

GLOBAL FUND OBSERVER (GFO) NEWSLETTER, a service of Aidspan.

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BOARD MEETING HIGHLIGHTS
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This issue of GFO is devoted entirely to decisions made at the Global Fund board meeting that took place in Arusha, Tanzania on November 18-19. The Fund holds three board meetings per year. This was the ninth such meeting. GFO was present, with observer status.

The meeting was remarkable for its constructive spirit. Board members ranging from government ministers to activists, and coming in equal number from developed and developing countries, felt free to disagree, and often did. But as they moved from challenge to challenge, it became increasingly clear that they had a shared commitment to what the Fund stands for, and a shared desire to make the Fund succeed, even if not a shared approach as to how this should be done.

The highlights of the meeting, discussed further below, are as follows:

Future Grants

1. [Round 5](#). Agreement was reached, after much tension, on the launch of Round 5. Application forms will be made available on 17 March 2005, and must be completed by 10 June 2005. Grant approvals will be made at the end of September 2005.
2. [Guidelines for proposals](#). Proposals will no longer be accepted for an "HIV/TB" component.
3. [Technical Review Panel](#). Three new members have been added to the TRP.

Country Coordinating Mechanisms (CCMs)

4. [CCM requirements](#). The board has finally agreed to some "requirements" regarding CCM procedures. These appear to mean that a proposal could be rejected, however good it is, if it comes from a CCM that does not comply with these requirements.

Existing Grants

5. [Phase 2 renewal decision-making](#). Four or more board members can, under certain circumstances, block Phase 2 renewal of a grant.
6. [Continuity of services](#). Procedures have been designed for temporary continuation of certain financial support if Phase 2 renewal is declined for a grant in which people have already been placed on antiretroviral treatment.
7. [Reprogramming in the light of changing scientific evidence](#). The TRP might get involved in reassessing a grant after it starts, if reprogramming to use new malaria drugs is recommended by the Fund but refused by the CCM.

Other Grant-Related Issues

8. [Technical support](#). The board approved some broad principles regarding the provision of technical support.
9. [Grants in Euros/Dollars](#). Grants can change from dollars to euros between Phases 1 and 2.

10. [Quality assurance of single- and limited-source pharmaceutical products](#). A modest time extension has been provided during which a "single- or limited-source product" that is only authorized by the national drug regulatory authority in the recipient's country can be purchased with Global Fund grants.

Resource Mobilization

11. [Replenishment Conference](#). Kofi Annan will chair the Fund's Replenishment Conference next year.
12. [Comprehensive Funding Policy](#). The Fund will commission a study of its Comprehensive Funding Policy and other fiscal management issues.

Governance

13. [Partnership Forum report](#). Feedback was provided regarding the Partnership Forum.
14. [Board committees](#). The Fund's board committees will be restructured.

Administration

15. [Assessing the Executive Director and board](#). The performance of the Fund's Executive Director, and also of its board, will be assessed annually using scientific methodologies.
16. [Secretariat Budget 2005](#). The Fund's Secretariat budget will increase to \$67 m. and its number of staff will increase to 150.
17. [Calendar](#). Dates have been set for 2005 meetings and events.

The Global Fund has posted at its web site many of the papers that were used as input working documents for this board meeting, and will shortly post the precise wording of all resolutions passed. These documents can be accessed at www.theglobalfund.org/en/about/board/ninth and www.theglobalfund.org/en/about/board/ninth/boardmeetingdocs.

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Future Grants

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1. Round 5

After much debate and with considerable compromise, the Global Fund board unanimously agreed to launch "Round 5," the Fund's fifth cycle of grant-making. The dates will be as follows:

- 30 January 2005: Release of the draft Guidelines for Proposals. This document is expected to be fairly similar to the Round 4 version.
- 17 March 2005: The "Call for Proposals" – the Fund invites Round 5 applications, and publishes the Application Form, the final Guidelines for Proposals, and a forecast of how much money is likely to be available.
- 10 June 2005: Deadline for submission of completed Round 5 proposals.
- 28-30 September 2005: Board decision regarding which Round 5 proposals to approve.

In the past, the Fund has approved a Round of grants every eight months. The gap between approving Round 4 and Round 5, however, will be fifteen months. There was no discussion of when Round 6 will be.

During the buildup to the meeting, it appeared that there would be a major fight regarding Round 5. Board members representing NGOs and developing country governments wanted to launch the

Round now and to approve grants in July 2005, as did the Secretariat. The US delegation, on the other hand, with apparent backing from Japan and France, made it widely known that it opposed launching Round 5 at the Arusha meeting, wanting to delay the whole process six to twelve months. The US's rationale was that too many grants are moving slowly, the Secretariat does not have the capacity, and there is not enough money. (An additional factor influencing the US position is that although it supports the Fund, it also supports, possibly more strongly, its own "PEPFAR" program.)

The first sign that compromise might be possible came when some board members representing developed country governments, particularly Canada, let it be known before the meeting that they did not support the US position. The second sign came when the US chose, within the meeting, to repeat almost none of the criticisms of the Fund that it had made in a recent Congressional briefing. And the third came when board members representing developing country governments, who in the past have sometimes declined to side with the more progressive positions adopted by the NGO board members, made it quite clear that they regarded an immediate launch of Round 5 as imperative, but that they did not feel so strongly about the precise month in which proposals were approved.

Underlying the timing considerations was the issue of how much money will be available. The US pointed out that the \$1,310 m. required to cover renewals of Round 1-4 grants in 2005 will be \$285 m. more than has been promised to the Fund thus far for 2005 – meaning that based on current pledges, a negative amount is currently available for new (Round 5) grants next year. Others responded that this does not take into account the hundreds of millions of dollars that can be expected to come in additional pledges during the coming year. And further money could be freed up if the Fund softens its conservative Comprehensive Funding Policy, which requires that the entire cost of a grant be placed in the bank before the grant agreement is signed.

The final compromise decision appeared to be welcomed by all, with the unanimous vote being articulated with many firm calls of "Yes," plus a "Oui" and a "You bet." It means that potential grant applicants now have five months to clarify their national strategy and to decide the broad design features of the project for which they will apply for Global Fund support, followed by nearly three months during which to complete the complicated application form. (In the past, there has often been a "tail wagging the dog" situation in which national strategy and project design were to some extent invented on the fly while the application form was filled in.)

Still completely unknown is how much money will be available for Round 5. If donors give as much in 2005 as they are expected to give in 2004, there will be only about \$400 m. available for Round 5 – whereas the cost of all approved proposals in Round 4 was \$1,000 m. Maybe, in fact, 2005 contributions to the Fund will be less than in 2004, particularly because some donors "front-loaded" their contributions in 2004 in order to avoid a funding crisis with Round 4. On the other hand, maybe contributions in 2005 will increase, particularly if the two-part Replenishment Conference of donors due to take place in March and early September is successful – though that event will focus primarily on 2006-7. Left unstated by nearly all is that the Fund, although remarkable for having grown in three years to a multi-billion dollar operation, is still nowhere near the "cruising altitude" that Kofi Annan pointed out that the pandemics require when he first proposed the Fund.

2. Guidelines for proposals

The Guidelines for Proposals to be used in Round 5 are ready in draft form. They are fairly similar to the Round 4 version. The main change is that countries will no longer be able to submit applications for a joint "HIV/TB" component. Instead they can (as at present) apply for HIV, TB, Malaria, or Integrated grants; and in countries where HIV and TB epidemics are heavily intertwined, the form will ask that HIV applications include TB control dimensions, and that TB applications include HIV interventions.

The Guidelines document was sent back for final committee work to evaluate whether any countries are unreasonably excluded from eligibility.

3. Technical Review Panel

The board approved three new members of the TRP: Jacob Kumaresan of India, Lucica Ditiu of Romania, and Joseph Decosas of Germany.

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Country Coordinating Mechanisms (CCMs)
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4. CCM requirements

At its June meeting, the board, led by developing-country government members, had rejected proposals by its Governance and Partnership committee that CCMs be "required" (as against merely recommended) to implement certain measures. That decision was strongly objected to at the Fund's Partnership Forum in July.

Now, in Arusha, the same committee came back proposing a somewhat reduced list of "CCM requirements," and this time the requirements were approved. The precise wording adopted by the board was as follows:

- (a) "All CCMs are required to show evidence of membership of people living with and/or affected by the diseases;"
- (b) "CCM members representing the non-government sectors must be selected by their own sector(s) based on a documented, transparent process, developed within each sector;"
[Editor's note: It was made clear that "the non-government sectors" means all sectors that are not part of the national government.]
- (c) "CCMs are required to put in place and maintain a transparent, documented process to:
 - Solicit and review submissions for possible integration into the proposal;
 - Nominate the Principal Recipient(s) and oversee program implementation;
 - Ensure the input of a broad range of stakeholders, including CCM members and non-members, in the proposal development and grant oversight process"
- (d) "The decision will be effective from Round 5 onwards and for Phase 2 renewals starting from June 2005."
- (e) "The Board agrees to make the following word substitution in the CCM Guidelines: 'When the PRs and Chair or Vice Chairs of the CCM are the same entity, the CCM must [changed from "should"] have a written plan in place to mitigate against this inherent conflict of interest.' "

In addition, the board asked its Governance and Partnership Committee to propose clearer guidelines regarding two issues: First, the role of the CCM in providing oversight of grants; and second, the possible provision by the Fund of direct financial support for the establishment and running costs of CCM Secretariats.

The decisions regarding "requirements" are very significant. They appear to mean that if any CCM submits a Round 5 application without having implemented these requirements, the application will automatically be "screened out" by the Secretariat and thus cannot be approved. Likewise, if a grant is being considered for Phase 2 renewal in June 2005 or later, that renewal cannot be approved if the CCM is not in compliance with the new requirements.

[Note 1: Next month, Aidspan – publisher of GFO – will release an 80-page document entitled "The Aidspan Guide to Building and Running an Effective CCM." This will include advice on dealing with these new requirements, and a sample CCM Terms of Reference. Further details will be provided in GFO at the time of release.]

[Note 2: The three proposed "requirements" that were defeated in June and were not re-submitted in Arusha – and that therefore remain in place as recommendations but not requirements – are:

- The membership of the CCM should comprise a minimum of 40% representation of non-government sectors such as NGOs/community based organizations, people living with the diseases, religious/faith-based organizations, private sector, academic institutions.

- The CCM should submit to the Global Fund Secretariat, for publication at its web site, an annual list showing the name, organization, sector and (when available) email details for each member of the CCM, and should make this publicly available domestically.
- The CCM should elect a Chair and Vice Chair from different sectors.]

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Existing Grants

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5. Phase 2 renewal decision-making

When the board originally approves a grant, it approves it for five years, but only makes available funding for the first two years ("Phase 1"). At Arusha, the board had to decide whether to delegate the entire grant-by-grant decision regarding the remaining three years ("Phase 2") to the Secretariat, or whether to be somewhat involved itself.

At the March 2004 board meeting, the board had delegated the Phase 2 decision to the Secretariat, subject to the Secretariat following detailed agreed procedures. But the US delegation objected to this, partly on the grounds that Members of Congress would be less likely to approve substantial contributions to the Fund if the US could not play any role in such decisions.

During this debate, the discussion focused on poorly-performing grants: If the Secretariat wants to approve a Phase 2 renewal to a country that has performed poorly during Phase 1, does the board have the right to over-rule the Secretariat? But underlying it was not just performance, but also politics: What if the Phase 2 renewal is for a grant to a country that the US regards as an "illegitimate and hard line regime," like Myanmar, Cuba, Iran or Sudan?

Most board members preferred not to change the policy, but they were anxious not to alienate the US and one or two other donors. So a compromise that had been hammered out in recent weeks was approved in Arusha. In brief, each time a grant comes up for Phase 2 renewal, the Secretariat will inform the board of its recommendation. If any board member wishes to object to (or simply to query) that recommendation, they may do so by email. If, within ten days, four or more "donor" board members or four or more "recipient" board members have queried the Secretariat's recommendation, implementation will be put on hold while additional information is gathered. The process then repeats itself. If there are still enough votes to force reconsideration, a final decision will be made at the next board meeting. In all other cases, the Secretariat's recommendation will be implemented.

This decision-making procedure will be followed until the first board meeting in 2006. At that time, if the board does not renew this procedure, the procedure will revert to the one agreed in March 2004.

According to a board member, any objections cited by board members to specific Phase 2 renewals will be noted and explained at the Fund's web site, though it is not known if the identity of the board member filing the objection will be revealed.

The ability that the board has now given itself to engage in "line-item" budgeting regarding Phase 2 approvals is not one that it has given itself regarding the original grant approval, where – thus far – it has voted by a single vote to approve all proposals recommended by the TRP.

6. Continuity of services

The Fund will soon be considering its first applications from grant recipients for Phase 2 renewals, covering funding for Years 3-5. The Fund has for some time budgeted on the assumption that only 85% of these requests will be approved. Some believe that the percentage approved will be lower. In all cases, Secretariat recommendations will be based on a detailed evaluation – by the Fund and by the CCM – of performance during the first sixteen months of the grant.

This obviously raises the possibility that a grant will be rejected for Phase 2 renewal after some people have started to be provided, during Phase 1, with life-saving antiretroviral treatments that are needed on a life-long basis.

At Arusha, the board agreed that in such a situation, the CCM in question can apply for up to two years of funding to cover the cost of continuing the treatment of those specific people. During that period, alternative sources of funding, or alternative projects to support those particular people, can be sought.

7. Reprogramming in the light of changing scientific evidence

Some Round 1 and 2 malaria grants were based on the use of older malaria drugs that in many regions have become less effective than the newer and more expensive artemisinin-based combination therapy (ACT). The Fund was strongly criticized in some academic papers for not responding quickly to this situation.

Generalizing from this, the Fund has recognized that it must decide what to do whenever a grant needs to have its design changed as a result of new scientific evidence that the approach in the proposal is no longer the best approach. Two questions arise: How should such a change be paid for? And what should be done if the grant recipient disagrees with the Fund about whether a change of design is needed?

Regarding the first question, the board agreed at an earlier meeting to set aside some additional funding to cover such situations; and in Arusha, the board agreed that such a situation can also make it acceptable to move more quickly from Phase 1 funding to Phase 2 funding. Regarding the second question, the board agreed in Arusha that the original approval of such a grant can be re-examined by the TRP. In the limit, this means that if a grant recipient in this situation refuses to come up with an improved project design, the grant's approval could be revoked.

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Other Grant-Related Issues

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8. Technical support

At its last meeting, the board set up an ad hoc committee to hold three days of meetings to generate some recommendations regarding the provision of technical support to applicants for and recipients of Global Fund grants. Arising from this, the Arusha board meeting made some relatively basic statements on "the critical importance of technical support for the proposal development stage and throughout the life cycle of the grant, particularly from partners in-country." The board said that the Secretariat should "clearly communicate to CCMs and PRs that technical support can be funded through Global Fund grants," and it supported current Secretariat efforts to develop an early warning system to identify technical support needs.

9. Grants in euros and dollars

The board fleshed out details of its earlier decision to permit grants not just in US dollars (as in the past) but also in euros. The final decision was: Phase 1 of all Round 1-4 grants will be paid in dollars. Phase 1 of grants in subsequent Rounds will be in euros or dollars, as chosen in the original application. Phase 2 of all grants will be in euros or dollars, as chosen by the applicant in its Phase 2 renewal request. Where a currency change is requested between Phase 1 and Phase 2, the value of the Phase 2 renewal will be converted from the original grant amount at the exchange rate that applies when the renewal recommendation is sent to the board for approval.

10. Quality assurance of single- and limited-source pharmaceutical products

At its October 2002 meeting, the board decided that if a medicinal product is to be eligible for purchase using Global Fund grants, it must meet various requirements. One of these is that if it is a "single- or limited-source product," it must (a) have been found to be acceptable by the WHO-initiated UN Pilot Procurement Quality and Sourcing Project, or (b) have been authorized for consumption in its country by a stringent regulatory authority, or (c) have been authorized by the national drug regulatory authority in the recipient's country. Option (c) was originally applicable only until December 31, 2004, after which suppliers must comply with condition (a) or (b).

At the Arusha meeting, the ability to use option (c) was extended to April 30, 2005.

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Resource Mobilization
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11. Replenishment Conference

The board agreed at an earlier meeting that in 2005 it will hold a two-part Replenishment Conference at which many donors and potential donors will meet to discuss Global Fund needs and the amounts they are prepared to pledge for 2006 and 2007 (and, with luck, for 2005).

In Arusha it was agreed that the Conference will take place in Stockholm in March, and in the UK in early September. It was also agreed that the Chair will be Kofi Annan, UN Secretary-General, and the Vice-Chair will be Dr. Sven Sandström of Sweden.

12. Comprehensive Funding Policy

As discussed in previous issues of GFO, one problem that the Fund currently faces is that it has a policy stating that before it signs any grant agreement, it must place in the bank the entire amount that implementing that agreement will cost. This means that it will find itself sitting on a multi-billion dollar "cash mountain" which, although it is all spoken for, gives the impression that the Fund has spare cash when in fact it does not.

Arising from this, the board agreed in Arusha to commission a "study of the options and choices available to the Global Fund in its fiscal management structure and processes," to be completed by the April 2005 board meeting. The study is likely to be carried out on a pro bono basis by a major financial service firm.

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Governance
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13. Partnership Forum report

A report was presented to the board by the chair of the committee that planned the Fund's first biennial Partnership Forum, attended by 400 participants in Bangkok in July.

The strongest opinions articulated at the Partnership Forum related to the need for Round 5 to be launched soon, and for certain requirements to be imposed regarding CCM procedures. These views were cited at various times during the board meeting, and definitely were a factor in helping bring about the decisions that the board made on these two topics.

Board members complained, as did the Partnership Forum steering committee, that the PartnersGF electronic forum (outsourced by the Fund to another organization) was never made available in French, Spanish and Russian as had originally been planned.

14. Board committees

Ever since the Fund was established, much of the board's work has been carried out by four major and two minor board committees. Whenever it is clear that a particular topic requires a considered board decision, a board committee is asked to evaluate it in depth, seeking support as needed from the Secretariat. The committee then makes its recommendations to the board, which accepts, modifies, or rejects the recommendations.

At the Arusha meeting, the board received the findings of a major study that it had commissioned, on a pro bono basis, from a consulting firm. The board adopted "in principle" the study's main recommendations, which were focused on replacing the original six board committees with four new committees, and streamlining committee procedures in various ways. The four proposed new

committees will deal with Strategy & Policy, Finance & Audit, Portfolio (i.e. Grant) Management, and Ethics.

A temporary committee consisting of the chairs of the six current board committees plus a seventh board member acting as chair will recommend how to set about implementing the recommendations.

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Administration

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15. Assessing the Executive Director and board

The board agreed on a procedure for conducting an annual assessment of how well the Executive Director (Richard Feachem) performs his job. The procedure will measure his skills against seven "competencies," and will measure his actual performance against fourteen "Key Process Indicators" (KPIs). The competencies will be strategic thinking, results focus, team leadership, change leadership, people development, collaboration/communication, and functional/technical competence. And the KPIs will range from the percentage of the Fund's 2005 funding needs that end up being contributed that year (for which the target is 100%) to the percentage of Global Fund staff who say in a survey that they have a "high" or "very high" degree of professional satisfaction and motivation (for which the target is 70%). The agreed approach is designed to be one that can be extended to assessing the work of others within the Secretariat.

A number of board members commented that this approach, which is common in large corporations, is unusual in governmental or multilateral institutions, and it was clear that they hoped that the Fund's use of this approach might inspire others.

The board recognized that performance against some of the KPIs (e.g. funds raised) will depend not just upon the effectiveness of the Executive Director and his staff, but also upon the effectiveness of the board itself. Accordingly, the board agreed that it will conduct an annual self-evaluation of its own performance against five targets.

16. Secretariat Budget 2005

A year and more ago, some board members were quite resistant to requests being made by the Secretariat to substantially increase the Secretariat budget (primarily through increasing the number of staff from the then level of about 75) as the number of grants under management steadily climbed. However, in recent months an agreed approach has been arrived at. The Secretariat has reduced some of its expectations, and the donor governments represented on the board have accepted that the Fund cannot do its job effectively if there is not a fairly significant increase in the number of staff, particularly those who oversee grants.

Thus, by the time of the board meeting there was little difficulty agreeing on the Secretariat budget for 2005. The budget will be \$67.1 million (after including the administrative costs of launching Round 5), of which two thirds is for the Secretariat itself and one third is for Local Fund Agents. By the end of 2005 the number of staff will be 150, all based in Geneva. Between 2004 and 2005, the budget will increase 15%, the number of staff positions will increase 27%, and the number of grants under management will increase 82%. The 2005 Secretariat budget will equal 2.3% of the value of grant agreements signed that year, and will equal 5.0% of the value of grant disbursements sent out that year.

At the same time that the board approved the Secretariat budget, it resolved that during 2005 the Fund will commit no more than \$1,310 m. for Phase 2 renewals of Round 1-4 grants. That figure was derived based on the assumption that 15% of Phase 1 grants will not be renewed. Thus, the Fund will not be in a position to be "nice" to countries seeking Phase 2 renewal for grants that have performed very poorly during Phase 1; the \$1,310 m. represents a cap on what the Fund is prepared to commit for renewals that year.

17. Calendar

The following dates were agreed for events during 2005: First Replenishment Conference (Stockholm), March 14-16; Call for Round 5, March 17; Board meeting (Geneva), April 21-22; Last date for submitting Round 5 proposals, June 10; Second Replenishment Conference (UK), September 5-7; Board meeting (Geneva), September 28-30; Board meeting (Marrakech), two days in the week of December 12-16.

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END OF NEWSLETTER
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GFO Editor: Bernard Rivers (rivers@aidspan.org, +1-212-662-6800)

GFO Contributing Editor: Esther Kaplan (estherkaplan@earthlink.net)

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