



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 14.3.2005  
SEC(2005) 374

**COMMISSION STAFF WORKING DOCUMENT**

**Principles for an EU contribution to the Global Fund to Fight HIV/AIDS, Tuberculosis  
and Malaria (GFATM) with a view to the 2006/2007 Replenishment Process**

## TABLE OF CONTENTS

Executive Summary .....	3
1. Introduction .....	5
1.1. Scope and context of the paper .....	5
2. The replenishment process .....	7
2.1. Rationale behind the replenishment mechanism and its implications .....	7
2.2. Replenishment meetings in 2005 .....	8
3. Performance and added value of the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria .....	9
3.1. Overall performance.....	9
3.2. GFATM Secretariat.....	10
3.3. Added value of GFATM .....	11
4. GFATM as part of the global financing architecture for HIV/AIDS, tuberculosis and malaria .....	12
5. Predictable and long-term financing for the GFATM.....	12
5.1. GFATM funding needs in 2005 .....	12
5.2. GFATM funding needs in 2006 and 2007 .....	14
6. The EC contribution to the GFATM between 2001 and 2006.....	18
7. Future role of the EU in the GFATM.....	19

## COMMISSION STAFF WORKING DOCUMENT

### Principles for an EU contribution to the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria (GFATM) with a view to the 2006/2007 Replenishment Process

#### EXECUTIVE SUMMARY

1. The EU, including the EC, has been a founding member of the GFATM since its inception in 2001/2002. In financial terms, the EU has so far provided more than US\$ 1.6 billion to the GFATM. This includes the substantial EC contribution over the last three years which amounts to € 374.5 million (out of a pledge of € 460 million for the period 2001-2006). The EC, represented by the Commission, has been an active member of the GFATM Board and has been involved in two of the GFATM committees.
2. In 2004, the Board of the GFATM agreed on the need to establish a new funding system to guarantee long-term and sustainable financial resources for the Fund. The current system based on voluntary and ad hoc contributions does not allow long-term and effective planning of the Fund's operations. The EC fully endorsed the decision to launch the replenishment process, which represents a great opportunity for the European Union to continue to demonstrate leadership in the fight against HIV/AIDS, tuberculosis and malaria.
3. The Commission has responded to the call from the Council (see the Council Conclusions adopted by the GAERC on 23 November 2004) to facilitate the preparations for the replenishment process at European level and has taken the initiative of preparing a Staff Working Paper. This paper is only intended to provide EU Member States with relevant information regarding the replenishment process and can not be used as a financial commitment, nor can it result in any financial commitment which prejudices the annual budget procedure, nor the conclusion of negotiations on the future financial framework (2007 – 2013). It presents a few options for a possible EU role with a view to the 2005 Replenishment Conferences. These are based on the resource needs estimates made by the GFATM Secretariat and other institutions engaged in the fight against the three diseases. These options or scenarios are presented to facilitate a necessary debate, but do not constitute indications of the Commission's funding intentions at this stage. The objective pursued through this Working Document is thus to play a coordinating political role for the EU in the Global Fund.
4. The replenishment mechanism is needed in order to **increase the predictability of GFATM resources over a certain period of time (2006 and 2007)**. The EC fully supports the proposal to undertake a replenishment process for an initial period of two years, namely 2006 and 2007. It is quite a long and complex process which will require extensive discussions and consultations among all stakeholders. Before the end of year two of the replenishment period, GFATM donors will review the process, assess its results and make decisions as to its continuation in the future. The replenishment process will improve the effectiveness of GFATM operations. It will

result in more efficient liquidity management and enable the GFATM to possibly back its commitments with instruments other than cash, such as promissory notes.

5. Two major donor meetings are planned in the course of 2005 to discuss the replenishment process. The first will be hosted by the Swedish Government in Stockholm on 14/16 March 2005 while the second will be hosted by the British Government in early September.
6. The GFATM, established as a financing mechanism, has proved over the years to be able to channel increasing financial resources. As of December 2004, the Fund had approved – through four rounds of proposals – a total of 312 programmes in 128 countries for a total of amount of over US\$ 3 billion. A fifth round of proposals was launched at the end of last year and will come up for approval, provided that the necessary resources are made available, in September 2005. This document however does not intend to provide an evaluation of the Global Fund as a great number of reports are currently being discussed in a separate contexts.
7. The major international organizations dealing with the three diseases, namely UNAIDS and WHO (Roll Back Malaria and Stop TB) are actively working in collaboration with some bilateral donors to come up with clear financial scenarios regarding future global targets and financial needs. Some preliminary figures are provided in this paper. The GFATM Secretariat has worked out some financial estimates for future years based on its current business model, which are provided in the paper. Based on such estimates, to run its operations the Fund would need **US\$ 2.3 billion in 2005, US\$ 3.6 billion in 2006 and approximately US\$ 3.7 billion in 2007 (including US\$ 0.1 billion for operating expenses in 2006 and 2007).**
8. Based on the GFATM figures on donor pledges for 2005, 2006 and 2007, there is clearly a striking resource gap which the donor community will have to take into consideration. According to the best estimates for **2005, the GFATM still needs approximately US\$ 0.9 billion** to cover both the costs of phase II renewals of grants previously approved and the cost of Round 5 of proposals. An ad hoc appeal will be launched shortly by the Chair of the GFATM Board and the GFATM Executive Director. The Replenishment Meeting in Stockholm (14/16 March 2005) will provide a unique opportunity to current and potential GFATM donors to announce and/or confirm pledges for 2005. As to **2006 and 2007, the financial gap currently amounts to approximately US\$ 2.9 billion for 2006 and US\$ 3.3 for 2007.**
9. The EU (EC and EU Member States) contribution to the GFATM in absolute terms has changed over the years (US\$ 0.46 billion in 2001/2002, US\$ 0.42 billion in 2003 and US\$ 0.73 billion in 2004). In percentage terms, **the EU's share of the overall contributions received by the GFATM has been between 48% and 55%.**
10. With a view to the Replenishment Conference in the United Kingdom scheduled in early September 2005, the EC intends to launch a debate in the EU on how to share among GFATM donors, and more particularly among EU partners, the financial resources needed by the Fund in the replenishment period, i.e. 2006 and 2007. A few possible options are presented in this paper to the European Member States for discussion:

- Option1  
Continuing the current trend, the EU commits itself to continue providing 50% or more of the annual contributions to the GFATM. Such a contribution would complement the EC/EU's commitments including in research and ensure considerable political visibility for the Union confirming its leadership in the fight against HIV/AIDS and the other two diseases.
- Option2  
Based on the commitment expressed by some world leaders at the G8 Summit in June 2003 (and reiterated at the GFATM Donors Conference in July that year), the EU agrees to split the annual contributions to the GFATM equally with the USA (the main individual donor to the GFATM) and the other non-EU donors (Canada, Japan, Australia, private foundations, etc.): this is the so-called "33% option".

11. The EU will also have to engage in a debate on how to share among the Member States and the EC, the annual contributions to the GFATM in 2006 and 2007. This paper provides three options for discussion:

- Current EU donors (including the EC) proportionally increase their annual contributions to the GFATM based on the level of resources provided in the last two years (2003 and 2004).
- New EU donors join the GFATM (at present only 17 EU Member States have provided a financial contribution to the GFATM), which would enable the key for each EU donor's contribution to be reviewed as the financial burden would be shared among a larger number of European partners.
- All EU Member States agree to contribute to the GFATM and to apply the GNI key to calculate the contribution of each individual donor. Should this option be applied, the EC annual contribution could be calculated according to a different key.

12. This paper will be presented to the Council in early March 2005, aiming at launching an initial debate among EU Member States on some of the relevant issues pertaining to this process with a view to the Replenishment Meeting in Stockholm in mid-March.

## **1. INTRODUCTION**

### **1.1. Scope and context of the paper**

The main scope of this paper is to develop an EU position on the replenishment process for the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria (GFATM). Based on future resource needs estimates presented by the GFATM Secretariat and several international institutions, the EU (EC and EU Member States) needs to engage in a thorough debate as to how GFATM donors, and more particularly EU partners, could share the financial burden. The paper is also intended to provide a clear picture of the resource gap the GFATM is currently facing for 2005 and the following two years.

The EU (EC and Member States) has been increasingly engaged in the last 5 years in combating poverty-related diseases through a vast array of instruments and channels of financing. In particular, the EC provides technical and financial support to combat HIV/AIDS, tuberculosis, malaria and other diseases affecting developing countries through bilateral programmes financed by the EC budget and through the EDF (EC budget assistance was provided through geographical lines amounting to approximately € 245 million a year excluding general budget support). EC action has been remarkable, however, for a number of global multi-donor initiatives, such as the GFATM, promoted and supported by the donor community, including UN agencies, the private sector, civil society and some developing countries.

In 2004 the Commission adopted and presented to the Council and the European Parliament "A coherent European policy framework for external action to confront HIV/AIDS, tuberculosis and malaria" (COM (2004) 726). EU Member States have welcomed this policy framework, which is aimed at ensuring the necessary policy coherence and synergy among different policy areas such as trade, health, research, information technologies, development and external relations.

The Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria, established in January 2002, represents a visible and effective global initiative which has been able to provide an adequate and effective response to the increasing demand for financial resources to confront the three diseases. In order to ensure more predictable funding and, in turn, a more effective response to partner countries' needs, the Board of the GFATM has agreed to launch a replenishment process to cover the financial needs of the GFATM in the years 2006 and 2007. GFATM donors, including the EC, will be requested to give a coherent and cohesive response to such an important challenge. The replenishment process represents a unique opportunity for the EU to prove its leadership in this challenging endeavour in which it has so far played a key role. The EU (EC and Member States) is currently the GFATM's major donor and over the years has provided between 48% and 55% of its total resources.

The call for additional contributions to the GFATM should not be perceived as an isolated event. It needs, on the contrary, to be seen in the wider context of the efforts that the international community will need to make under the review of the Millennium Development Goals (MDGs) planned for September 2005. The ongoing review of the progress made in the last five years in the achievement of the MDGs proves that scant results have been achieved in terms of halting the spread of HIV/AIDS or the incidence of malaria and other major transmissible diseases.

The need to make further and more substantive progress in the achievement of the MDGs calls for additional resources from the donor community. EU Member States committed themselves in 2002 (at the International Conference for Development Financing, Monterrey) to progressively increasing their ODA. As indicated in the 2004 EU Annual Monitoring Report on the Monterrey commitments, good progress has been made in the last two years (the EU as a whole is well on course to achieve the 2006 targets). Nevertheless, available resources are not sufficient to cover the increasing needs of partner countries, hence the need for additional efforts by the international community. The EU, reflecting its position as the largest donor worldwide and its leading role in Monterrey, recently agreed to consider the possibility of providing increased resources for development.

The public funding already identified will not be sufficient to cover existing and emerging financial needs. The EU has agreed to explore innovative means of financing. To this end a

debate on specific initiatives, such as the international taxation proposals set out by France in the Landau Report and the IFF promoted by the United Kingdom, was launched towards the end of 2004 to complement efforts on increased ODA, and will be further developed in the coming months. The role of the International Finance Institutions (IFIs) is also being discussed in the light of the need for additional resources for development and poverty reduction.

The debate on the role of the private sector in financing development is also highly relevant to the GFATM. The private sector's role in financing the GFATM has been quite limited so far and needs to be further promoted in the light of the need for additional resources.

## **2. THE REPLENISHMENT PROCESS**

### **2.1. Rationale behind the replenishment mechanism and its implications**

The current funding system for the GFATM, based on voluntary and ad hoc donor contributions, makes planning for long-term and sustainable programme support quite a difficult task.

The primary objective of the replenishment process is therefore to increase the predictability of GFATM resource mobilization in order to reduce to a minimum the risk of slowing down or even stopping the Fund's disbursement capacity even when there is demand for its interventions. Several current and potential donors have highlighted the need for a more suitable funding system which could render the GFATM's operations more effective.

The fact that thousands of people receive anti-retroviral treatment and/or other supplies (such as condoms, malaria bed nets, DOTS therapies etc.) financed by the GFATM makes the issue of sustainable and predictable funding very important. As a guiding principle, developing countries should gradually move towards self-sustaining financial systems. However, faced with severe resource constraints, especially in the poorest countries, the global community will need to continue to provide support for many years to come.

The replenishment process is intended to be a voluntary process aimed at creating a strong linkage between political support for the GFATM and actual implementation of commitments. The replenishment process should aim to cover most of the predictable financial needs of the GFATM over a certain period of time to be agreed in advance based on a number of considerations.

The replenishment mechanism can be divided into two pillars, one for public sector contributors who would be requested to fill the core funding gap, and one for private sector contributors who would be requested to provide ad hoc contributions. This process should be linked to a specific communication strategy on GFATM achievements over the years.

The introduction of the replenishment mechanism will also facilitate the launching of an additional round of financing proposals (Round 5) based on the GFATM Board decision of November 2004. The GFATM Board agreed that the new call for proposals and related guidelines would be issued in March 2005 provided that the required financial resources were available. This implies that GFATM donors will be requested to confirm by March 2005 their pledges for that year in order to enable the smooth implementation of Round 5.

The replenishment process could help to cover a very high proportion (90-100%) of planned operational needs for the three diseases. This would make any remaining financial gap (arising from an unexpected increase in demand) more easily manageable through ad hoc fundraising.

The replenishment process is closely linked to liquidity management. The introduction of a replenishment mechanism would thus not only result in more efficient liquidity management but also enable the GFATM to back its commitments with instruments other than cash, thereby reducing idle cash balances. As a matter of fact, in March 2004 the Board of the GFATM approved a decision according to which donors participating in the replenishment mechanism will be asked to back their pledges to the Fund with either cash or promissory notes callable on a schedule matching expected Fund disbursements.

Under GFATM internal procedures, signing a grant agreement requires 100% availability of cash or promissory notes on the Trustee account (at the World Bank). This means that if, for some reason, actual disbursements by donors do not equal the total pledges given, the grant agreement cannot be signed on schedule. In other words, even a temporary shortfall in liquidity can have a negative impact on the beneficiaries of the GFATM. The introduction of promissory notes would result in the reduction of cash balances held by the GFATM as reserves between donor commitments and actual disbursements. Moreover, it would enable the GFATM to take into account donor pledges for future years when planning and approving new rounds of proposals.

## **2.2. Replenishment meetings in 2005**

In October 2003, the Board of the GFATM decided to reform the current funding system and to introduce a new model based on periodic replenishments of the Fund. However, the replenishment process was officially launched only last autumn with the nomination of the United Nations Secretary General, Kofi Annan, as Chair of the Replenishment Conference (Mr Sven Sandström from Sweden will act as Vice-Chair). Two meetings have been planned in 2005. The first, hosted by the Sweden Swedish Government, will take place in Stockholm on 14-16 March; the second, hosted by the United Kingdom, will take place in early September. The Stockholm meeting, mainly organised by the GFATM Secretariat, is intended to be a forum for discussion among donors on a number of relevant issues such as (i) the funding requirements for fighting the three diseases, including projections from key agencies and partners on global funding needs and the share of resources which could be channelled through the GFATM; (ii) the operational and financial performance of the GFATM based on the Secretariat progress report and an independent assessment of the GFATM. Background documents will be sent in advance to all stakeholders attending the Meeting. As a result of the Stockholm Meeting, donors are expected to confirm their pledges for 2005 (see Table 1) which will enable the GFATM Board to smoothly implement Round 5 of the financing proposals.

The second meeting, scheduled in the United Kingdom in early September, is meant to gather high-level representatives of the GFATM's current and potential donors (from both the public and private sectors) to announce their 2006 and 2007 contributions.

The EC has agreed to actively participate in the replenishment process in its capacity as a major donor to the GFATM (the EC, represented by the Commission, is currently a Board member and the second biggest individual donor in terms of contributions between 2001 and 2004). All GFATM donors are expected to be closely associated with this process.



Key elements of the replenishment process are its duration and the kind of financial needs it covers. As regards its duration, it should be considered that long replenishment periods (say above four years) would increase donors' uncertainty and involve substantive costs in terms of mid-term reviews needed. On the other hand, very short periods (less than two years) would produce disproportionate transaction costs and risks without adding great value to the process used at present. A two- to three-year replenishment period seems therefore to be the most appropriate. Since the whole process is likely to be completed in September 2005 (at the High-Level Replenishment Conference in the United Kingdom), the first replenishment cycle should cover 2006 and 2007. A review and assessment of the process towards the end of 2007 will provide indications as to the need and advisability of further pursuing this principle, possibly with slight adjustments, or changing it.

### **3. PERFORMANCE AND ADDED VALUE OF THE GLOBAL FUND TO FIGHT HIV/AIDS, TUBERCULOSIS AND MALARIA**

#### **3.1. Overall performance**

The Global Fund has enabled so far:

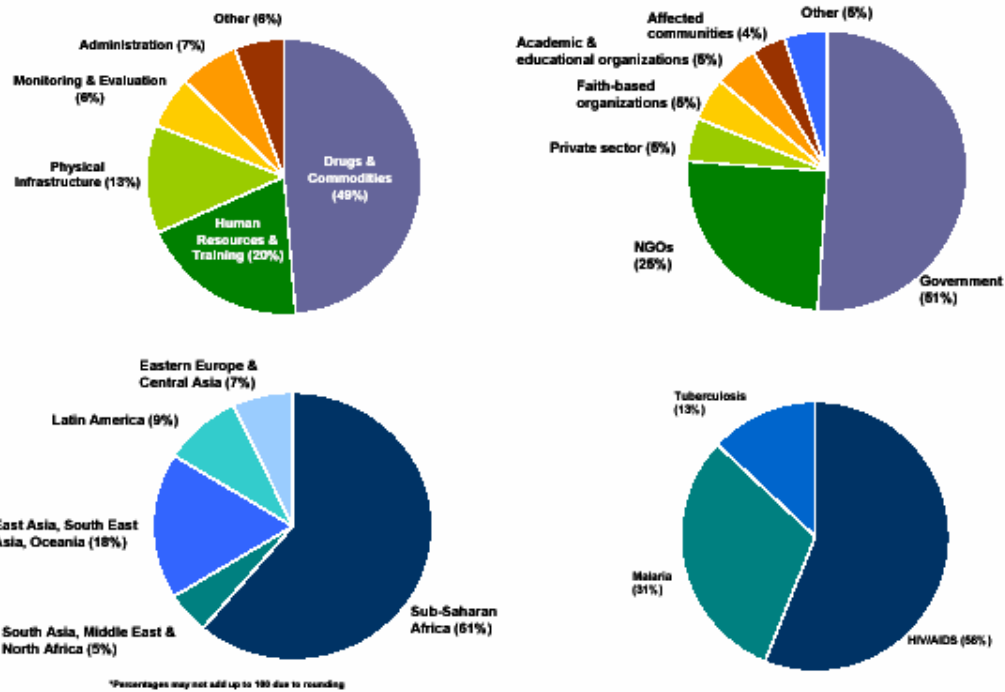
- 130.000 people to gain access to lifelong antiretroviral treatment
- 1 million people to be reached with HIV testing and counselling
- 385.000 people to be treated for tuberculosis under DOTS (the WHO-recommended TB control strategy)
- 300.000 people to be treated for malaria
- 1.350.000 insecticide-treated bednets to be distributed to prevent malaria transmission

The GFATM finances programmes through rounds of financing proposals. To date, four rounds have been approved and a fifth has been launched and will come for approval, provided that the resources needed are available, at the Board Meeting in September 2005.

As of December 2004, the GFATM had approved through its four rounds of proposals a total of 310 programmes in 127 countries worth a total of approximately US\$ 3.1 billion. This represents a significant expansion in the global coverage of prevention, treatment and care of HIV/AIDS, tuberculosis and malaria. With few exceptions, GFATM funding covers all countries that are experiencing the most severe burden of disease or that are at risk. Nearly two thirds of the recipient countries are low-income countries (LICs) based on the World Bank classification, while one third are lower-middle income countries (LMICs) with severe disease burdens or very high infection growth rates. Three per cent of the grants goes to some upper-middle-income countries (UMICs) with very high disease burdens or infection growth rates.

In terms of the geographical distribution of the grants approved, 60% of the funding goes to Sub-Saharan Africa, 23% is spent in Asia, the Middle East and North Africa, and the remaining 17% is shared between Latin America, the Caribbean and Eastern Europe. In terms of diseases, just over 56% of grant funding relates to HIV/AIDS, 31% to malaria and 13% to tuberculosis.

Overall, disbursements are roughly on track. On this point, it should be borne in mind that while many other institutions disburse funding on a yearly basis or in one solution only, in the case of the GFATM disbursements are based on results measured against quarterly and annual targets indicated in the grant agreement. Delays in the early stage of implementation lead therefore to a temporary halt in disbursements. Disbursement rates of approved programmes are used as an indicator of programme performance.



The GFATM receives proposals through the **country coordination mechanisms (CCMs)**. CCMs include broad representation from government authorities, NGOs and other civil society institutions, including the communities living with the diseases, multilateral and bilateral agencies and the private sector.

### 3.2. GFATM Secretariat

The GFATM Secretariat in Geneva was established as a rather small body with a staff of 150 people to keep administrative costs to a minimum (The GFATM Secretariat’s main tasks in grant management are to prepare the calls for proposals (‘rounds’); to negotiate grant agreements for proposals approved by the Board; to disburse funds to recipients based on reported results; and to assist in identifying and addressing problems with under-performing grants by facilitating contact between recipients and technical agencies. The performance of the GFATM Secretariat in grant management can be measured by the time lapse between the initial submission of a proposal and the first disbursement of funds.

Table I: Approvals, commitments and disbursements by funding round

<b>Disbursements by funding round</b>						
<i>\$ figures in millions, as of 20 January 2005</i>						
Round	Approved	2-year approved <sup>1</sup>	2-year signed <sup>2</sup>	2-year disbursed <sup>3</sup>	Mean percent of 2-year amount disbursed <sup>4</sup>	Mean time elapsed <sup>4</sup>
Round 1	Apr-02	\$ 558	\$ 545	\$ 372	70 %	80.6 %
Round 2	Jan-03	\$ 859	\$ 794	\$ 479	48 %	52.3 %
Round 3	Oct-03	\$ 639	\$ 477	\$ 141	33 %	20.6 %
Round 4	Jun-04	\$ 1,039	\$ 70	\$ 19	28 %	5.6 %
<b>Total</b>		<b>\$ 3,094</b>	<b>\$ 1,884</b>	<b>\$ 871</b>	<b>49 %</b>	<b>48.9 %</b>

### 3.3. Added value of GFATM

This document does not intend to provide an evaluation of the Global Fund as a great number of relevant reports are currently being discussed in a separate contexts ([www.theglobalfund.org/en/about/replenishment/](http://www.theglobalfund.org/en/about/replenishment/)).

The GFATM was mainly established to generate additional public and private resources to confront the three diseases. It represents an institution quite different from traditional forms of multilateral governance since non-state actors can share decision-making powers and financial responsibilities with national governments and institutional donors. Despite that, the GFATM is quite reliant on the infrastructure and support of UN agencies, funds and programmes. For example, WHO and UNAIDS are expected to provide technical assistance at country level and build capacity complementary to national, GFATM-funded programmes.

The GFATM is using an innovative performance-based model to fund programmes proposed by the recipient countries. While the GFATM is not a purchasing institution, funding provided to support demand-driven proposals presented by recipient countries can help to reduce prices of pharmaceutical products and commodities. The demand generated as a result of GFATM operations can also have a medium-term leverage effect on research into new tools to confront the three diseases.

The development of new strategies and action plans as well as the use of specific instruments and additional resources, particularly in the case of the GFATM, will imply further policy coherence and coordination between EU Member States and the EC. This is particularly true in the fight against HIV/AIDs, TB and malaria where both the EC and EU Member States are actively involved.

Developing countries have in some fora expressed positive views on GFATM performance and underlined the following positive elements: the principle of ownership (proposals are developed at country level); their representation in the GFATM Board; the flexibility offered by GFATM funding policy, especially with regard to recurrent costs, which are rarely permitted by most other aid agencies (with the exception of the EC); the transparency of operations (GFATM activities are accessible on its website, including the results of negotiations on pharmaceutical product pricing).

#### 4. GFATM AS PART OF THE GLOBAL FINANCING ARCHITECTURE FOR HIV/AIDS, TUBERCULOSIS AND MALARIA

UNAIDS and WHO (Roll Back Malaria and Stop TB), as the main UN agencies concerned by the three diseases, are actively involved in the calculation of global targets and financial needs to fight the three diseases in the next few years (2006 onwards).

In order to achieve agreed targets, i.e. to halt and begin to reverse the incidence of malaria by 2015 and to halve malaria morbidity and mortality by 2010 (Abuja Declaration on malaria), the Roll Back Malaria Partnership estimated that 60% of people suffering from malaria should have access to treatment, 60% of those at risk should have access to prevention measures (bed nets), and 60% of pregnant women should have access to intermittent preventive treatment. The annual resource needs by 2006 onwards have been calculated at approximately US\$ 2.9 billion. Total domestic expenditure on malaria in 2004 amounted to US\$ 0.3 billion and it has been estimated that this value will remain constant. The share of resources to be provided annually by the donor community would therefore amount to **US\$ 2.6 billion**.

The Stop TB partnership has defined a set of targets aimed at reducing the tuberculosis burden. The targets include detecting 70% of new active tuberculosis cases, treating cases detected through DOTS, curing at least 85% of all treated cases by 2005, and reducing the global burden of the disease by 50% by 2010 (compared to 2000 levels). The annual resource needs by 2007 onwards has been calculated at US\$ 2 billion. Domestic resources should cover US\$ 1.2 billion annually, and therefore the annual share to be provided by the donor community would be **US\$ 0.8 billion**.

Based on cost estimates made by UNAIDS, the annual resource needs to fight HIV/AIDS from 2006 onwards would be approximately US\$ 14.5 billion. Since domestic resources are expected to cover approximately US\$ 3 billion, the portion to be covered annually by the donor community would be approximately **US\$ 11.5 billion**.

Based on the estimated resource needs for the three diseases, the above UN agencies have been trying to calculate the share of external resources that should be channelled through the GFATM from 2006 onwards. The basic assumption is that the GFATM currently covers (in terms of disbursements) approximately 45% of the total needs to fight malaria, 66% of the total needs to fight TB and between 20% of the total needs to fight HIV/AIDS. Thus, the GFATM should receive US\$ 3.6 billion in 2006 to and US\$ 4 billion in 2007 to confront the three diseases.

#### 5. PREDICTABLE AND LONG-TERM FINANCING FOR THE GFATM

##### 5.1. GFATM funding needs in 2005

Based on the financial figures provided by the GFATM Secretariat (see Table II), the **total amount currently available for 2005 as contributions pledged is approximately US\$ 1.4 billion**. On the **expenditures side**, GFATM Secretariat forecasts for 2005 amount to **US\$ 2.3 billion** including resources needed to finance phase II of successful programmes approved in the past (US\$ 1.3 billion) and the cost of a new round of proposals (US\$ 1 billion) to be officially launched in March 2005.

The **actual gap for 2005** is therefore **US\$ 0.9 billion**. This fully justifies an appeal to the donor community by the Chair of the GFATM Board and the Fund Executive Director. At the Stockholm meeting (14/16 March 2005), GFATM donors will therefore be requested to confirm their pledges for 2005.

**Table II**

<b>GFATM DONORS</b>	<b>Pledges to date for the years 2005 – 2007</b>		
	<b>in US\$</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Australia	3,878,976		
Belgium	6,601,307	6,601,307	6,601,307
Canada	56,451,613		
China	2,000,000	2,000,000	2,000,000
Denmark	24,604,569		
European Community <sup>1</sup>	76,049,213	36,057,816	
France	196,078,431	196,078,431	
Germany	107,189,542	94,117,647	96,078,431
Italy	130,718,954		
Netherlands	60,130,719		
Russia	5,000,000	5,000,000	
Saudi Arabia	2,500,000	2,500,000	
Singapore	200,000	200,000	200,000
Spain	15,000,000	35,000,000	
Thailand	1,000,000	1,000,000	1,000,000
Uganda	500,000	500,000	500,000
United Kingdom	91,194,969	96,855,346	96,855,346
United States	435,000,000	200,000,000	200,000,000
<b>Total</b>	<b>1,214,098,293</b>	<b>675,910,547</b>	<b>403,235,084</b>

Note to the table:

1: The EC pledges to the GFATM are in Euros (€58 million in 2005 and €27.5 million in 2006 ) and have been converted in US dollars applying the US\$/€ exchange rate at 1 March 2005

## 5.2. GFATM funding needs in 2006 and 2007

In the run-up to the first Replenishment Meeting, the GFATM Secretariat has circulated to the GFATM donors an estimate of future financial needs based on the Fund's current business model (see Table IV. The annual level of resources needed is calculated by adding the cost of the renewal (phase II) of grants approved in previous years to the cost of financing new rounds of proposals of US\$ 1 billion each (the GFATM plans to launch 1 round in 2005, 1 in 2006 and 2 in 2007). Based on such calculations, **the financing needs of the GFATM would amount to US\$ 2.3 billion in 2005, US\$ 3.5 billion in 2006 and approximately US\$ 3.6 billion in 2007.**

Table III

<b>Funding shortfall:</b> (US\$ billion)	<u>2005</u>	<u>2006</u>	<u>2007</u>
Total grant approval capacity needed (per above)	2.3	3.5	3.6
Operating Expenses, less Interest <sup>(1)</sup>		0.1	0.1
Less: Funds available from prior year	-0.1		
<b>Total contributions needed</b>	<b>2.2</b>	<b>3.6</b>	<b>3.7</b>
Less: Pledged <sup>(2)</sup> to date ( 23 Feb 2005)	-1.3	-0.7	-0.4
<b>Additional pledges needed</b>	<b>\$bn 0.9</b>	<b>2.9</b>	<b>3.3</b>

(1) Operating Expenses, less Interest Income: Projected at \$30m to \$70m per year, depending on usage of promissory notes (increased usage would reduce the cash balance and hence reduce interest income). The 2005 amount rounds down to zero; the 2006 & 2007 amounts, assuming an increasing usage of promissory notes, round up to \$0.1bn. Operating Expenses comprise Local Fund Agent fees and Board, Technical Review Panel and Secretariat expenses.

(2) The 2005 pledge amount includes \$0.1bn of 2004 pledges expected to be contributed in 2005.

Based on the resource needs estimated by the GFATM Secretariat and considering the total pledges currently available for 2005, 2006 and 2007, it clearly emerges that the GFATM is going to face a serious resource gap in the years to come (see Table III).

**Table IV**

Grant Round (in bio. US\$)	Grants Approved Through 2007			
	2002-2004	2005	2006	2007
<u>Phase I</u>				
Rounds 1 - 4	3,087			
Round 5		1		
Round 6			1,1	
Round 7				2,6
Round 8				
<u>Phase II</u>				
Rounds 1 - 4	0,12	1,311	2,403	0,438
Round 5				0,574
<b>Total (US\$ bio)</b>	<b>3,207</b>	<b>2,311</b>	<b>3,503</b>	<b>3,612</b>

From the above estimates, it is clear that the annual level of donor contributions to the GFATM would have to more than double compared to the 2004 level of contributions (approximately US\$ 1.4 billion out of which more than US\$ 0.7 billion was provided by the EU alone) to respond to the drastic increase in demand for financial resources (see Table V).

**Table V**

EU DONORS	AMOUNT CONTRIBUTED 2001/2002	AMOUNT CONTRIBUTED 2003	AMOUNT CONTRIBUTED 2004
	In US\$	In US\$	In US\$
Austria	1,075,900		
Belgium	12,207,409	7,229,938	10,270,518
Denmark	14,816,511	13,790,866	16,188,433
European Community	137,064,385	50,360,226	264,413,350
France	58,981,250	63,679,739	196,078,431
Germany	11,995,200	37,427,325	45,944,850
Hungary			10,000
Ireland	9,835,000	11,161,430	12,299,000
Italy	108,618,673	106,541,600	

Luxembourg	1,037,500	1,094,820	3,410,752
Netherlands	8,087,400	43,590,360	54,344,679
Poland		20,000	10,000
Portugal		400,000	600,000
Slovenia			5,479
Spain		35,000,000	15,000,000
Sweden	22,369,965	11,488,363	47,811,683
United Kingdom	78,215,278	40,032,750	60,333,210
<b>Total</b>	<b>464,304,471</b>	<b>421,817,416</b>	<b>726,720,385</b>

If we look at the distribution of contributions over the years (from 2001/02 to 2004), the EU (EC and Member States) has been the largest donor to the GFATM, providing approximately between 48% and 55% of the total resources (the difference in the EU share per year is mainly due to the recent depreciation of the US dollar). The second-largest donor to the GFATM has traditionally been the USA.

Tables VI and VII show the contributions to the GFATM in the years 2001/02–2004 of, respectively, non-EU public donors and private donors including foundations, corporations and private individuals.

**Table VI**

<b>Non-EU PUBLIC DONORS</b>	<b>AMOUNT CONTRIBUTED 2001/2002</b>	<b>AMOUNT CONTRIBUTED 2003</b>	<b>AMOUNT CONTRIBUTED 2004</b>
	<b>In US\$</b>	<b>In US\$</b>	<b>In US\$</b>
Andorra	100,000		
Australia			13,827,500
Barbados		100,000	
Brazil		50,000	
Burkina Faso	75,000		
Cameroon			
Canada	25,000,000	25,000,000	50,005,530
China		2,000,000	2,000,000



Iceland			206,299
Japan	80,400,337	79,993,443	104,726,233
Kenya	8,273		
Korea (Republic of)			500,000
Kuwait		1,000,000	
Liechtenstein	100,000		77,190
Mexico			
Monaco	44,000	44,000	44,000
New Zealand		734,000	625,200
Nigeria	9,080,914		
Norway	17,962,003	17,709,581	17,864,799
Russia	1,000,000	4,000,000	5,000,000
Saudi Arabia		2,500,000	2,500,000
Singapore			200,000
South Africa		2,000,000	
Switzerland	5,594,133	4,405,973	2,343,384
Thailand		1,000,000	1,000,000
Uganda			500,000
United States	300,000,000	322,725,000	458,881,279
Zambia	25,000		
Zimbabwe		158,462	
<b>Total</b>	<b>439,389,660</b>	<b>463,420,459</b>	<b>660,301,414</b>

**Table VII**

<b>PRIVATE DONORS</b>	<b>AMOUNT CONTRIBUTED 2001/2002</b>	<b>AMOUNT CONTRIBUTED 2003</b>	<b>AMOUNT CONTRIBUTED 2004</b>
	<b>In US\$</b>	<b>In US\$</b>	<b>In US\$</b>

*Foundations and Not-for-profit Organizations*

Gates Foundation	50,000,000	50,000,000	50,000,000
Int'l Olympic Committee	100,000		
Other	20,124	31,838	71,505
<b>Total</b>	<b>50,120,124</b>	<b>50,031,838</b>	<b>50,071,505</b>

*Corporations*

Eni S.p.A.	500,000		
Winterthur	1,044,225		
Other	17,755	2,033	296,498
<b>Total</b>	<b>1,561,980</b>	<b>2,033</b>	<b>296,498</b>

*Individuals, Groups & Events*

Mr Kofi Annan	100,000		
Amb. D. Fernandez	100,000		
Health Authorities of Taiwan	1,000,000		
Real Madrid Soccer Match	112,487		
Treatment Action Campaign		10,899	
Other	242,213	120,343	499,356
<b>Total</b>	<b>1,554,700</b>	<b>131,242</b>	<b>499,356</b>

<b>Grand Total</b>	<b>53,236,804</b>	<b>50,165,113</b>	<b>50,867,359</b>
--------------------	-------------------	-------------------	-------------------

**6. THE EC CONTRIBUTION TO THE GFATM BETWEEN 2001 AND 2006**

The EC made pledges to the GFATM covering the period 2001-2006 for a total amount of €460 million (see Table VIII).

The first pledge amounting to € 120 million (€ 60 million from the 6th and 7th EDF and € 60 million from the budget) covered the period 2001–2002 (it should be noted however that the biennium 2001/2002 is considered by the GFATM as one budget year). This amount was fully disbursed by the EC in 2002.

At the June 2003 G8 Summit in Evian (France), the EC announced further contributions to the GFATM totalling € 340 million (€ 170 million from the budget and € 170 million from the 9th EDF) covering the four-year period 2003–2006.

When approving the 2005 budget, the European Parliament agreed to increase the 2005 EC contribution to the GFATM by €15 million. However, from a budgetary point of view this additional contribution in 2005 is being considered as a frontloading of the 2006 contribution to the GFATM.

Taking into account the fact that 2001/2002 constitutes only one budgetary year for the GFATM, the average annual EC pledge between 2001 and 2006 is approximately €92 million (Over the 6 EU budget years the average is €76.5 million).

**Table VIII**

**EC pledges and contributions to the GFATM**

**(in EURO)**

Source	2001/2002	2003	2004	2005	2006
6th and 7th EDF	60				
9th EDF			170		
Budget	60	42	42.5	58	27.5
<b>Total</b>	<b>120</b>	<b>42</b>	<b>212.5</b>	<b>58</b>	<b>27.5</b>

Up to the end of December 2004 the EC disbursed a total of € 374.5 million, which represents approximately 80% of the total pledge (€ 460 million) for the entire period 2001–2006. In particular, in 2003 and 2004 the EC disbursed respectively € 42 million and € 212.5 million. The EC agreed in 2004 to frontload the entire EDF portion (€ 170 million) of its contribution for 2003-2006.

**7. FUTURE ROLE OF THE EU IN THE GFATM**

The EU's role in the efforts to fight the three diseases has substantially increased including in research.

With a view to the Replenishment Conference to be held in September 2005, the EU must engage in a thorough debate on how to divide up its annual contribution to the GFATM among its Member States and the EC. The replenishment process ahead of us constitutes a great opportunity for the EU to confirm its political commitment to the fight against

HIV/AIDS, malaria and tuberculosis. While the Commission is aware of the fact that the financial framework made available by the major organizations dealing with the three diseases is quite tentative and likely to evolve in the coming months, it fully acknowledges the call for additional financial resources to be provided to meet partner countries' need to confront the diseases. The GFATM is clearly a privileged channel to meet those needs, although not the only one.

Over the last 18 months all GFATM stakeholders (EU and non-EU donors alike) have often discussed the implications of an increased level of resources, including different models and approaches for the distribution among donors of the financial burden of fighting the three diseases. In this paper, the Commission presents some of the options:

- The EU (EC and Member States) could provide **50% or more** of the global external resources to be channelled to the GFATM on an annual basis, following the pattern of the last 3 years. Such an option would ensure EU leadership in the fight against the three diseases through a substantive role in the GFATM. Nevertheless, considering that the resource needs of the GFATM will progressively increase, it might be quite difficult for the EU to attain such a high share of the global contributions.
- The EU (EC and Member States) could provide **at least 33%** of the global external resources to be channelled annually to the GFATM. This option emerged at the June 2003 G8 Summit in Evian (France), where several world leaders strongly reiterated the need for the donor community to provide financial support to the fight against the three diseases, particularly through the GFATM. Under this proposal, resources would be equally shared between the EU (EC and Member States), the US and other non EU-donors (Japan, Canada, private sector, etc). The principle was strongly reiterated at the Donors' Meeting of the GFATM held in Paris on 16 July the same year. In connection with this position, the US Congress approved a bill in 2003, according to which the US annual contribution to the GFATM could not exceed 33% of the overall contributions provided in a given year. Should this option be adopted, the EU would certainly lose some credibility for reducing its financial involvement in the GFATM quite drastically (from approximately 50% to 33% of the total contributions).

With a view to the Replenishment Conference, the EU should discuss how the future European contribution to the GFATM could be shared among its partners. The Commission acknowledges that EU partners' contributions have been decided so far on a voluntary basis. However, it believes that the introduction of a replenishment mechanism calls for a more structured contribution scheme and therefore presents the following options for discussions among the partners:

- Current EU donors (including the EC) proportionally increase their annual contribution to the GFATM based on the level of resources provided in the last two years (2003 and 2004).
- New EU donors join the GFATM (at present only 17 EU Member States have provided a financial contribution to the GFATM), which would enable the key for each EU donor's contribution to be reviewed, since the financial burden would be shared among a larger number of European partners.

- All EU Member States agree to contribute to the GFATM and to apply the GNI key to calculate the contribution of each individual donor. Should this option be applied, the EC annual contribution would be calculated according to a different key.