



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 6 July 2001

10558/01

**DEVGEN 116
SAN 90**

COVER NOTE

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Commission
date of receipt : 20 June 2001
to : Mr Javier SOLANA, Secretary-General/High Representative
Subject : Commission Staff Working paper : the Proposed Global Health Fund

Delegations will find attached Commission document SEC(2001) 998.

Encl.: SEC(2001) 998



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 19.6.2001
SEC(2001) 998

COMMISSION STAFF WORKING PAPER

THE PROPOSED GLOBAL HEALTH FUND

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This note, prepared for discussion at the COREPER, sets out the views of the Commission services (hereafter 'Services') on the scope, governance and potential financing of the proposed Global Health Fund (hereafter 'the Fund'). The proposal for a Fund has been developed as a complementary instrument to facilitate larger and more efficient resource flows to developing countries to confront HIV/AIDS, malaria and tuberculosis. The proposal for a Fund has evolved from a series of high level consultations over the past year¹. The UNSG is expected to indicate further progress at UNGASS on HIV/AIDS (25-27 June) and the issue will also be discussed at the G8 summit in Genova (20-22 July). It is envisaged that the Fund would be operational by the end of 2001.

1: PURPOSE AND SCOPE OF THE FUND

Better HIV/AIDS, malaria and tuberculosis outcomes

The purpose of the proposed Global Health Fund is to mobilise, manage and disburse additional and complementary grant resources to enable developing countries to achieve more rapid progress in addressing the challenges created by HIV/AIDS, malaria and tuberculosis (TB). It is intended to achieve these objectives whilst lowering transaction costs for both donors and countries, maintaining high accountability for results, and building on existing development processes. The title of the fund has been subject to much discussion between those who wish to promote the HIV/AIDS agenda and those sharing a wider health perspective. Consensus has gradually emerged that a single fund, with an initial focus on these three diseases/conditions is the most appropriate model. Improving outcomes in relation to these three conditions will require a strong role for the fund in strengthening health systems. The Commission Services, while recognising that an effective response to HIV/AIDS will require action across society and beyond the health sector, favour the title '*Global Health Fund*.' The Fund should support a balanced approach incorporating prevention, treatment and care. The Community should resist pressures to create an HIV/AIDS or commodity dominated fund. It is recognised that commodities, including anti-retroviral drugs, will comprise part of the overall response.

Consistency with the Community Communicable Disease Agenda

The Commission services' view on the Fund is based on the agreed Community Programme of accelerated action against the major communicable diseases². The Programme highlights action across the trade, research and development agendas. Preventive efforts should remain the primary focus of EC efforts in this area, and this policy also applies to the Fund. Increased

¹ Including the G8 Okinawa Summit (July 2000), the International Round Table on Communicable Diseases in Brussels (September 2000), consultations in Ottawa London and Stockholm (2001), and the Geneva consultation on the Fund (June 2001).

² Programme for Action: Accelerated action on HIV/AIDS, Malaria and Tuberculosis in the context of poverty reduction. COM (2001) 96

attention to affordability of key pharmaceuticals and to research and development of new generations of drugs, vaccines and diagnostics will be supported through existing Community instruments. The Fund should complement Commission efforts to increase the impact of existing proven interventions. It should offer opportunities to rapidly scale up access to, and use of, current best practice but also, by signalling to industry that future products will be taken up, could act as an incentive to the development of new drugs and vaccines.

Balancing coverage and need

The resource base of the Fund would fall far short of need and there will need to be definition of clear eligibility criteria. Ideally these should be as broad as possible and linked to existing groups and processes³. Least developed, middle income and countries in transition all face increasing burdens from the three major communicable diseases. However, as the major burden falls upon sub-Saharan Africa and South Asia, the Commission services consider that countries in these regions should initially be targeted.

Greater efficiency of development assistance

The Fund would complement ongoing long-term support to strengthen health systems and should build on national policies and plans. Commission services consider that the main challenge for the Fund would be how to deliver more rapid disbursement of resources, improve the efficiency of existing aid delivery mechanisms and to reduce transaction costs for both donors and recipients. The merit of the Fund should be judged on its expected performance on these points.

Additionality

It is agreed EU policy that resources should be additional to ongoing development assistance. Donors should be able to demonstrate this principle. There are varying views of additionality; the allocation of more health resources to the three diseases, through shifting more development resources to health, or through allocation of more non-development resources to development assistance. These principles should be applied in judging the merits of an EC contribution: Commission services believe that true additionality should entail allocation of more resources to development.

Maximising income

Efforts will be made to solicit non-earmarked funds. However it is recognised that some donors may wish to support the achievement of specific outcomes (e.g. related to HIV/AIDS) or geographic regions. While it is important to maximise resource mobilisation, a high proportion of earmarked funding could run counter to the objective of reduced transaction costs.

Building on country processes

The Commission services consider that the fundamental problem remains the continued inadequate funding of the national health sectors in most developing countries, and that, where credible national sector plans exist, this problem could be addressed by scaling up external support for their implementation. For these reasons, the Fund must support country plans within a global framework provided by poverty reduction strategies (where applicable) and sector plans. Where well-developed sector processes are in place the Fund could deliver resources through the most effective mechanism (e.g. budget support). Where the policy and practice is weak the Fund would work through available partners to strengthen a coherent national response. The country process should not generate major

³ 78 countries representing 2,3 billion people are eligible for IDA funding. 49 LDC countries represent 629 million people. GAVI (Global Alliance on Vaccines and Immunisation) funds are accessible to countries with a GDP of less than USD1000.

new planning and proposal writing activities. Rather it should, wherever possible, build on existing instruments and processes, including national strategic plans for HIV/AIDS, malaria and tuberculosis, sector plans and PRSPs. Detailed programming should be the responsibility of countries and should involve a broad coalition of in-country stakeholders. It should involve civil society, and should make a positive contribution to strengthening donor/government co-ordination mechanisms.

The Commission services are of the view that countries should not be required to present detailed applications to the Fund and its Board⁴. The Board could, early in the regular programming process at country level, provide in principle agreement, an indicative budget, and an indication of the criteria to be used in assessing progress toward key outcomes. This agreement should be based on credible national sector plans.

There will need to be some method to endorse the plans: one way could be to have national plans endorsed through a positive assessment by in-country stakeholders, the World Bank and relevant UN agencies, in particular WHO and UNAIDS. The national sector plans and PRSPs would clarify outcomes to be financed through domestic resources, external funding from bilateral and multilateral donors, and the private sector. Keeping in mind the gap between needs and means, and the need to manage expectations accordingly, these plans could identify realistic outcomes to be financed from the Fund. Instalments on an overall multi-annual commitment should be released subject to countries demonstrating willingness and ability to produce the defined outcomes. This approach should replace lengthy reviews of detailed submissions.

Monitoring

Given the strong outcome focus of this fund, rigorous monitoring will be critical, particularly as subsequent instalments of funding will be linked to results. Monitoring would focus on a) progress against a limited set of health outcome indicators (which may be common across the fund); b) review of management process at country level (e.g. civil society and community benefits); c) the quality of country level monitoring and evaluation systems. It is important to stress that the aim should be not to set up new or specific systems, but to utilise and strengthen those that already exist. The Fund will therefore give strong support to build greater developing country capacity to formulate and manage health sector plans.

2: GOVERNANCE

The Fund should be an alliance of partners and must be governed to satisfy the needs for transparency, accountability, and technical rigour, whilst ensuring that beneficiary countries retain as much control as possible over decisions as to how the Fund's resources are used. This would imply working from existing institutions under the collective responsibility of a governing board as proposed hereafter. The proposed structure⁵ would comprise a small Executive Board

⁴ GAVI asks Governments to submit a brief standard application based on existing plans with annexes of the relevant pages of national documents. Monitoring indicators are specified.

⁵ Proposals have evolved through a series of working groups and consultations initially involving Canada, US, UK, EC; the G8 under the Italian Presidency, WHO and UNAIDS, and EU member states under the Swedish Presidency. There has been considerable consensus across the groups. The proposals were discussed in a wide consultation of 60 countries, UN agencies, donors, CSO in Geneva from 3-4 June 2001

(hereafter referred to as the Board), a permanent Secretariat supported by a technical resource network and an intermittent meeting of all stakeholders.

Proposed governance structure⁶.

Light governance. There is consensus that there should be a light governance structure. The Executive Board will need to be small enough to be effective. It should adequately represent the main constituencies of donors, beneficiary countries (some of whom will contribute funds), foundations and corporate donors, civil society and NGOs and UN agencies.. A Board of 12-15 members that meets quarterly has been suggested as a manageable unit.

Membership of the Board: There is broad acceptance of the principle of rotating membership on the Board. Donors, who provide additional resources that represent a substantial burden share, should be eligible for membership of the Board on a rotating basis. Should the EC make a contribution in respect of the options described in point 3 (Financial Contributions), the Commission would have to be part of the founding Board in order to ensure appropriate EC representation and coordination. Issues to be resolved include voting rights and possible weighting related to the financial contribution. All Board members should have a voting right.

Stakeholder meetings to be attended by all interested stakeholders would be organised at two yearly intervals. Additional annual meetings of stakeholders at country/regional level could be provided for.

Legal status: The Fund will not be set up as a new legal entity – rather it will operate as an alliance of existing institutions. Proper legal provision for the receipt of some corporate donations from the private sector might be needed (such a basis in the US and in Europe might be needed for tax reasons). Specific legal issues for the EC remain to be clarified, not the least the problem of the legal character of the entity the EC would be funding. The question of who the Board will be accountable to will need to be resolved.

The proposed governance functions and the role of the Board

- Define overall policy and determine strategic priorities
- Set eligibility criteria and processes for accessing resources
- Define processes to be used to monitor, evaluate and audit fund use
- Set criteria for fund management
- Set procurement policy
- Approve grants
- Monitor implementation
- Oversee fundraising
- Appoint the Executive Secretary of the GHF Secretariat
- Approve financial and technical reports prepared by the Secretariat and the institution entrusted with fiduciary responsibility for the Fund

The Secretariat

A small core secretariat, with its own permanent staff seconded from partner agencies, would function as the centre of a network, consisting of the intermittent technical support and staff from the institution charged with fiduciary responsibility for the fund. Secretariat staff would maintain close links with key donors and technical UN agencies and therefore in the Commission

⁶ The proposed structure and operation has drawn on positive experience of GAVI over recent years.

Services' opinion would best be based in Geneva. The Services consider that the chief executive should be appointed by, and be answerable to, the Board and that donors should finance the secretariat

Proposed functions of the secretariat

- The Secretariat would translate the guidance and decisions of the board into day-to-day management procedures. It would refer all major decision making to the executive board. Acting as the secretariat to the Board
- Co-ordinating technical support network
- Organising the review of proposals submitted by countries
- Organising monitoring, evaluation, information management and dissemination
- Liaising with the Fund's bankers on all issues to do with financial management

Technical Support

While the Secretariat and Board will require access to high quality, flexible and rapid technical support, the Commission services consider that the Fund should not develop another permanent superstructure of advisers. The Commission services are concerned that current proposals, such as the proposed establishment of a permanent system of convenors of technical support, do not provide sufficient guarantees in terms of accountability towards stakeholders in the south and the north. For the Fund to be credible in its task of scaling up and speeding up delivery more than this is needed. A formalised obligation for existing organisations to provide technical capacity will be needed.

Procurement

It is important that clear rules are set from the start for country level and international level procurement. In line with the Community programme for action, all procurement should be done through international tender and should be fully untied. Patented and generic products should only be provided at tiered prices with full price transparency.

Fiduciary Responsibility

The Trustee, the custodian of the fund's resources, must exercise the trust and fiduciary responsibilities required by all stakeholders. The Services consider that the responsibilities of the executive board, the trustee and the secretariat should be as follows:

- The executive board shall be responsible for approving the allocation of the fund's resources to recipients,
- The trustee will work with the secretariat on replenishment negotiations and on resource mobilisation,
- The trustee shall be responsible for the financial management of the fund's resources, including commitment authority and cash resources,
- The trustee shall be responsible for financial reporting associated with the financial management and allocation of the fund's resources.

The Services view is that the World Bank is best placed to assume the role of trustee.

3. FINANCIAL CONTRIBUTIONS TO THE FUND

The Commission services consider that the stated objectives of the Fund could be pursued through a refocussing of existing interventions. The possible added-value of the Fund stems from its possible effect on the mobilisation of additional resources from donor countries and a possible improved flexibility in disbursement.

The question of a possible Community contribution must be seen in this light. Such a contribution would need to conform, inter alia, to the financial perspectives, the financial regulation and appropriate rules for monitoring and auditing of the use of Community funds. Whereas the Commission has made appropriate proposals to change the relevant provisions of the Financial Regulation, the current Rules and Regulations do not allow the EC to provide neither non-earmarked nor core funds.

Within these overall constraints the Commission services have analysed various options for a Community contribution to the Fund. None of these can provide a solution which guarantees a timely financing decision, satisfactory flexibility (avoiding earmarking) and ensuring additional resources. The options are:

Specific geographic budgets could be used to finance country programmes. Important potential resources for the ACP region exist within the 9th EDF which however has not yet entered into force. Using the EDF would in any case require the agreement of ACP partners. Other geographic budgets such as ALA and MEDA would necessarily have to earmark funds to their areas. Such earmarking is not optimal and would not represent additional resources but would transfer funds from one part of the development budget to another.

The thematic budget line on communicable diseases (B7-6211) appears to be an appropriate channel for any Community contribution to the Fund. However, current legal bases such as regulation 550/97 (HIV/AIDS) are restricted in scope, and the resource allocation is limited. A new legal base would not be operational before 2002. It is too early to say whether this legal base would allow the Commission to give non-earmarked contributions.

Transfer within budget chapters: To offer a truly additional response, the possibility to transfer resources within the Community budget could be explored. Such action, if allied to fast-tracking the establishment of B7-6211 would offer additionality and could avoid earmarking by geographical region. As with all other options, the degree of flexibility in spending would be limited by applicable rules in the Financial Regulations on auditing and monitoring.

4: NEXT STEPS

The UNSG is expected to indicate further progress at the UN special session on HIV/AIDS (25-27 June). Participants at the Geneva consultation agreed that a transitional board or working group should be set up immediately following the UNGASS. The group should preferably be based in Geneva to allow the full input from technical UN agencies/programmes such as WHO and UNAIDS.

This transitional board or working group should reflect the composition of the eventual Board and include representatives of donor governments, including an EU donor to take charge of co-ordination with all EU/EC partners, developing countries, civil society/NGOs, and technical staff of WHO and UNAIDS. The group would consult and make recommendations for the more permanent governance mechanism to be discussed and approved at a stakeholder meeting to be held in September/October. It will be important to take forward further preparatory work in a transparent manner and keep all potential stakeholders informed.

A number of countries have stated their intention to announce pledges at the G8 summit in Genova (July 20-22). The aim is for the Fund to be operational and to receive the first financial contributions by the end of the year. It is expected that the Fund will be operational by the end of 2001.