to calibrate funding requests appropriately and ensure additionality.

6.11 To optimize learning, the Secretariat and the TRP would work together to actively identify key entry points for the TRP to review and provide feedback and recommendations on funding requests received during the transition, not limited to the sub-set of countries that would submit a Concept Note. The TRP has recommended it be engaged through a light process early on so as to minimize the risk that Concept Notes are not accepted during their full review. The

¹⁶ Which established an upper-ceiling of US\$ 5 million for two years for applicants.

¹⁷ As under current eligibility criteria, low-burden disease programs in upper middle-income (UMI) countries would not be eligible for requesting new Global Fund financing.

composition and modalities of the TRP will need to change, and the transition phase provides an excellent opportunity to identify an optimal approach.

6.12 The SIIC recommends that during the transition phase that the Board electronically approve investments negotiated by the Secretariat and recommended by the TRP by using the “no-objection” process now employed for approving funding decisions for renewals and continuations of existing grants.

6.13 To implement the transitional phase of the new funding model, the Board would need to authorize the Secretariat, under the oversight of the FOPC and SIIC, to make temporary exceptions to existing policies and procedures.

Decision Point GF/B28/DP5: Evolving the Funding Model (Part Three)

Referring to its previous decision *Evolving the Funding Model* (GF/B27/DP7) and GF/B28/DP4, the Board decides to launch the transition to the new funding model immediately by taking the following steps:

1. Transition to the Full Implementation of the New Funding Model: The Board decides to invest a portion of currently available uncommitted assets, to be determined by the Finance and Operational Performance Committee (FOPC) before the end of 2012, in a transition phase to test elements of the new funding model.
2. Participation:¹⁸ The Secretariat would invite countries to participate in the Transition Phase, considering those that are:
 - a. Significantly “underfunded” over the 2013-2014 period;
 - b. At risk of service interruptions;
 - c. Positioned to achieve rapid impact; and
 - d. Diverse in areas including, but not limited to size, geography, capacity and proposal modalities (including non-CCM and regional applicants), such that lessons learned can be derived from all aspects of the funding model, including funding for underserved and most-at-risk populations (MARPs).¹⁹

¹⁸ Participation in the transition phase will not preclude access to new financing when the new funding model is implemented in full.

¹⁹ For the purposes of the transition to the new funding model, “MARPs” will be defined as subpopulations, applying to HIV/AIDS, malaria and tuberculosis, within a defined and recognized epidemiological context:

- 1) That have significantly higher levels of risk, mortality and/or morbidity;
- 2) Whose access to or uptake of relevant services is significantly lower than the rest of the population; and
- 3) Who are culturally and/or politically disenfranchised and therefore face barriers to gaining access to services.

The Secretariat will report quarterly to the Strategy, Investment and Impact Committee (SIIC) on the identity of countries participating in the Transition Phase. Countries, including those not invited to participate in the Transition Phase, are nonetheless encouraged to work on developing strong national strategies, reflecting full expressions of demand, and beginning Country Dialogues and iterative processes to encourage Concept Notes to be ready to allow for funding, based on the replenishment, to begin in early 2014.

3. Disease Split: As previously agreed by the Board (GF/B27/DP7), to apportion resources to the Country Bands for this transition period, the Board will first split the total projected resources between the three diseases based on the historical distribution of the Global Fund's portfolio: 52% for HIV, 32% for malaria, and 16% for tuberculosis.
4. Allocating Funding to Eligible Countries in the Transition Phase: The Secretariat will determine an indicative funding range for each participating country based on the principles approved by the Board for indicative funding ranges in GF/B28/DP4 as adjusted by qualitative criteria²⁰ and informed by the extent to which each country is "underfunded". The SIIC will assess the indicators used in the allocation formula prior to the commencement of the Transition Phase.
5. Channeling Funding During the Transition Phase: The primary vehicle for investing the additional funding during the transition phase will be existing grants.
6. Use of Concept Note and Incentive Funding in the Transition Phase: A subset of participating countries will receive an invitation to participate in the Concept Note process outlined in GF/B27/DP7, and as such will have an opportunity to access incentive funding in addition to the indicative range amounts per country. The incentive funding available to these countries will be limited to a ceiling established by the Secretariat at the time the transition is launched.
7. Strategic Investment Frameworks, Minimum Standards and Investment Guidance: The guidance package the Secretariat will make available to Country Coordinating Mechanisms (CCMs) in the transition phase will include Strategic Investment Frameworks and Minimum Standards.
8. Independent Technical Review of Funding Requests: To optimize learning, during this transition, the Secretariat and the Technical Review Panel (TRP) will jointly identify entry points for the TRP to review and provide feedback and recommendations on funding requests. As part of the transition to the full implementation of the new funding model, the composition and modalities of the TRP may change from current practice during the transition phase.

²⁰ The qualitative criteria will include external financing, "willingness to pay", absorptive capacity, performance of current and previous Global Fund grants and risk.

9. Board Approval of Investments during the Transition Phase: During the transition phase, the Board will approve electronically the investments negotiated by the Secretariat and recommended by the TRP, on the basis of the Board’s “no-objection” process for approving funding decisions for renewals and continuations of existing grants.
10. Existing Policies and Procedures: The Board authorizes the Secretariat, under the oversight of the FOPC and SIIC, to make temporary exceptions to, or apply restrictions contained in, existing policies and procedures to the extent necessary to implement the transition phase of the new funding model.
11. Assessing the Effectiveness of the Transition: The SIIC will have responsibility for assessing the effectiveness of the Transition, based on a monitoring and evaluation plan presented by the Secretariat, in consultation with the Technical Evaluation Reference Group. The SIIC will report to the Board regarding the effectiveness and lessons learned from the Transition.

PART 7: PATH FORWARD

7.1 Figure 3 on the following page outlines the key milestones for the path forward in the finalization and roll-out of the new business model.

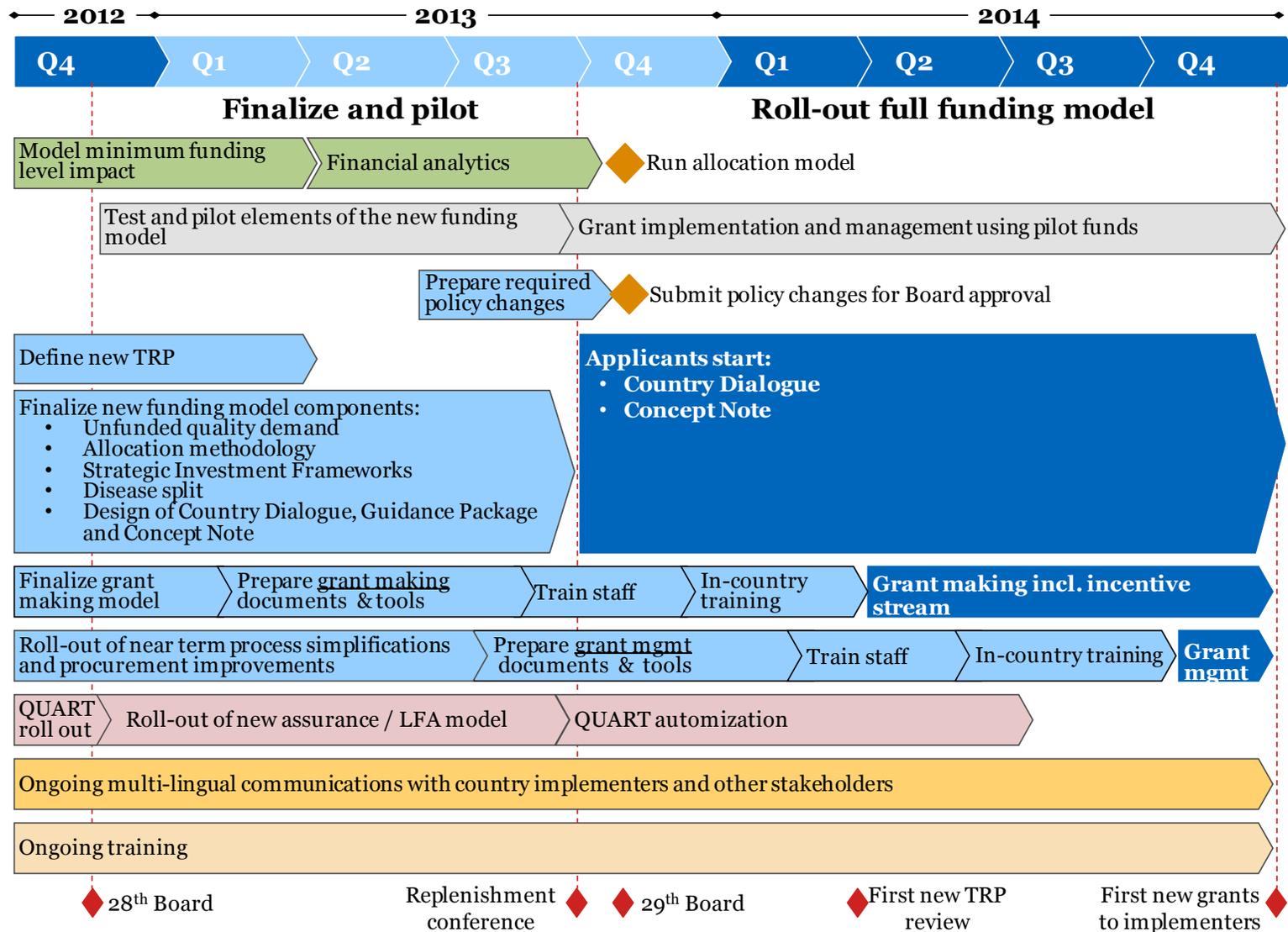


Figure 3: Indicative phases for the roll-out of the new business model

This document is part of an internal deliberative process of the Global Fund, and, as such, cannot be made public until after the Board meeting.