Update on Co-financing

50th Board Meeting
14-16 November 2023, Geneva, Switzerland
GF/B50/13
For Information
Executive Summary

Context
• The B50 Board session responds to constituency requests for an update on the Global Fund’s objectives from co-financing (“CF”); experiences of implementation in GC5 and GC6 (data governance, incentives, policy visibility, policy implementation / roles and responsibilities, and available data); and improvements introduced for GC7 and emerging data.

• This report includes an update on the topic areas outlined in the bullet point above. It reiterates key aspects of the Sustainability, Transition and Co-financing policy, situating them within the wider aim of domestic resource mobilization and efficiency for sustainability, and emphasizes the importance of differentiation in how CF is implemented per country; situates CF within the broader grant lifecycle; and explains the implications for grant approval and implementation that flow from decisions relating to CF.

• The report then establishes the gains made so far by the Partnership in implementing CF and moves on to the findings from a range of internal, TRP and OIG reviews of implementation. These findings are grouped by four major themes: data governance; incentives and policy visibility; policy implementation; and roles and responsibilities. The report summarizes what the available data tells us about aggregate CF across the first two grant lifecycles for which the policy was implemented (GC4 and GC5); sets out what we know so far about GC6; and summarizes the Secretariat's efforts to improve implementation of CF into GC7 and beyond.

Questions addressed
• What is the current situation on CF, after two full grant lifecycles of implementation?
• Where has the Secretariat faced challenges in implementing CF and how is it planning to improve?
• What early insights do we have into CF in GC7?
Summary of Content

1. What is the purpose of our co-financing approach as part of the Sustainability, Transition & Co-financing (STC) Policy

2. What is our experience thus far?

3. What are we doing differently for GC7?

4. What is next?
The STC Policy is implemented through a suite of tools

**Domestic resource mobilization advocacy** (including national dialogues)

**Co-financing** and mobilizing domestic financing

A continuing focus on **efficiency** and VFM to facilitate domestic uptake of interventions

**Technical support**, country engagement and expanding scope to use grants for financial sustainability objectives (PFM, provider payment reforms, strategic purchasing, social contracting, **transition planning** etc.)

**Innovative finance** transactions, including blended finance / joint investments and Debt2Health

An **allocation formula** that explicitly builds in graduation from Global Fund grants

*These tools are further reinforced through the Global Fund’s **programmatic partnership** with governments, communities and partners to strengthen the sustainability of national programs and enhance impact*
The co-financing approach allows for different objectives in different contexts

<table>
<thead>
<tr>
<th>Challenging Operating Environment (COEs)</th>
<th>Priority</th>
<th>Policy Lever</th>
</tr>
</thead>
<tbody>
<tr>
<td>Challenging Operating Environment (COEs)</td>
<td>Ensure health spending is not ignored among other priorities for governments and donors, such as security</td>
<td>“…COEs may, on a case-by-case basis, be granted flexibilities with respect to the requirements set for in this policy and/or as set forth in the policy as in the policy on COEs”</td>
</tr>
<tr>
<td>Low Income Countries (LICs)</td>
<td>Promote progressive, aggregate spending on health, HTM and PHC and build capacity</td>
<td>“[C]o-financing contributions are not restricted to the disease program or related RSSH costs and have the flexibility to demonstrate their investment is 100% RSSH interventions”</td>
</tr>
<tr>
<td>Lower Middle Income Countries (LMICs)</td>
<td>Encourage increased domestic funding of Global Fund supported programs</td>
<td>“[C]o-financing contributions should be in line with identified priority areas within the disease program or RSSH, with a minimum of 50 percent in disease program interventions”</td>
</tr>
<tr>
<td>Upper-Middle Income Countries (UMICs)</td>
<td>Institutionalize spending on HIV, TB and Malaria, especially KP programming</td>
<td>“[C]o-financing contributions should be focused on disease components and RSSH activities to address roadblocks to transition with a minimum of 50% invested in specific disease components targeting key and vulnerable populations, as relevant to the country context”</td>
</tr>
</tbody>
</table>
Based on the differentiation, the policy incentivizes progressive increases in health investment in two ways

**Requirement 1**
Progressive government expenditure on health

Incentivize greater prioritization of government healthcare spend to strengthen and sustain national responses

**Requirement 2**
Increasing co-financing of Global Fund supported programs

Increase domestic spend* on national HIV, TB, Malaria responses and RSSH

Absorb specific costs financed by the Global Fund (i.e., ARVs, HRH, KVP programming, etc.) to support scale up and sustainability

GC5 < GC6 < GC7

This ensures that General Government Health Expenditure is equal to or greater than the previous 3-year cycle

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* Includes private sector, restricted to verified contributions from domestic corporations and philanthropies that finance NSPs; excludes OOP payments.

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There is a **compounding effect** which can disproportionately impact LMICs, spurring the utilization of flexibilities to maintain progress

% minimum additional varies based on income level (slide 5). Countries must commit at least the minimum requirement. Estimated realizations (“baseline”) are used to determine the minimum requirement for the subsequent GC.

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See Annex for further detail on concepts and terms.
## Snapshot of Co-financing cycle

### Key co-financing activities across the grant life cycle

<table>
<thead>
<tr>
<th>Design requirements</th>
<th>Funding Request</th>
<th>Grant-making</th>
<th>Grant implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Prior to Allocation Letter, set co-financing incentive and requirements based on the STC Policy, with adjustments per country and financial context</td>
<td>• Review co-financing commitments and domestic financing trends submitted by countries via Funding Requests</td>
<td>• Assess co-financing risk and develop mitigating actions if relevant</td>
<td>• Monitor co-financing progress against data sources and reporting schedule agreed by countries in their Commitment Letter</td>
</tr>
<tr>
<td>• Engage in country dialogue on co-financing progress and requirements, building on country’s budget cycle</td>
<td>• Review initial co-financing documentation</td>
<td>• Assess compliance against backward-looking and forward-looking co-financing requirements</td>
<td>• Monitor progress against mitigating actions if and where relevant</td>
</tr>
<tr>
<td></td>
<td>• Highlight any co-financing issues for TRP review and address TRP recommendations</td>
<td>• Finalize co-financing commitments via formal Commitment Letter</td>
<td>• Take actions in cases of non-compliance, including management letters, withholding of disbursements, etc.</td>
</tr>
</tbody>
</table>

Note: Given the GF grant model, various processes overlap across cycles. They are not presented as overlapping here to allow for a simple graphic.
There is a set of choices when co-financing does not meet policy requirements

1. Full or partial **waivers** for countries may be considered by the Head, GMD on the basis of extenuating circumstances.*

2. If a waiver is not provided, the Secretariat must:
   - consider **withholding disbursements or reducing grant funds**
   - Consider **reducing the subsequent allocation**

The STC Policy exempts certain applicants from co-financing requirements. This includes multi-country (comprised solely of catalytic funding) and non-CCM applicants. A country who is exempt is exempt from all co-financing requirements.

See Annex for further detail on flexibilities afforded by the Co-financing policy.

* As set out in the STC policy, waivers require strong justification, as well as a plan for addressing funding shortfalls. A recommendation to the Head, GMD on whether to support a waiver request is made by the country team with expert advice from health financing specialists.
Summary of Content

1. What is the purpose of our co-financing approach as part of the Sustainability, Transition & Co-financing (STC)
2. What is our experience thus far?
3. What are we doing differently for GC7?
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Since the STC policy was approved, the Global Fund Partnership has made major strides

- Invested significantly in **specialist financial sustainability resources** with the creation of the Health Finance Department
- Equipped countries with approximately USD 30 million in **technical assistance for sustainability, transition and efficiency** work in GC5 and GC6 so far
- Supported countries to enhance public financial management systems
- Increased **incentives to partners to align with other donors**, including via the Sustainable Health Financing Accelerator, and working with MDBs, including on blended finance deals
- Complemented DRM focus with **innovative finance transactions to unlock / crowd-in other sources** of funding as well as increase harmonization with other donors
- Activated **increased domestic investment in health**, health systems and national responses
- Facilitated expanding **domestic resource mobilization advocacy**, AU relationship, ALM and national dialogues
- **Expanded dialogue with countries on health financing and sustainability**; Ministries of Health often use our policy as leverage within government discussions
Evidence from a range of reviews identifies **internal** challenges in implementation

Leveraging internal and external expertise in order to...

- **2021**
  - OIG review of Domestic Finance for Health (DFH)

- **2022**
  - TRP feedback (ongoing)

- **2023**
  1. **Use** insights from OIG’s Domestic Finance for Health challenges and responses to inform expectations, internal operationalization to increase transparency & effectiveness
  2. **Analyze** real-time insights from the TRP to inform dialogue with countries during grant-making
  3. **Review** co-financing policy application from approach to data use & identify opportunities to strengthen
Use the OIG Report on DFH (2022) to address four challenges with the “as-is” implementation

Difficult to tailor STC policy requirements to country contexts
Lack of guidance and good practice examples, with greater support from specialists needed

Weak focus on “more health for money”
Progressively ambitious design of co-financing requirements geared towards getting 'more money for health'

Variable quality of country-level reporting
Weak quality and timeliness of country-level HF data, with lack of agreement as to how and when information is reported

Outdated roles & responsibilities for appraising adherence to policy
Co-financing OPN does not reflect actual approach, roles and responsibilities on assessment of adherence to policy; more clarity on authority and responsibility needed

Funding gaps are likely to worsen in the next implementation period... This will require monitoring and validation of co-financing commitments, as well as increased transparency by the Secretariat on how commitments are honored. To date, these have been weak with varying data quality and limited delineation of roles between country teams and the Domestic Finance Team, as indicated in our DFH Advisory report. – OIG Annual Report 2022
Analyze TRP observations, recommendations to identify opportunities to support (example from GC7 Windows 1/2)

The TRP receives a range of information in funding requests that addresses sustainability. They see encouraging signs with inclusion of health financing modules, but continued incomplete information on co-financing, funding landscape and social health insurance.

**Observations**

- National public financial management (PFM) systems were often underperforming, reducing the opportunities for use of domestic systems by donors – further weakening PFM systems.
- Encouraging to see use of “Health Financing System” modules of grants. Unfortunately, plans were often weak and unambitious.
- Many countries adopted primary health-care or universal health coverage objectives, but social health insurance implementation is lagging. Difficulties in many funding requests integrating HIV, TB, and malaria into benefit packages.
- Inconsistent quality and completeness in Funding Landscape Tables and RSSH Gaps and Priorities Annex making it difficult to assess for potential duplication of efforts and progress in domestic financing and co-financing.
- Progress in some transition portfolios on key elements of sustainability (increased domestic financing; support to transition and sustainability plans). However, operational plans still missing on investments in key inputs such as HRH or health products.

**Recommendations to Applicants**

- Strengthen public financial management systems to monitor health expenditures, including those on HIV, TB and Malaria.

**Recommendations to Partners & the Secretariat**

- Support countries to prepare more complete financial landscape data, including Global Fund spending in context and RSSH investments.
- Support applicants to integrate HIV, TB and malaria into PHC and UHC benefit packages.
- Provide TRP with improved information on realization of co-financing so TRP can help leverage co-financing towards bottlenecks.
- Support Focused / Transition countries with detailed operational sustainability / transition plans that include broader health systems not just key populations and civil society.
When we *review* GC4, GC5 and GC6, what do we know about co-financing compliance outcomes?

<10% of countries required waivers or were assessed as non-compliant in GC4 and GC5

<table>
<thead>
<tr>
<th></th>
<th>GC4</th>
<th>GC5</th>
<th>GC6 – forward compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Waivers</strong>¹</td>
<td>5 countries</td>
<td>3 countries</td>
<td>3 countries</td>
</tr>
<tr>
<td><strong>Reduction in grant funds</strong>¹</td>
<td>3 countries</td>
<td>2 countries</td>
<td></td>
</tr>
<tr>
<td><strong>Exemptions</strong>²</td>
<td>9 countries</td>
<td>8 countries</td>
<td>9 countries</td>
</tr>
</tbody>
</table>

# countries included in components reviewed³

|                | 108                  | 112                  | 111                      |

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1. Both waivers and reduction in grant funds can be done per component (as opposed to per country) and can be partial waivers. To simplify information presented here, only countries are displayed and there is no disaggregation between full waivers and partial waivers.
2. As per the STC Policy, certain applicants are exempt from co-financing requirements, including multi-country applicants (comprised solely of catalytic funding) and non-CCM countries. Exemptions included here refer only to non-CCM countries and one multi-country applicant (6 countries) not comprised of catalytic funding.
3. Does not include multi-country applicants comprised solely of catalytic funding.

Source: Board reporting; Waiver memos; KPI11 dataset
Challenges with past approach to monitoring

Overview of approach

- Primarily undertaken at one point-in-time (grant-making) only
- Wide variety of data sources used, not always validated by countries
- Small team based out of Geneva with limited involvement of countries
- Limited insight on programmatic focus of commitments and execution
- Separate process to country budget cycles

Examples of data sources

Data used to establish government expenditures not always reflecting spending nor confirmed by country budget authorities

- Commitment Letters;
- Budgets and LFA verification;
- National health accounts;
- National AIDS spending assessments;
- Funding landscape tables;
- Technical partner reports;
- Literature and Secretariat’s own analysis.
A review of co-financing data for policy application and compliance assessment identified gaps and inconsistencies

Findings from our review of the completeness, consistency and quality of co-financing data across key sources of documentation where it is expressed. This review only looked at internal consistency and did not ask questions about external data quality.

Key findings

At GC6:

- **98% of countries reviewed** that went to the GAC saw a deviation between the final commitment letter expressing forward commitments for GC6, and what the grant-making final review form showed this commitment to be.

- **38 out of 81 countries reviewed**, that went to the GAC had data missing from grant-making final review forms, preventing full comparison with FLTs.

- **There were no examples in the countries reviewed** where FLT data on domestic expenditure in GC5 matched GC6 GMFRFs data on realization of GC5 co-financing commitments.

Commitment Letter quality:

- **86% of countries reviewed** which went to the GC6 GAC had a commitment letter.

- **60% of GC6 commitment letters reviewed** failed a basic ‘completeness test’, lacking key information to allow policy implementation, e.g., reporting of expenditure from GC5, or a commitment for GC6.

- **10% of GC6 commitment letters reviewed** were not signed and 11% were expressed in a local currency other than the grant currency (EUR/USD).

A lack of an end-to-end data lineage (audit trail) and consistency of financial data points highlights weaknesses in internal controls and poses high levels of operational, financial and reputational risks for the GF as well as higher transaction costs.

While there are some reasonable explanations for some of these findings, they still underscore the need to strengthen co-financing governance.

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1. Co-financing data can be found in several Global Fund funding request and grant making templates, including: funding landscape tables (FLTs) submitted as part of funding requests; grant-making final review forms (GMFRFs) submitted to the Grant Approvals Committee; and commitment letters (CLs) from countries.
These gaps and inconsistencies lead to divergent co-financing data

Process of re-baselining for GC7 gives us a more accurate picture moving forward

<table>
<thead>
<tr>
<th></th>
<th>GC5 realization(^1)</th>
<th>GC6 commitment (2^) As reported in GC6 GMFRF</th>
<th>GC6 commitment (2^) As reported in GC6 CL</th>
<th>GC6 realization (2^) As reported in GC7 GMFRF or draft GMFRF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A</td>
<td>$260,932,587</td>
<td>$468,266,912</td>
<td>$675,664,107</td>
<td>$300,648,388</td>
</tr>
<tr>
<td>Country B</td>
<td>€ 47,191,946</td>
<td>€ 93,488,641</td>
<td>€ 93,488,641</td>
<td>€ 106,472,490</td>
</tr>
<tr>
<td>Country C</td>
<td>$70,977,979</td>
<td>n/a</td>
<td>$77,518,112</td>
<td>$71,342,143 (new baseline, GC6 waived)</td>
</tr>
<tr>
<td>Country D</td>
<td>$135,558,725</td>
<td>n/a</td>
<td>$287,473,099</td>
<td>$55,594,651 (under review)</td>
</tr>
<tr>
<td>Country E</td>
<td>$585,000,000</td>
<td>n/a</td>
<td>$623,470,000</td>
<td>$87,286,814 (under review)</td>
</tr>
</tbody>
</table>

1. These are retrospective estimates of realizations or “expenditure” and are referred to as estimates because sources used for KPI reporting vary widely and are not solely budget allocation and execution reports.

2. Combination of budget execution and budget allocation data for GC6, used as a “baseline” to determine forward-looking GC7 co-financing requirements because of the way that the policy works (future requirements = past realization + minimum additional requirement).
KPI11 (2017-22 Strategy) reported on co-financing until this year

- KPI11 shows how much co-financing is estimated to have been provided in GC5 across the portfolio, expressed as a percentage of the minimum requirement across the portfolio as specified by the STC policy.

- Data used came from a wide range of sources, majority not linked to government expenditure, including commitment letters, budgets and LFA verification, national health accounts, national AIDS spending assessments; funding landscape tables, technical partner reports, literature and Secretariat’s own analysis.

- In general, there was a heavy reliance on secondary or estimated data sources such as NHAs, and our internal review of data governance showed discrepancies across different internal data sources for co-financing estimates.

- As we estimate GC6 realizations using budgets and budget execution reports in preparation for GC7 GAC, we are finding significant shifts in co-financing estimates, in both directions:

<table>
<thead>
<tr>
<th>Source of divergence</th>
<th>GC5 realization</th>
<th>GC6 realization</th>
<th>Country 1</th>
<th>$773M</th>
<th>&gt;$280M decrease</th>
<th>GC5 over-reported due to reliance on secondary data sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>GC5 realization</td>
<td></td>
<td></td>
<td>Country 2</td>
<td>$14M</td>
<td>&gt;$50M increase</td>
<td>GC5 under-reported due to omission of HIV component</td>
</tr>
</tbody>
</table>

Source: KPI11 dataset

\[
\text{minimum requirement} = \sum \frac{\text{co-financing estimated across all countries}}{\text{minimum requirements across all countries}}
\]
Four main themes emerge from our reviews of the co-financing data, monitoring, and implementation

**Data governance**
Material inconsistencies and missing data comparing country submissions and GAC and Board reports
Reliance on data collated by Secretariat in lieu of country-submitted evidence
Lack of central repository for co-financing data, further challenged by a lack of audit trail on data-related decisions
Modern standards of data storage and quality-assurance not being applied

**Incentives and policy visibility**
Some countries indicate they do not understand the policy and are not engaged in its implementation – from making commitments to backing these with evidence
Limited transparency and reporting of co-financing progress throughout the cycle reduces governance visibility
Difficult trade-offs between prioritization of sustainability (incl. co-financing) and timely grant disbursement for programmatic continuity

**Enaction of policy**
OPN does not reflect how the Policy is implemented in practice
Co-financing appraisals against STC policy carried out inconsistently across countries, with lack of clarity over decision grounds
Consideration of fiscal realities of countries sometimes not prioritized, with more emphasis on ambition in commitments than verification of realizations

**Roles and responsibilities**
Lack of clarity of roles & responsibilities across stakeholders involved in implementation, including internally at the Secretariat
Minimal / no integration of Co-financing processes with GOS and grant-making

Overall analysis demonstrates an opportunity to strengthen data governance and policy acumen across the Secretariat and with countries – however, the purpose to catalyze more domestic resources through all our tools, remains core to our approach and is featured in our Strategy.
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4. What is next?
Focus areas to improve monitoring moving forward

Challenges with the past approach ...

• Primarily undertaken at one point-in-time (grant-making) only
• Wide variety of data sources used, not always validated by countries
• Small team based out of Geneva with limited involvement of countries
• Limited insight on programmatic focus of commitments and execution
• Separate process to country budget cycles

... we are addressing for GC7

• Ongoing monitoring throughout grant implementation
• Focus on budget reports as the primary data source, allowing for some flexibilities
• Building country capacity and dialogue on reporting, working with national and regional institutions (e.g., African Union)
• Systematic capturing / tracking of programmatic commitments, alongside financial commitments, and an emphasis on improving specificity and quality of programmatic and financial commitments
• Alignment of monitoring requirements with country budget cycles
In preparing for GC7, through enhanced governance and incentives we have sought to align policy, implementation and strategic objectives.

Co-financing governance, incl. data
- Updated operational guidance on Co-Financing for GC7, including clarifying approach to assessing compliance and minimum data req’s
- Updated Commitment Letter and Funding Landscape Table templates for GC7
- Increased tracking of the GMFRF
- Improved Health Finance data platform
- Introduction of co-financing monitoring tool

Incentives and policy visibility
- Mandatory Commitment Letter for GC7
- Updated, more demanding co-Financing KPI, including a co-financing risk KPI
- Updated Risk IRM tool to include standalone Co-financing and Sustainability risks
- Comprehensive standard co-financing language in grant confirmations for GC7
- Performance & Accountability metrics for HFD

Critical for co-financing monitoring moving forward
We are also incrementally applying more strategic implementation approaches, clarifying roles and partnering for improved co-financing outcomes

Enaction of policy
- Data-driven approach to setting forward-looking co-financing requirements for GC7 driving both consistency and tailoring
- Rigorous review and reset of co-financing baselines for many countries for GC7
- Using built-in flexibilities of the Sustainability, Transition and Co-financing policy

Roles and responsibilities
- Interim guidance providing short-medium term clarity on roles of key stakeholders involved in implementation for GC7
- Expansion of HF capacity in the Secretariat and an explicitly CT-facing service model, including to help CTs with data governance
- Exploring use of LFAs, as well as other partnerships (e.g., UNAIDS, WHO, GFF), to support co-financing monitoring

Critical for co-financing monitoring moving forward
Domestic resource mobilization data feed into critical pieces of the Global Fund model

- Program continuity & sustainability planning
- Co-financing compliance
- Risk register
- Value for Money analyses
- Results Report
- KPIs
- Investment Case
- Strategic target setting
- PEPFAR in-country alignment
- Board, Committees, Constituency & Partner updates

Detail on KPI R1a on next slide
KPI R1a (2023-28 Strategy) is more aligned to the policy than KPI11

- KPI R1a asks how much co-financing was realized in the previous allocation cycle across the portfolio as a % of what countries committed, not the minimum requirement expected by the policy. This is a more stretching indicator.

- We will also shift the focus on acceptable data sources to:
  - improved commitment letters, including clear statements on past budget execution and the current year’s budget allocation;
  - verification by LFA and/or HF specialists, in line with the STC policy.

- Both KPI11 and KPI R1a suffer from a significant lag before the full portfolio is reported. This is because we do not assess retrospective co-financing performance by a country until they apply for funding in the following allocation cycle.

- To help compensate for this, KPI R1b, which will be reported alongside KPI R1a, will report on progress made by Global Fund Secretariat and partners in implementing co-financing risk mitigation steps. The forward-looking nature of co-financing risk assessment means that this KPI will provide an insight into future performance of KPI R1a.
In the current context, we saw that direct application of the STC policy would not be realistic for many countries.

- Ambitious strategy committing us to greater investment
- Unprecedented fiscal pressure faced by countries
- Constrained allocations, with significantly increased cost of commodities and essential services

We modelled countries’ fiscal space to evaluate their capacity to increase domestic financing and used this to set co-financing expectations in allocation letters.

A portion of grant funding is conditional on meeting co-financing requirements

Proposed % of allocation tied to co-financing across the portfolio (# of countries) shown below

As a result, we are requiring approximately $1bn of additional co-financing from countries in GC7 above GC6, compared to a GC5 → GC6 change in realization of $6bn.

For countries with significant fiscal challenges and potentially unsustainable trends in co-financing, we conditioned grants on co-financing, but not on policy prescribed increases.

This approach is designed to support realistic and strategic co-financing targets, aligned with the fiscal realities of countries, while still providing the Global Fund with the leverage to support better programmatic outcomes through domestic financing.
Early insights from GC7 on co-financing outcomes
As of 23 October, over 15 countries have come through GAC review for GC7

<table>
<thead>
<tr>
<th>Country</th>
<th>Components</th>
<th>Status of GC6 backward-looking compliance</th>
<th>Status of GC7 forward-looking compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country AA</td>
<td>HIV, TB</td>
<td>Conditional compliance (pending submission of further budget reports)</td>
<td>Conditional compliance (pending finalization of Commitment Letter)</td>
</tr>
<tr>
<td>Country AB</td>
<td>Malaria</td>
<td>Waiver</td>
<td>Conditional compliance (pending finalization of Commitment Letter)</td>
</tr>
<tr>
<td>Country AC</td>
<td>Malaria</td>
<td>Complied</td>
<td>Conditional compliance (pending finalization of Commitment Letter)</td>
</tr>
<tr>
<td>Country AD</td>
<td>HIV, TB</td>
<td>Complied</td>
<td>Conditional compliance (pending finalization of Commitment Letter)</td>
</tr>
<tr>
<td>Country BA</td>
<td>HIV, TB, Malaria</td>
<td>Complied</td>
<td>Conditional compliance (pending finalization of Commitment Letter)</td>
</tr>
<tr>
<td>Country BB</td>
<td>HIV, TB</td>
<td>Complied</td>
<td>Complied</td>
</tr>
<tr>
<td>Country BC</td>
<td>HIV, TB, Malaria</td>
<td>Exempt given Non-CCM status</td>
<td>Exempt given Non-CCM status</td>
</tr>
<tr>
<td>Country CA</td>
<td>TB</td>
<td>Complied</td>
<td>Complied</td>
</tr>
<tr>
<td>Country CB</td>
<td>Malaria, RSSH</td>
<td>Waiver</td>
<td>Conditional compliance (pending finalization of Commitment Letter)</td>
</tr>
<tr>
<td>Country DA¹</td>
<td>HIV, TB, Malaria</td>
<td>Complied</td>
<td>Complied</td>
</tr>
<tr>
<td>Country DB¹</td>
<td>HIV</td>
<td>Complied</td>
<td>Complied</td>
</tr>
<tr>
<td>Country DC¹</td>
<td>HIV, TB, Malaria, RSSH</td>
<td>Complied</td>
<td>Complied</td>
</tr>
<tr>
<td>Country EA¹</td>
<td>Malaria</td>
<td>Waiver</td>
<td>Complied</td>
</tr>
<tr>
<td>Country EA¹</td>
<td>HIV, Malaria</td>
<td>Waiver</td>
<td>Conditional compliance (pending finalization of Commitment Letter)</td>
</tr>
<tr>
<td>Country EB¹</td>
<td>HIV, Malaria</td>
<td>Conditional compliance (pending submission of further budget reports)</td>
<td>Conditional compliance (pending finalization of Commitment Letter)</td>
</tr>
<tr>
<td>Country EC¹</td>
<td>HIV</td>
<td>Conditional compliance (pending submission of further budget reports)</td>
<td>Conditional compliance (pending finalization of Commitment Letter)</td>
</tr>
<tr>
<td>Country ED¹</td>
<td>HIV, TB</td>
<td>Conditional compliance (pending submission of further budget reports)</td>
<td>Conditional compliance (pending finalization of Commitment Letter)</td>
</tr>
<tr>
<td>Country EE¹</td>
<td>Malaria</td>
<td>Conditional compliance (pending submission of further budget reports)</td>
<td>Conditional compliance (pending finalization of Commitment Letter)</td>
</tr>
</tbody>
</table>

Note: One further country has also already been waived for GC6 backward-looking and GC7 forward-looking requirements; 1. GAC Recommended, but not Board approved yet.
Côte d’Ivoire

Significant engagement by the Secretariat can improve the co-financing outlook for GC7 in a country that has historically faced stock-outs linked to co-financing

Achieved a common understanding of the total co-financing requirements.

The government has started sharing budget execution data from its financial management system with detailed budget lines under each disease program, and budget lines for World Bank RSSH loans.

GC7 commitments are in line with minimum requirements and country capacity and not overly ambitious, making use of RSSH flexibility in the policy.

A commitment to increase overall government health budget as a share of government budget helps ensure increased HTM spending does not crowd out other essential health spending and supports DRM advocacy work.

The most significant increases in co-financing for specific program commitments are for commodities.
Indonesia

Co-financing can have a catalytic effect on sustainability

Through the collaborative work of Country Team and HFD, a comprehensive commitment letter was secured from Indonesia, with specific program commitments including breakdown and progressive domestic adoption of program management costs. **Major objective for the Global Fund in countries like Indonesia is to promote funding of key aspects of the response.**

All financial commitments … allocated as specific programmatic commitments

<table>
<thead>
<tr>
<th>2023-2026 Allocation period co-financing commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual of 2020-2022 Allocation period (USD)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>HIV</strong></td>
</tr>
<tr>
<td>114,299,850</td>
</tr>
<tr>
<td>103,166,726</td>
</tr>
<tr>
<td>134,530,670</td>
</tr>
<tr>
<td>106,129,301</td>
</tr>
<tr>
<td>616,134,001</td>
</tr>
<tr>
<td><strong>TB</strong></td>
</tr>
<tr>
<td>121,359,710</td>
</tr>
<tr>
<td>422,724,314</td>
</tr>
<tr>
<td>206,544,080</td>
</tr>
<tr>
<td>245,620,155</td>
</tr>
<tr>
<td>14,760,623</td>
</tr>
<tr>
<td><strong>Malaria</strong></td>
</tr>
<tr>
<td>6,018,383</td>
</tr>
<tr>
<td>2,972,722</td>
</tr>
<tr>
<td>3,252,494</td>
</tr>
<tr>
<td>3,426,420</td>
</tr>
<tr>
<td>13,519,390</td>
</tr>
<tr>
<td><strong>RSH</strong></td>
</tr>
<tr>
<td>10,504,850</td>
</tr>
<tr>
<td>33,196,610</td>
</tr>
<tr>
<td>14,442,032</td>
</tr>
<tr>
<td>17,008,827</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
</tr>
<tr>
<td>252,182,793</td>
</tr>
<tr>
<td>817,841,655</td>
</tr>
<tr>
<td>371,120,287</td>
</tr>
<tr>
<td>440,809,312</td>
</tr>
</tbody>
</table>

The financing of the program management to be provided by the Ministry of Health will be carried out gradually, starting from 2025 at 10% and 100% in 2026. The program management funding will only cover the PR at MoH central level.
Philippines

Strong internal collaboration within the Secretariat illustrates the scope for using co-financing as a strategic lever for delivering our strategic objectives on the path to UHC. In PHL, a comprehensive commitment letter was secured, with specific commodity commitments in the context of a grant that is mostly commodities.

Specific commitments towards commodities with clear plan for monitoring/reporting.

Example: Detailed Breakdown of proposed DOH counterpart for TB 2024-2026

<table>
<thead>
<tr>
<th>Tuberculosis</th>
<th>Required Budget</th>
<th>DOH Proposed Commitment</th>
<th>Global Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2024</td>
<td>2025</td>
<td>2026</td>
</tr>
<tr>
<td>PPD</td>
<td>60,442,070</td>
<td>45,715,431</td>
<td>-</td>
</tr>
<tr>
<td>Chest Xray (excluding capes)</td>
<td>1,217,845,650</td>
<td>1,251,582,500</td>
<td>1,288,463,150</td>
</tr>
<tr>
<td>RDT Cartridges</td>
<td>1,325,064,497</td>
<td>1,762,178,428</td>
<td>2,539,769,733</td>
</tr>
<tr>
<td>TPT Drugs- 3HR</td>
<td>27,567,120</td>
<td>38,030,874</td>
<td>47,280,079</td>
</tr>
<tr>
<td>TPT drugs- 3HP</td>
<td>132,011,421</td>
<td>170,651,822</td>
<td>217,987,659</td>
</tr>
<tr>
<td>First Line Drugs- Adults</td>
<td>938,654,330</td>
<td>828,552,925</td>
<td>844,799,591</td>
</tr>
<tr>
<td>First Line Drugs- Pedia</td>
<td>117,786,779</td>
<td>140,176,806</td>
<td>155,837,171</td>
</tr>
<tr>
<td>Second Line TB Drugs- Adult and Pedia</td>
<td>541,376,580</td>
<td>883,546,630</td>
<td>1,036,803,719</td>
</tr>
<tr>
<td>Philippine TB Society Inc.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>National TB Prevalence Survey</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>HIV&amp;L Personnel Diary</td>
<td>21,647,440</td>
<td>21,047,440</td>
<td>21,047,440</td>
</tr>
<tr>
<td>Philhealth</td>
<td>293,552,513</td>
<td>293,552,513</td>
<td>-</td>
</tr>
<tr>
<td>SUBTOTAL Tuberculosis</td>
<td>4,382,523,085</td>
<td>5,166,076,765</td>
<td>6,222,737,062</td>
</tr>
</tbody>
</table>

To realize our co-financing commitments, we will be providing the Global Fund the following information:

- Annual Procurement Plan of the Disease Prevention and Control Bureau where the three disease programs are lodged, every 31st of December, and
- Annual financial report, every 30th of June the following year.
Across country contexts, we are institutionalizing a proactive & holistic approach to manage health financing risk through the grant life-cycle

New standalone HF category introduced in country risk management with focus on 2 areas:
✓ **Barriers to domestic health financing** (the investment case projects 45% of resources will be from country resources) and its impact on results, using co-financing as an entry point.
✓ **Financial sustainability** of the disease response, and sector-wide inefficiencies, to better align Global Fund grants to broader UHC financing, as a means to mitigate risks of aid reductions and domestic economic downturns.

Institutional embedding and proactive support:
✓ Development of **tools and incentives** for operationalization of this risk management framework (root cause & rating guidance, a KPI focused on material co-financing risk, advisory and TA) throughout grant-life cycle.
✓ Proactive focus and systematic roll-out starting with GC7 through (identification of root causes / drivers and design and monitoring of mitigation).
✓ Innovative finance engagement early on, to ensure a risk lens informs decision-making, aiming to mitigate by design rather than reactive management.

Actions expected from this renewed focus:
✓ A clearer link to performance letters, grant agreements and support to in-country stakeholders (e.g., via heavily reduced HF Strategic Initiative) to reduce risk levels by implementing mitigation steps and target-risk setting.
✓ A clear focus on risk management in refreshed co-financing operational processes.
✓ Corporate reporting, HF embedded in the organizational risk register.
Summary of Content

1. What is the purpose of our co-financing approach as part of the Sustainability, Transition & Co-financing (STC)

2. What is our experience thus far?

3. What are we doing differently for GC7?

4. What is next?
As we move forward, we continue our collective focus on catalyzing domestic resources

As shared last year with the Board, this continues to require working in partnership with countries, simplifying and improving our systems. There is significant learning from these 7 years, and we’ll continue to incorporate as we evolve with countries and partners.

Our way forward: strengthen domestic investments through more quality, simpler, country owned, verifiable co-financing

- Encourage greater ownership of governments
  - Governments, especially MoFs, must own their commitments
  - Empower national stakeholders to hold leaders to account on DRM
  - Work with partners to build local capacity (people and systems) for monitoring expenditure and linking to programmatic priorities

- Less is more: Simplify requirements for countries
  - Simplify ask and improve communication with countries during country dialogue and grant processes
  - Increase visibility into specific commitments and renew emphasis on total programmable resources
  - Work with countries to ensure financial and programmatic commitments are realistic and further interlinked

- Systematically improve data and ability to track commitments
  - More systematically document and substantiate co-financing commitments
  - Work with countries and partners to strengthen data systems at the national/subnational levels
  - Improve Global Fund review, verification, and monitoring of commitments

Overall: Focus more on country engagement, strategic commitments, capacity building and reform processes to further leverage co-financing as a strategic tool

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And we know this means balancing trade-offs. Examples to consider – non-exhaustive nor strictly mutually exclusive.

**More uniformity**

- Continue to invest resources in co-financing
- Consistent set of requirements across portfolio
- Require country alignment with Global Fund cycles
- Strong minimum standards for monitoring and data
- Quality / comprehensive reporting on DRM

**More flexibility**

- Focus resources on HF levers beyond co-financing
- Requirements vary based on country context
- Align requirements to country budgeting cycles
- Varying standards for monitoring and data
- Limited ability to report aggregate DRM data
Our reporting approach to co-financing during GC7

KPIs

- R1a (co-financing performance in previous allocation cycle) – annually (spring).
- R1b (co-financing risk mitigation process in current allocation cycle) – annually.
- R1a is more stretching than KPI11 was. R1b is new for 2023-28 Strategy.

Complementary insights on KPIs

- Multiple corollary indicators on domestic resource mobilization, currently being finalized, including MEC P&A reporting. Reported alongside KPIs, annually.

GAC recommendations to the Board on grant-making (GAC Reports to the Board)

- Country- and component-specific information on co-financing, including total commitments, assessment of adherence to policy, and specific information on waivers, exemptions, actions taken for non-adherence, and context. Reported when GAC approves a grant (i.e., every three years per country / component).
- Grant-making final review forms (detailed information on co-financing, including backward- and forward-looking adherence) shared with Board to substantiate GAC recommendations to the Board.
- Improvements during GC7 include greater disaggregation of co-financing adherence assessments, including by each policy requirement, and a stand-alone section on co-financing.

Narrative reporting on aggregate co-financing

- Currently, narrative is only provided in GAC Board Reports at grant-making for individual countries / components, meaning every three years.
So what does this mean and where do we go from here?

✓ We introduced the policy during a different period, but the aim of catalyzing domestic resources still matters, and is core to our Strategy and to sustaining the collective gains as we work towards UHC. Co-financing is a strategic lever for the Global Fund.

✓ We have invested significant energy in analyzing our implementation of the policy, particularly on co-financing, and there’s a lot we’ve learned – and we have a clear plan in place for improvement.

✓ This includes addressing challenges in data governance, policy awareness and consistent application, and roles and responsibilities; however, there will continue to be resource constraints and associated trade-offs.

✓ Clear lessons from country dialogue are showing us what’s working in co-financing. We will need to double-down on these lessons alongside other financial sustainability levers – and it will require the broader partnership as well.

✓ We want to be foot forward on the flexibilities to be as efficient as possible – differentiating upfront where there’s unlikely potential to increase domestic investment. And where there’s real opportunity to move the needle, let’s focus resources there, with country leadership and with partners.

✓ We are committed to reporting regularly and transparently – be it the normal reporting, aggregate KPI insights or status updates when needed (including where we need to problem solve together).

✓ We look forward to continued sharing of our experiences as other partners embark on sustainability, transition and co-financing as well as engaging in partnership where that can accelerate impact collectively.
Annex
The GF Co-financing policy

Additional terms

Incentive = The proportion of the country’s allocation tied to fulfilling co-financing requirements

Requirement = What a country must do at a minimum to fulfil GF’s co-financing policy

Additional = The minimum additional incremental increase in domestic spend on HIV, TB, Malaria or RSSH required by GF’s co-financing policy. This is also typically represented by a % of the country’s allocation

Baseline = The amount of domestic spend realized in the previous cycle and which is used to calculate the forward-looking co-financing requirement for countries

Commitment = The specific USD / EUR amounts or monetized activities which a country has promised to fulfil the GF co-financing policy

DRM KPI R1a = Total co-financing realized during the allocation period as a % of Total co-financing commitments for the allocation period

Flexibilities (Policy and OPN)

1. Exceptions to the policy may be made based on country context, fiscal space and other relevant factors – upfront and during the grant cycle
2. COE flexibilities may be agreed on an individual basis as part of EGMC / PPC review
3. Exemptions for regional, multi-country and non-CCM applicants already available (no memo / request required)
4. Upfront waivers and waivers at compliance assessment available where strong justifications exist
5. Various options for non-compliance actions include reducing money from future allocations; withholding disbursements in current IP; and reducing grant amounts in current IP
6. Co-financing must be evidenced through allocations to government budget lines, expenditure, and / or other agreed upon assurance mechanisms. Flexibility to define data sources and the approach taken to monitoring.
7. Co-financing requirements may be set on a case-by-case basis considering country context, including fiscal space considerations. The amount of the ‘co-financing incentive’ will be proportional to the level of additional co-financing provided by the country unless a strong justification is provided
8. In assessing compliance, Secretariat will consider macroeconomic, fiscal, and other contextual and relevant factors (part 3, para.7(b), Annex 1).

Please note: The STC policy allows for exceptions (#1, #2); exemptions (#3), and waivers (#4)