

Updated Global Fund Approach to Blended Finance

50th Board Meeting

GF/B50/04

14 – 16 November 2023, Geneva, Switzerland

Board Decision

The purpose of this paper is to propose for Global Fund Board approval a more ‘fit for purpose’ approach to developing, reviewing, approving and implementing blended finance transactions, a key piece of the 2023-2028 Strategy and the Global Fund’s overall resource mobilization efforts. This paper builds on previous engagements with the Audit and Finance Committee (AFC) on blended finance and innovative finance efforts (including the *Structured Approach to Innovative Finance*¹), discussions with the AFC in July 2023 and October 2023, as well as the Secretariat’s efforts to strengthen its approaches to blended finance based on lessons learned from early implementation. The paper describes the standard operational processes that will be used for developing, reviewing and approving blended finance transactions, including expectations for partners; it proposes a due-diligence check that would be applied by the Secretariat for the accreditation and pre-qualification of new blended finance partners, beyond those with whom the Global Fund already has an active relationship; it describes the role of the Office of Inspector General (OIG) as part of this updated blended finance approach; and it describes the materiality of Global Fund investments that will fall under this approach. The paper is presented to the Board for decision.

¹ [GF/B40/18](#) - A structured approach for innovative finance (November 2018), which was developed by the Secretariat in consultation with the AFC, endorsed by the AFC and then presented to the Board.

Decision

Decision Point: GF/B50/DPXX: Framework to Guide the Development, Review, Approval and Implementation of Blended Finance Transactions

Based on the recommendation of the Audit and Finance Committee, the Board approves the blended finance approach set forth in Annex 1 to GF/B50/04: *Framework to Guide the Development, Review, Approval and Implementation of Blended Finance Transactions*.

Budgetary implications (included in, or additional to, OPEX budget)

- There are no immediate, material budgetary implications for this approval. The only potential budgetary implications could be associated with the due diligence process described in the paper should the Global Fund seek to strengthen its capacity to conduct those due diligence efforts. If necessary, these are expected to be relatively minimal. Outside of this, existing Global Fund resources are sufficient to implement the new approach.
- This said, as highlighted in GF/AFC22/05, the Secretariat does expect that limited resources to seed blended finance transactions will continue to represent a challenge, particularly given constrained GC7 Strategic Initiative (SI) resources and increased reliance on country allocations to finance both Blended Finance transactions and associated fees.

A summary of relevant past decisions providing context to the proposed Decision Point can be found in Annex 3.

Executive Summary

Context

The use of blended finance reflects the Global Fund's need to consider strategically impactful investments that complement (but do not replace) traditional grant investments. These transactions play an important role in enhancing national sustainable financing for health and delivery of the Global Fund's Strategy objectives, mainly by catalyzing additional financing and/or influencing existing partner financing to support HIV, tuberculosis, malaria (HTM), and Resilient and Sustainable Systems for Health (RSSH) objectives.

In line with the 2023-2028 Strategy, the Secretariat has made improvements in its approach to developing, reviewing, approving, and implementing blended finance transactions based on lessons learned from early transactions and recommendations from independent and Secretariat analysis. The Secretariat has also seen an increase in demand for these investments. This emphasizes the need for continuously improving, refining and streamlining approaches to unlock new opportunities and effectively leverage these financial mechanisms for impact. To fully leverage these investments, the Global Fund will need to continue improving operational policies, addressing challenges to use these mechanisms, as well as carefully weighing – and taking – the right risks to use blended finance, where appropriate.

Following the inputs received from the AFC during the 22nd meeting, the AFC recommended for Board Approval an *Updated Approach to Blended Finance*. The *Updated Approach to Blended Finance* reaffirms the importance of blended finance for the Global Fund's ability to achieve impact and strengthen resource mobilization. It outlines how the Secretariat's new standard operational processes will be used to develop, review, approve, and implement blended finance transactions, including the role of partners and the expectations the Secretariat has for these partners; it describes the process the Secretariat will undertake to conduct due diligence and decide to pursue blended finance with new partners (beyond those with whom the Global Fund already actively engages in blended finance); it describes the role of the Office of Inspector General under the new blended finance approach; it describes the materiality under which the Global Fund will use this approach; and describes how the Secretariat will report to the AFC on ongoing blended finance efforts.

Input Sought

Based on the recommendation of the Audit and Finance Committee, the Board is requested to approve the Decision Point presented on page 1, which references the blended finance approach set forth in Annex 1 to GF/B50/04: *Framework to Guide the Development, Review, Approval and Implementation of Blended Finance Transactions*.

Questions this paper addresses

- A. Why is blended finance important to the Global Fund's mission and the 2023-2028 Strategy?
- B. What are the key elements of this updated blended finance approach that the Board is being requested to approve, including related to operational processes, expectations for partners, the due-diligence process to approve new partners, and the role of the OIG?

- C. How will this new approach be guided by considerations related to materiality and ambition of potential Global Fund investments in blended finance?

Conclusions

- A. Blended finance plays an important role (as a complement to traditional Global Fund grants) in the Global Fund 2023-2028 Strategy by crowding in additional resources for health and influencing existing partner financing to support HIV, tuberculosis, malaria (HTM), and Resilient and Sustainable Systems for Health (RSSH) objectives. The importance of blended finance has also recently been reinforced by broader conversations on alignment in development financing and the need for co-investment amongst development organizations to further enhance impact and strengthen financial sustainability. In addition, blended finance may play a role in helping the Global Fund navigate current global trends in development finance, in particular the growing climate finance and pandemic preparedness agenda. Resources needed for HIV, TB and malaria represent just a small part of development financing needs overall, which makes it imperative that the Global Fund can more seamlessly interact with and influence broader development and health investments of partners through its blended finance efforts.
- B. In line with the 2023-2028 Strategy, the Secretariat has made improvements in its approach to blended finance based on lessons learned from Secretariat and independent analysis and learning from early transactions. The Secretariat has also seen an increase in demand for blended finance. Improvements have included better understanding partner processes and developing more clear, standardized operational policies to develop, review, approve, and implement blended finance investments, recognizing the unique nature of these financial mechanisms and differences with traditional Global Fund grants.
- C. To further streamline Global Fund efforts and take full advantage of these mechanisms, an Updated Blended Finance Approach is necessary. This approach is designed to address operational challenges in leveraging these mechanisms while managing risks and maintaining the Global Fund's steadfast commitment to the assurance of its investments. It includes five critical elements: a) reviewing all blended finance transactions through enhanced and standardized operational processes now in place at the Global Fund Secretariat; b) understanding and clearly laying out expectations for partners involved in blended finance efforts; c) reviewing and pre-qualifying new partners beyond the World Bank; d) the role of the OIG in blended finance transactions; and e) clearly defining the ambition (300 million USD) of additional investments under which this approach will be used.

Input Received

- In October 2023, the Secretariat presented a Framework to Guide the Development, Review, Approval, and Implementation of Blended Finance transactions to the AFC for onward recommendation to the Board. The AFC unanimously recommended the Framework for Board approval. This built on previous discussions in July 2023, where the Secretariat presented to the AFC an extensive overview of learning from its ongoing work on blended finance, including improvements made to Secretariat processes as well as remaining challenges.
- In addition to the above, the OIG, AFC, SC, and Board have provided significant inputs into the Secretariat's blended finance and broader innovative finance efforts since 2016.

Report

The need for an updated Global Fund Approach to Blended Finance

1. In the context of the Global Fund, blended finance and joint investments (referred to as “blended finance” throughout this paper) refer to efforts to combine Global Fund grants with other sources of funding, primarily loans from development finance institutions, including multi-lateral development banks (MDBs). These complement, but do not replace, traditional Global Fund grant investments and play an important role in enhancing national sustainable financing for health and the delivery of the Global Fund’s Strategy objectives.
2. There are a variety of strategic, programmatic and operational reasons to pursue blended finance and early work on blended finance has revealed important lessons learned on how these mechanisms contribute to impact (Figure 1). This includes incentivizing additional resources for health and the three diseases, better aligning development financing with partners, improving on-budget spend, strengthening sustainability, supporting health reforms, leveraging partner investments to integrate and address HIV, tuberculosis, malaria (HTM) and Resilient and Sustainable Systems for Health (RSSH) priorities, amongst others. In addition, blended finance may play a role in helping the Global Fund navigate current global trends in development finance, in particular the growing climate finance and pandemic preparedness. Resources needed for HIV, TB and malaria represent just a small part of development financing needs overall, making it imperative that the Global Fund can more seamlessly interact with *and* influence broader development and health investments of partners.

Figure 1: Strategic, operational and programmatic added-value of blended finance transactions

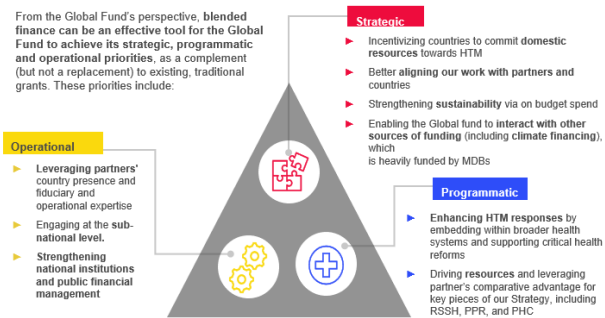
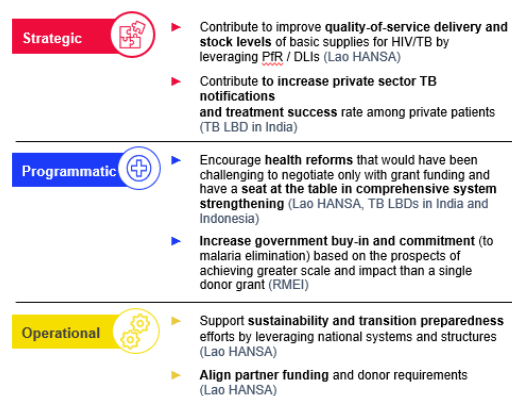


Figure 2: Early learning from transactions (non-exhaustive)



3. In line with the 2023-2028 Strategy, the Secretariat has made improvements in its approach to blended finance. These improvements respond to the emphasis in the Global Fund’s [2023-2028 Strategy](#) on the need to ‘standardize and streamline Secretariat processes’ to undertake and enhance blended finance transactions and further leverage joint investments to crowd in additional resources for health and the three diseases. At the same time, the Secretariat has observed an increased interest from countries and partners in pursuing blended finance in Grant Cycle (GC)7,

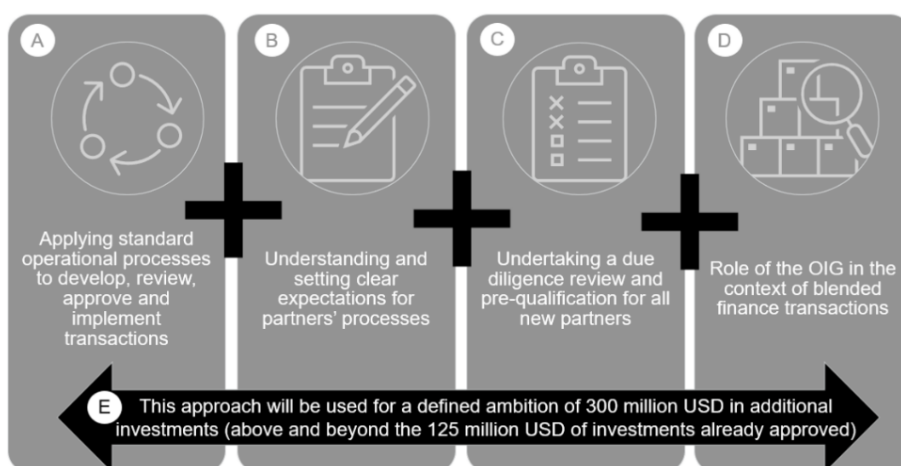
which emphasizes the need for continuously improving, refining, and streamlining approaches to effectively meet increasing demand and unlock new opportunities. Despite improvements made there are remaining challenges, including the need for clear and differentiated operational processes, the need for more fit for purpose approach to assurance (including reducing duplication with partner assurance mechanisms), and high transaction costs. These challenges have often created uncertainties for countries, partners, and the Secretariat (including country teams) on whether or not we can pursue individual blended finance transactions and limited the Global Fund's ability to fully leverage these mechanisms. To address these challenges, the Secretariat developed (with AFC support) a fit for purpose approach for blended finance transactions which maintains the Global Fund's steadfast commitment to the assurance of its investments, but addresses key challenges and recognizes the fundamentally different nature of Blended Finance investments and the value-proposition they bring to the Global Fund.

Summary description of the Updated Approach to Blended Finance

1. The Updated Approach to Blended Finance will more fully leverage the processes and policies of our partner organizations combined with a more rigorous approach to Secretariat development, review, approval, and implementation of these transactions. This Updated Blended Finance Approach has five elements:
 - a. **Applying standard operational processes to develop, review, approve, and implement blended finance transactions**, leveraging the new processes the Secretariat has developed. This operational process – developed in 2022-2023 – will be formalized in a forthcoming Operational Policy Note (OPN)² and is designed to be a more rigorous and standardized operational approach to enable the Secretariat to carefully consider the risks and risk-tradeoffs of each individual blended finance transaction.
 - b. **Understanding and setting clear expectations for partners** (on whom the Global Fund relies significantly when undertaking blended finance)
 - c. **Undertaking a due diligence assessment for all new partners with whom the Global Fund will engage in blended finance transactions**, beyond the World Bank. This will leverage the current understanding of the World Bank's approach as a reference point for engagement with future partners.
 - d. **Clarifying the role of the OIG in the context of blended finance transactions** – The assurance to be provided by the OIG on blended finance transactions will focus on the Secretariat activities, and the Secretariat will rely on assurance provided by the development finance institutions receiving the funding for downstream assurance. The OIG will seek closer collaboration with the World Bank specifically at this stage to facilitate sharing of information to support work of each party.
 - e. **Defining the materiality and expected ambition** under which the new blended finance approach will be used.
2. These 5 elements (described below) will constitute the Global Fund's updated approach to blended finance, setting a clear framework under which the Secretariat will develop, review, approve, and implement blended finance transactions in line with the 2023-2028 Strategy.

² Expected to be approved in Q4 2023.

Figure 3: Updated Global Fund Approach to Blended Finance



A. Operational processes that will be used for developing, reviewing and approving blended finance transactions

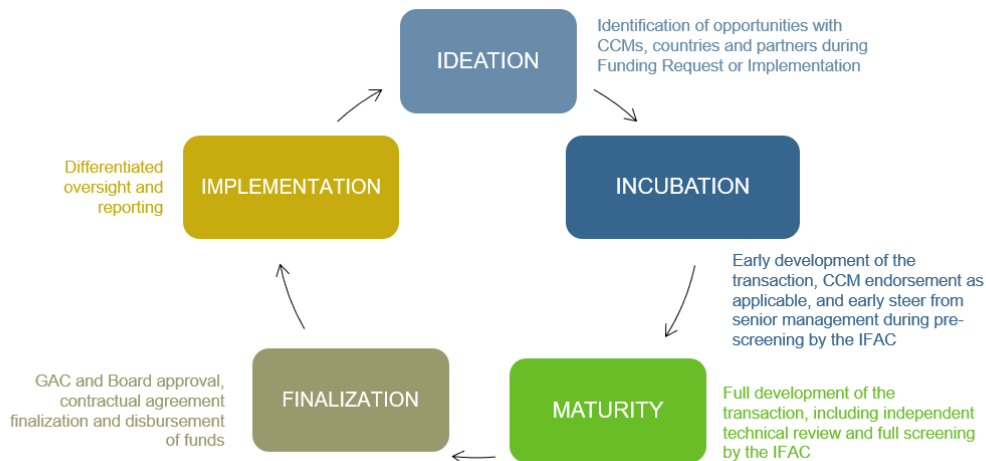
3. Blended finance at the Global Fund can have multiple modalities. Regardless of the modality, all blended finance investments should follow a standardized operational approach to developing, reviewing, approving, and implementing these transactions, with a strong focus on understanding the risks associated with the investment and making a clear risk-trade-off decision as to whether to pursue any individual transaction. Building on lessons learned and recommendations from Secretariat and independent assessments, the Secretariat has developed a standard operational approach for blended finance, which is summarized in Figure 4 below and is being formalized by the Secretariat in a Blended Finance and Joint Investment Operational Policy Note (OPN).³ These operational policies were built based on significant lessons learned from the Global Fund's early blended finance efforts, as well as the parameters described in the [2023-2028 Strategy](#), the [Structured Approach to Innovative Finance](#), and the Global Fund's [Framework for Joint Investments in Blended Finance](#).
4. These operational processes take into account the fundamentally different nature of blended finance (which often involves the Global Fund making a joint investment with a development finance institution rather than contracting a Principal Recipient directly under a Grant Agreement to implement approved program activities) as well as key differences in how regular grant life-cycle processes must be considered during blended finance transactions. In particular, while maintaining key aspects of standard access to funding processes (such as the role of the CCM, GAC review and approval, and Board approval) the operational policies include key enhancements designed to provide the appropriate level of due diligence and oversight for blended finance, including:
 - a) The addition of a process for early steer from the Secretariat's senior management, to ensure the Secretariat focuses on those blended finance transactions that are highest impact and most feasible;
 - b) the formalization of an Innovative Finance Approval Committee (IFAC) and its responsibilities vis-à-vis the Grant Approvals Committee (GAC), including the rigorous review through the IFAC of blended finance transactions (including structure, rationale for the investment, assurance considerations, risks and risk trade-off analysis, the

³ Expected to be approved by Secretariat by early Q4, 2023 and is operationally already being used to support the development, review, approval, and implementation of blended finance transactions.

assurance processes of the partner, and approval of any exceptions/deviations to standard Global Fund operational processes required for blended finance investments);

- c) the standardization of flexibilities for blended finance transactions to reduce duplication with partner processes;
- d) clarifications of the process for independent technical review of these transactions;
- e) the definition of key technical considerations related to blended finance investments that must be reviewed for each transaction.

Figure 4: Summary of Blended Finance operational processes



5. Under the Updated Blended Finance Approach proposed in this paper, all blended finance transactions pursued by the Secretariat will follow these operational processes.

B. Expectations and understanding of partner processes

6. In blended investments the Secretariat relies more strongly on the processes and policies (including related to assurance) of partner organizations and often, by extension, on national systems which are used by those partners. While to a large extent these partner processes and policies align with the assurance approaches and principles prioritized by the Global Fund (particularly related to financial and programmatic assurance), the increased reliance on partners in blended finance transactions is a key difference between traditional grants and blended investments. At the same time, it is worth noting that, despite this increased reliance on partners' processes and policies, the Global Fund Secretariat still evaluates through the operational processes described in Section A if the partner processes, vetted through a due diligence process outlined below in Section C, combined with any terms negotiated under each individual transaction (including monitoring or reporting shared by the partner and any programmatic visibility the Global Fund has under existing grants) adds up to a satisfactory assurance approach from the Global Fund perspective. While there is a clear, additional reliance on partners in blended finance transactions, this is combined with an enhanced focus on reviewing these transactions to ensure the Secretariat clearly weighs the risks associated with them with the added value of making the investment.

7. Given the increased reliance on partners in blended finance investments, the Secretariat must both understand the processes and approaches of partners with whom it engages in blended finance, as well as have clear expectations for how those partners processes / approaches help assure the programmatic and financial aspects of blended investments.
8. Since the vast majority (approximately 88%) of historical blended finance transactions have been conducted with the World Bank, the Secretariat has reviewed World Bank processes and assurance approaches. The World Bank's loan and project development processes includes a strong focus on understanding the capacity of implementers (including the track record and lessons learned from previous investments); analysis of financial and fiduciary considerations (through a Fiduciary Systems Assessment); analysis of environmental and social considerations (through a Social and Environmental Assessment); analysis of risks related to fraud and corruption (including related to procurement); the identification and mitigation of risks; the independent verification of results (particularly in contexts of Program for Results investments); review of the capacity of verification entities; and formal approaches to ensure the strategic and programmatic fit and technical quality of investments.
9. Based on this review and its historical experience with the World Bank, the Secretariat has a high degree of confidence that management and oversight used by the World Bank can be reasonably leveraged to help assure blended finance transactions. As such, under the approach described in this paper, the Secretariat will continue to work with the World Bank on blended finance investments, including on those investments already being developed as part of GC6 and GC7
10. In addition, based on the sufficiency of the assurance policies and approach from the World Bank, the Secretariat has established a reference point for its expectations for partner processes for blended finance. While specificities may differ depending on the partner, the World Bank approach covers five critical thematic areas – *fraud and corruption; financial management and procurement; social and environmental considerations; strategic, programmatic & operational soundness; and risk assessment*. The understanding of the World Bank approach will be used as a reference point for the due diligence process applied to additional partners with whom the Secretariat may undertake blended finance investments (and described in more detail in Section C below).

C. Due diligence review and pre-qualification of additional partners with whom the Global Fund may engage in blended finance

11. Under the approach described in this paper, the Secretariat will continue to work with the World Bank on blended finance investments, including on those investments already being developed as part of GC6 and GC7.
12. In the case of partners other than the World Bank, the Secretariat will undertake a due diligence / vetting process to better understand the regulatory framework, internal controls, and assurance mechanisms used by potential additional partners. This assessment will include a review of various thematic areas that have been assessed in the context of World Bank investments and which are critical to understanding the approaches of the partner and their acceptability to the Global Fund, including (but not limited to): a) policies to prevent, detect, and respond to incidents

and allegations of prohibited practices and independent mechanisms to investigate those as well as sanction parties involved; b) policies to assess the country's fiduciary capacity and monitor the country's progress to diligently execute the program and maintain suitable fiduciary systems and governance arrangements; c) the partner's ability to develop the program with sufficient technical standards and review processes, as well as set up independent mechanisms for the verification of programmatic and fiduciary results; and d) the partner's approach to implementation oversight, including (i) management of ongoing risks identified as part of the program, (ii) oversight of any conditions, actions, or commitments of the country required to effectively implement the program, and (iii) sufficient capacity of the partner to oversee the program on an ongoing basis

13. While recognizing that the individual approaches of partners will vary, these due diligence assessments will use the current understanding of the World Bank's approaches as a reference point. The due diligence assessment will be designed to ensure clear understanding of the approaches and processes of potential new partners, as well the Secretariat's comfort level with these approaches / processes, and will include a risk assessment of engaging with new potential partners.
14. The Innovative Finance and Approval Committee, a formal body involved in the review of all blended finance transactions as per the operational policy described in Section A above, will review the due diligence assessment, and approve the pre-qualification of additional partners prior to finalizing any transactions with new partners.
15. The outcome of the IFAC review of new potential partner organizations with whom the Secretariat would engage in blended finance would be reported to the AFC on a regular basis, to ensure that the AFC has strong visibility on pre-qualified partners with whom the Secretariat may pursue blended finance.
16. In addition, if and where needed and building on its established relationships with the World Bank, as part of the due diligence process the Secretariat may also pursue the establishment of legal agreements and or memorandums of understanding to help guide the overarching work it undertakes with new potential partners. Such agreements have been valuable in the Global Fund's work and mutual understanding of efforts with the World Bank and may be pursued with other partners. The existence of formal collaboration agreements will not be a pre-requisite for the approval of new partners but will be a consideration in the due diligence review for the approval of new partners.

D. The role of the Office of Inspector General (OIG) as part of the updated blended finance approach

17. As part of the new approach to blended finance described in this paper, the role of the Office of Inspector General (OIG) will focus on the Secretariat's own role and processes in approving such investments, assessing performance, and managing risks. In the context of blended finance the OIG's assurance work will focus on incorporating blended finance into its overall assurance / oversight of the Secretariat and its operations. The OIG would not be expected to have direct access either to the development finance institutions' books and records or staff, as those institutions require exclusive reliance on their internal oversight and assurance processes, or to implementers and ultimate recipients of funding as there would be no direct link between

the funding provided by the Global Fund and the monies disbursed by the development finance institution to these entities.

18. In the context of blended finance transactions there are often (although not always) differences related to the Office of the Inspector General's standard grant agreement assurance. For example, legal agreements associated with the World Bank's investments stipulate that all donor contributions to Trust Funds shall be administered in coordination with the World Bank's applicable policies and procedures, which creates a limitation on the access mandate of the OIG. At present, current blended finance assurance approach requires the OIG to make a decision on a transaction-by-transaction basis as to whether or not the transaction, and any associated limitation in their scope of work, constitute a material limitation to its capacity to provide overall assurance in accordance with its mandate.
19. When considering assurance in the context of blended finance transactions (in particular on direct access to books, records, facilities and individuals implementing specific funded activities), it is important to take into account the purpose and role sought by the Global Fund in the funding it provides. In a blended finance investment, the essence of the funding is not to directly support an implementer's activities or to gain confidence on proper use of such funds to achieve expected results. Rather, it is to participate in a broader transaction, in order to influence its design and/or leverage other investments as part of a pool, to incentivize impact in a way not available to the Global Fund through traditional grants. In such a context, an appropriate approach to assurance should reflect the substance of the activities and risks assumed by the Global Fund, while avoiding overlap and duplication with the assurance activities conducted by partners.
20. This current approach to blended finance, which may require OIG no objections to address issues of OIG access on a transaction-by-transaction basis for certain transactions, creates complexity in the review and approval of blended finance, increasing transaction costs for the Secretariat, the OIG, partners, and ultimately countries. In previous transactions, this has meant that the Secretariat and the OIG have had to navigate significant uncertainty, straining our internal review and approval timelines, and creating uncertainty with partners and countries on whether the Global Fund will ultimately be able to invest in any individual transaction.
21. To address these challenges, the new blended finance approach clarifies expectations with respect to the role of the Office of Inspector General. Specifically, the OIG would not provide assurance opinion covering the management of funds by development finance institutions, or to respond to allegations of fraud and abuse which may arise within entities to which the development financial institution disburses monies or within those institutions themselves. This does not mean, however, that the third line of defense and the role of the OIG would be completely removed from oversight of blended finance processes. The OIG would maintain a role that will primarily focus on Secretariat's internal process and not activities or transactions undertaken by partners or participating countries. Specifically, OIG's role will be:
 - Incorporating blended finance processes at Secretariat level in its audit universe. This includes auditing or investigating Secretariat's internal processes and controls for oversight and monitoring of blended finance deals.
 - Providing inputs and advice on transactions as needed through IFAC processes.

- Working to develop stronger relationships with the Group Internal Audit Presidency and Integrity Vice Presidency of the World Bank with focus on sharing information to facilitate respective mandates.

E . Materiality considerations to guide the Blended Finance Approach:

22. Investments by the Global Fund in blended finance complement – but do not replace – Global Fund investments in standard grants. Since 2017 the Global Fund has completed 8 blended finance transactions, investing a total of USD 125 million (not including smaller investments focused on technical assistance), a small fraction of the total amount of resources invested by the Global Fund across its portfolio. While there are uncertainties related to future blended finance investments, the Secretariat has seen an increased interest from countries in pursuing blended finance during the end of GC6 and in GC7, with 1 additional investment expected during GC6 implementation and approximately 4 to 5 blended finance transactions expected in GC7 Windows 1-3. As this preliminary data shows, despite the growing interest for pursuing blended finance transactions (with potentially 7 total transactions to be approved between July 2022 and December 2023), blended finance will remain a complement to regular grants for GC7.
23. Given the fundamentally different nature of these investments, there are inherent risks that should be considered as the Global Fund increases its blended finance efforts, as summarized in Annex 4.3. At the same time, there are also risks of inaction given the wide variety of strategic, operational, and programmatic reasons that blended finance transactions can complement traditional Global Fund grants. Taking the right risks to achieve more programmatic and strategic impact should be a key consideration as the Global Fund evolves / expands its approach to blended finance, while also carefully balancing ambition. However, given risks associated with pursuing blended finance transactions, it is essential to clarify the ambition of total Global Fund investments that may fall under this approach.
24. Based on the Global Fund's historic efforts in blended finance as well as the need to maintain an ambitious approach under the new Strategy, the expected ambition under which the Secretariat will use this new approach is USD 300 million in total Global Fund investments in blended finance transactions, above and beyond the USD 125 million invested since 2017. While this would likely be hard to reach given current resource constraints and still represent only approximately 2.3% of the total allocation for the GC7 period, it would also represent more than double the level of historic Global Fund investments, balancing the need for ambition with a prudent approach to mitigating risks associated with the new approach.
25. The defined ambition of USD 300 million is at the portfolio level, and not the transaction level. While there would be no defined materiality for total Global Fund investment per transaction, materiality considerations related to individual transactions are considered during the development of blended finance transactions and the detailed review of IFAC (including in the risk-trade off analysis) and GAC decision-making, prior to Board approval⁴. Historically, the majority of Global Fund blended finance investments represent a small percentage of the overall transaction and relatively small amounts in absolute terms (compared to Global Fund allocations), with the largest individual transaction comprising a Global Fund investment of approximately USD 42 million and most transactions representing a small percentage of the overall allocation. In addition to considering materiality overall in IFAC reviews, if a significant

⁴ Except for transactions currently funded through existing Strategic Initiative financing, all blended finance transactions are approved by the Global Fund Board.

percentage of the overall transaction is funded by the Global Fund or if a significant percentage of any individual country's allocation is dedicated to a blended finance transaction this is also included as a formal consideration during IFAC decision-making and blended finance operational processes.

26. The Secretariat will update the AFC on a regular basis on the evolution of its blended finance investments, including whether the Secretariat expects that the Global Fund investments will exceed the USD 300 million ambition for blended finance. Regular reporting to the AFC should allow for sufficient lead time in the event that blended finance efforts may exceed this amount. In addition, regular reporting to the AFC will provide visibility on what percentage of the overall USD 300 million threshold will be done with historical partners (i.e., the World Bank) and what percentage may be done with new partners approved through the due-diligence process described in this paper.
27. In addition to AFC reporting on the evolution of blended finance efforts, all Blended Finance transactions will continue to be approved via established processes, including GAC and Board approval (when and as required), ensuring that the Board maintains visibility and approval authority on individual transactions.

Why has this been recommended?

28. This recommended approach is aligned with the Global Fund's strategic objectives, the 2023-2028 Strategy, and broader conversations in the global health and development finance community to continue strengthening alignment between development partners. The Secretariat has developed this Updated Blended Finance Approach in order to address the operational challenges it has experienced in early transactions and to ensure the Global Fund both takes advantage of these new financial mechanisms while maintaining its steadfast commitment to assurance of its investments.
29. The Updated Blended Finance Approach will significantly streamline the Global Fund's ability to use blended finance where it makes programmatic and overall sense. In addition, it allows the Global Fund to continue our current work with the primary blended finance partner (the World Bank), allows the Global Fund to consider additional partners through a due-diligence process, and provides both an ambitious (but also prudent) overall ambition / materiality under which to implement this approach. In addition, it does so without incurring significant additional costs in the short term given existing resources available at the Secretariat to implement the approach. As the Global Fund continues to work with countries to strengthen resource mobilization and navigates complex trends in development finance, the Updated Blended Finance Approach will allow the Global Fund to more seamlessly work with critical partners to strengthen the financing of health systems and national responses and maximize its impact.

What are the risks and proposed mitigations?

4. Given the fundamentally different nature of these investments, there are inherent risks that should be considered as the Global Fund increases its blended finance efforts, as summarized in Annex 4.3. At the same time, there are also risks of inaction given the wide variety of strategic, operational, and programmatic reasons that blended finance transactions can complement traditional Global Fund grants. Taking the right risks to achieve more programmatic and strategic impact should be a

key consideration as the Global Fund evolves / expands its approach to blended finance. While the Updated Approach to Blended Finance entails its own set of risks, it is crucial to weigh these against the potential programmatic and strategic gains as outlined in this paper.

5. The *Updated Approach to Blended Finance* seeks to mitigate the risks associated with the approach by ensuring all blended finance transactions use the operational processes outlined in Section A (to increase the rigor and diligence of the Secretariat's review); ensuring that the Secretariat reviews and pre-qualifies new partners to ensure strong understanding of partner approaches and reduce reputational risks (as outlined in Section C); and mitigates portfolio level risks by setting a materiality for blended finance that balances ambition with prudence (as outlined in Section E). Despite these actions, risks will remain and it will be essential for the Global Fund to continue learning from current and future blended finance transactions to further strengthen our approaches in GC7 and beyond.

What is required to progress the proposal following Board approval?

6. Following the approval by the Board, the Global Fund Secretariat will continue to work with countries, communities, and partners to develop a strong pipeline of potential transactions; will use the operational processes described in Section A to develop, review, approve, and implement new transactions (within the defined ambition); and will begin to undertake the due diligence processes described in Section C to pre-quality additional partners. The Secretariat will also proactively work to continue ongoing learning about the impact of blended finance, to further inform its efforts in GC7 and beyond.

What would be the impact of delaying or not approving the decision?

7. Delaying or not approving the decision to adopt the Framework to Guide the Development, Review, and Approval and Implementation of Blended Finance transactions ("Framework") could lead to significant missed opportunities during GC7 and beyond. As described, current blended finance efforts face challenges of high transaction costs, the lack of a fit for purpose approach to assurance and duplication with partners, and lack of clarity on the overall operational processes to develop, review, approve and implement transactions. This creates uncertainty for countries, the Secretariat (including country teams), and partners about the Global Fund's ability to invest in any individual transaction, making it hard to fully leverage these mechanisms and impedes progress on individual transactions. Delaying the approval of the decision would limit the Global Fund's ability to use these mechanisms for resource mobilization and impact both in the short and medium term.

Recommendation

The Audit and Finance Committee recommends the Decision Point presented on page 1 to the Board.

Annexes

The following items can be found in Annex:

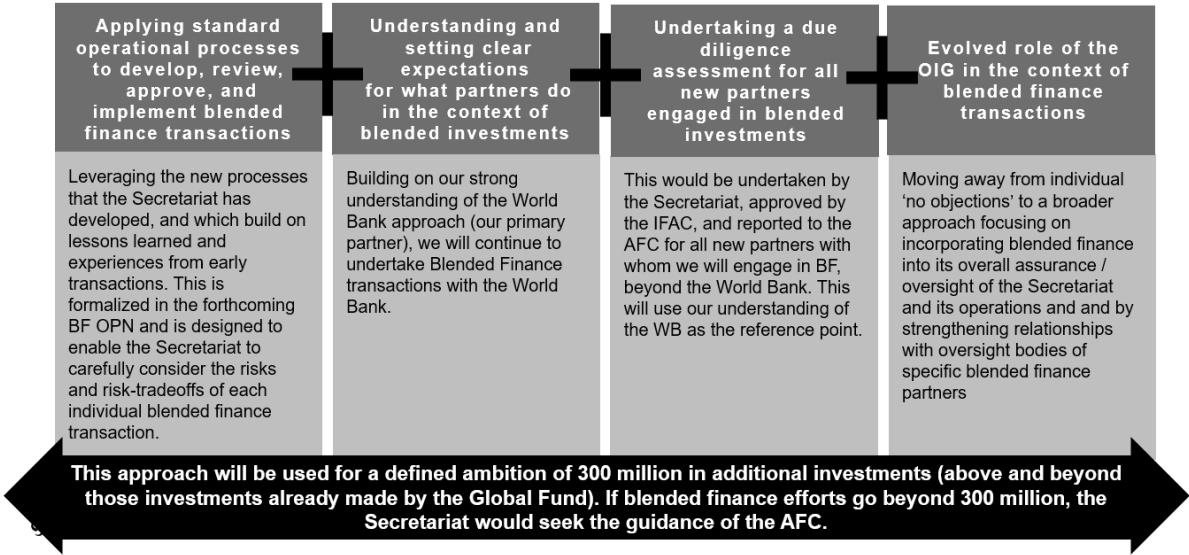
- Annex 1: Blended Finance Approach for Recommendation and Approval
- Annex 2: Relevant Past Board Decisions

Annex 1: Framework to Guide the Development, Review, Approval, and Implementation of Blended Finance transactions

The Global Fund's efforts on blended finance will be guided by the following approach:

1. All blended finance transactions will be developed, reviewed, approved and implemented following the standard processes to be formalized in the Blended Finance and Joint Investments Operational Policy Note, which will be based on the principles described in this paper, including in section A.
2. The Global Fund will continue its blended finance efforts with the World Bank, given the Global Fund's understanding and reasonable comfort with the World Bank's regulatory framework, internal controls, and approaches to managing blended finance investments, including with respect to assurance.
3. For all other partners beyond the World Bank, the Global Fund Secretariat will conduct a due-diligence / vetting process of new partners, reviewed and approved by the Innovative Finance Approvals Committee (IFAC) and reported to the AFC. While individual processes of partners are expected to vary, this due diligence review process will take into account as a reference point the approaches, policies, and processes of the World Bank, as outlined in this paper.
4. Under this updated blended finance approach, the OIG's scope of work will be limited to assurance and oversight over the Secretariat's management processes and activities pertaining to the investments. It will not be expected to have direct access to program or other documentation to be able to provide downstream assurance and oversight over Global Fund's resources invested through blended finance. The role of the OIG will focus on areas outlined in section D in this paper.
5. To ensure appropriate ambition on blended finance while also managing risks and taking into account historical efforts, the stated ambition for this updated blended finance approach is 300 million USD in additional investments (above and beyond the 125 million USD of investments already approved by the Global Fund). If blended finance transactions are expected to go beyond 300 million USD in total additional investments, the Secretariat will seek the guidance of the Audit and Finance Committee (AFC).

Figure 1: Framework to Guide Development Review and Implementation of Blended Finance Transactions



Annex 2 – Relevant Past Board Decisions

Relevant Past Decision Point	Summary
GF/B47/EDP04: Revisions to the Charter of the Office of the Inspector General (June 2022)⁵	The Board approves a modification to the mandate and functions of the Office of the Inspector General (OIG) through a change to the Charter of the Office of the Inspector General, as revised and set forth in Annex 1 to GF/B47/EDP04. The Charter provides the OIG authority to access books and records maintained by the Global Fund Secretariat, books and records relating to grants funded by the Global Fund or the implementation of Global Fund financed programs and operations, whether maintained by Principal Recipients, Sub Recipients, LFAs or LFA subcontractors, suppliers and service providers or other individuals and entities who are engaged in, or involved in, carrying out or participating in Global Fund financed programs or operations, and those who have received Global Fund monies or assets, either directly or indirectly.
GF/B46/DP03: Approval of the Strategy Narrative for the Global Fund Strategy 2023-2028 (November 2021)⁶	The Board approved the Global Fund Strategy (2023-2028), which explicitly references the importance of blended finance to Global Fund resource mobilization objectives, and the need to streamline Secretariat processes to develop and approve blended finance transactions to more effectively use these new financial mechanisms.
GF/B37/DP07: Administration Agreement with the World Bank (May 2017)⁷	In approving the Secretariat's request to enter into an Administration Agreement with the World Bank for a Performance-Based Funding project, the Board noted the exceptional nature of its decision. Acknowledging that the Administration Agreement with the World Bank curtails the access and audit rights of the Office of the Inspector General ("OIG") and, consequently, its mandate to provide independent assurance over Global Fund financing, the Board directed the Secretariat to develop a framework to guide future consideration of investments of funding through development partners, for presentation to and review by the Audit and Finance Committee, in consultation with the Strategy Committee, and onward recommendation to the Board.
GF/B35/DP08: Sustainability, Transition and Co-financing Policy (April 2016)⁸	The Board approved the STC Policy which outlines high level principles for engaging with countries on long term sustainability of Global Fund supported programs, as well as a framework for ensuring successful transitions from Global Fund financing. The STC Policy states that the Secretariat will explore the use of innovative financing mechanisms to encourage increased co-financing and program sustainability. In approving the STC Policy, the Board directed the Secretariat to update the Audit and Finance Committee and the Board on progress, lessons learned and recommendations from utilizing such mechanisms.

⁵ <https://www.theglobalfund.org/kb/board-decisions/b47/b47-edp04/>

⁶ <https://www.theglobalfund.org/kb/board-decisions/b46/b46-dp03/>

⁷ <https://www.theglobalfund.org/kb/board-decisions/b37/b37-dp07/>

⁸ <https://www.theglobalfund.org/kb/board-decisions/b35/b35-dp08/>