

The Global Fund to Fight AIDS, Tuberculosis and Malaria  
Fourth Replenishment (2014-2016)

# Outcome of the Global Fund's Third Replenishment



## Introduction

1. This technical note provides an overview of the current status of 2011-2013 donor pledges<sup>1</sup> made during the Global Fund Third Voluntary Replenishment conference held in New York during 4-5 October 2010. All data provided is as of 31 December 2012<sup>2</sup>.

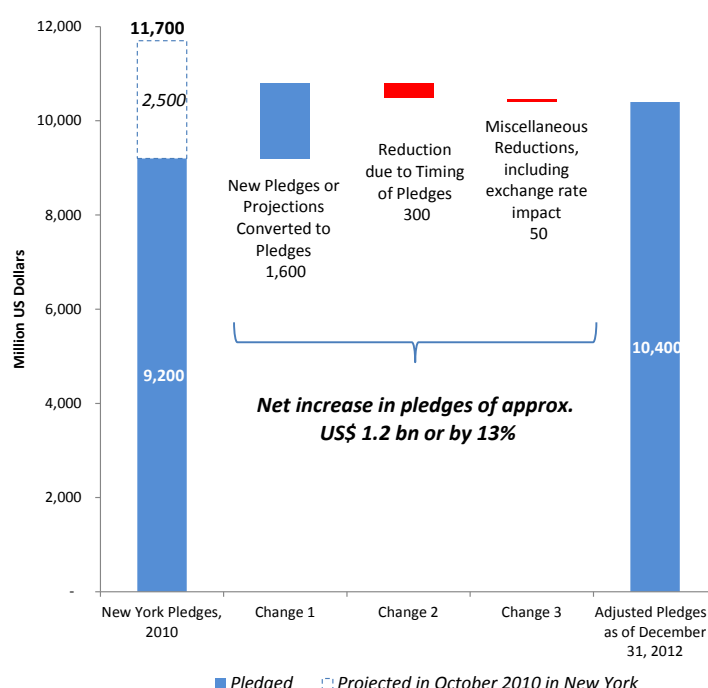
## Status of 2011-2013 Pledged Amounts as of 31 December 2012

2. Since the New York replenishment conference, a number of donors who did not or could not pledge at the conference have subsequently announced their pledges, which, combined with other changes, resulted in an overall net increase in amounts pledged for 2011-2013 by 13 percent to reach US\$ 10.4 billion (see figure). This group of donors, for example, includes Belgium, Netherlands, Saudi Arabia and Sweden who have all announced their pledges following the New York conference.

3. In addition, certain donors have since either announced an increase in the amount of their planned contributions compared to the original pledge or Secretariat projection (e.g. Sweden, United Kingdom) or accelerated their contribution to exceed the original pledge or projection for the third replenishment period (e.g. Bill & Melinda Gates Foundation)<sup>3</sup>. Pledges are shown on a nominal, gross basis before adjusting for donor withholdings for technical assistance and other factors and do not include donor contributions for the Affordable Medicines Facility-malaria (AMFm).

4. In light of the various legislative and economic constraints experienced by some donors, certain donor pledges for 2011-2013, while unchanged in their total amount, will likely be paid in after calendar year 2013. This results in a reduction during 2011-2013 of US\$ 300 million due to a timing shift of pledges to later periods.

**Changes to 2011-2013 New York Pledges (2010) as of December 31, 2012, excluding projections, rounded**

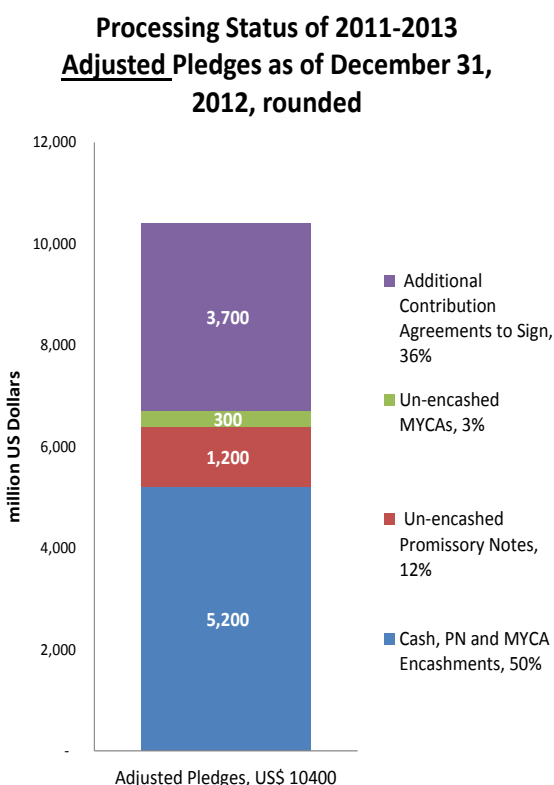


<sup>1</sup> In the context of the Global Fund, donor pledges represent verbally announced donor intentions to contribute a given amount over a predetermined period of time. They do not constitute legally or politically binding, firm commitments on the part of the donor until actually paid in or signed as a contribution agreement.

<sup>2</sup> This document is an update to the technical note that showed the pledge conversion status as of October 31, 2012 and that was made available for the Mid-Term Review of the Third Voluntary Replenishment (2011-2013) held in mid-November 2012 in Geneva, Switzerland.

<sup>3</sup> The total pledge made by the Bill & Melinda Gates Foundation for 2011 through 2015 is US\$ 750 million and has been fully received in the form of a long-term promissory note. The full US\$ 750 million is included in the adjusted 2011-2013 pledges totaling US\$ 10.4 billion. Actual cash payment will commence in 2026 with US\$ 150 million per year over five consecutive years.

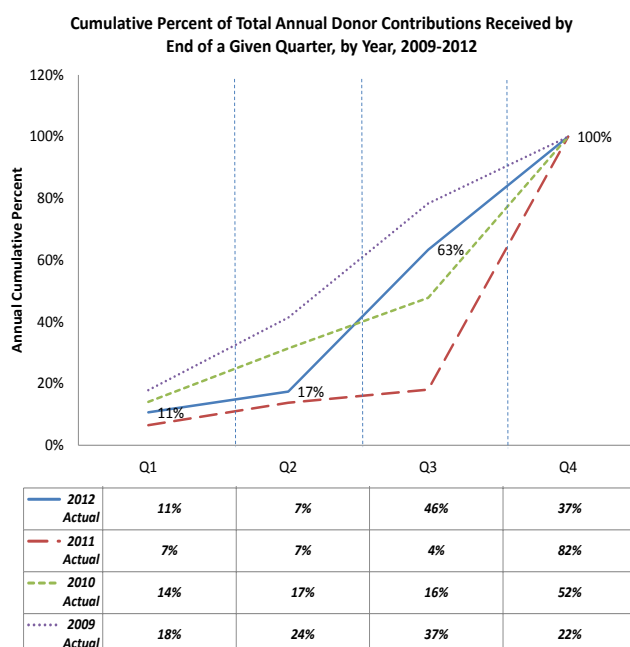
5. Pledges continue to rely on a handful of major traditional donors with the top five pledging donors providing 70 percent of the overall funding amount for the 2011-2013 period.



6. Of the US\$ 10.4 billion in adjusted pledges for 2011-2013, as of 31 December 2012, the Secretariat has received half as upfront cash contributions or encashments under promissory notes, and multiyear contribution agreements (see side chart). In addition, there are agreements in place to receive another 15 percent of resources in the form of scheduled encashments under already deposited promissory notes and multiyear contribution agreements. Therefore, the pledge conversion rate through 31 December 2012 - based on cash, un-encashed promissory notes and multiyear contribution agreements on deposit in the trust fund - stands at approximately 64 percent of the adjusted pledges for the full 2011-2013 period. This is approximately in line with about two-thirds of the time elapsed since the start of the replenishment period.

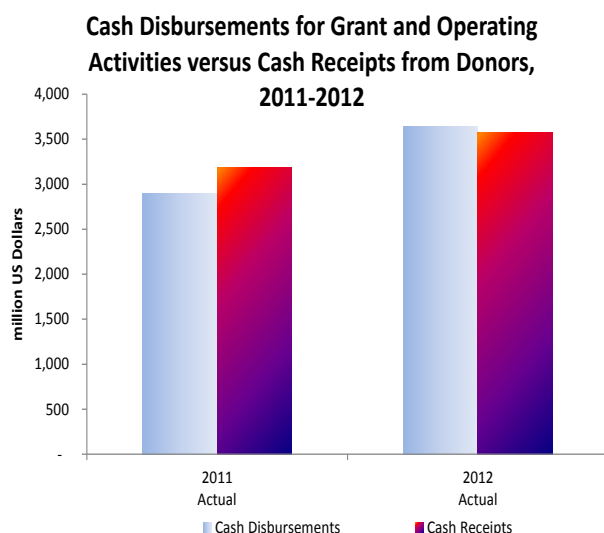
## Donor Payment Patterns

7. It is important that in a given year donor contributions be received earlier rather than later in order to allow for timely signature of new grants, which are spread more evenly across any given year. However, traditionally, the majority of donor contributions tend to be received in the second half of the year compared to the first half (see side chart). At the same time, 2012 shows some improvement over 2010 and 2011, with some acceleration of donor contributions into earlier quarters of the year, but not yet to the extent seen in 2009. In general, earlier receipt of contributions in a given year allows for better planning of Global Fund grant commitment, disbursement and cash management needs. Early payment of donor contributions is a key enabler for providing funding predictability under the new funding model.



## Cash Flow from Donors to Grants and Operating Activities<sup>4</sup>

8. The Global Fund aims at optimizing the use of cash resources provided by donors by making more cash work responsibly in programs on the ground. While the current cash



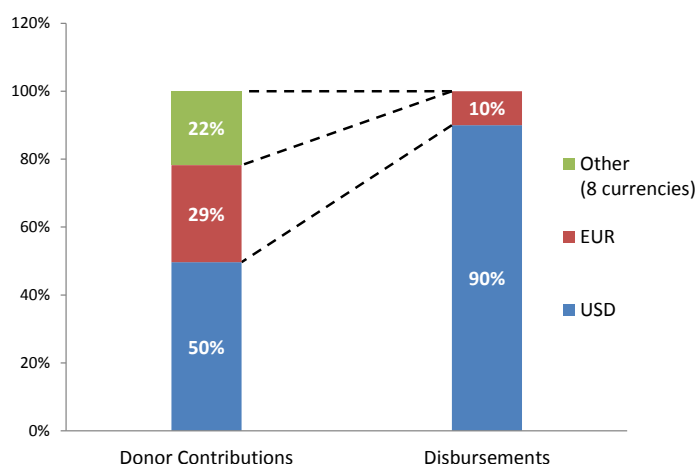
balance in the Global Fund Trust Fund is sizeable, the Secretariat targets to diminish it over time on the back of several operational initiatives under consideration, including the annual disbursement decision. For example, in 2012 cash payments have equaled cash receipts from donors, showing an encouraging sign of reversal of the situation observed in 2011 when cash receipts from donors exceeded payments (see side chart). Accordingly, the excess of cash outflows versus cash inflows will continue to be covered from accumulated cash deposits.

## Foreign Currency Exposure

9. As shown in the accompanying graph, about half of the 2011-2013 amounts are pledged or projected in U.S. dollars, a third in euros and the rest in other eight major convertible currencies (AUD, CAD, CHF, DKK, GBP, NOK, SEK and JPY).

10. Notwithstanding the already existing cash deposits, such a distribution of inflows across ten currencies creates a distinct challenge. Fluctuations in individual currency values may undermine the Global Fund's ability to meet disbursement needs to grantees, given that the majority of planned disbursements will likely be denominated in U.S. dollars. The costs associated with the uncertainty and volatility is borne entirely by the implementing countries.

**Foreign Currency Weights, Donor Contributions vs Disbursements, 2011-2013**



<sup>4</sup> This analysis focuses on donor, grant and operating cash movements, both inflows and outflows, during a given calendar year.

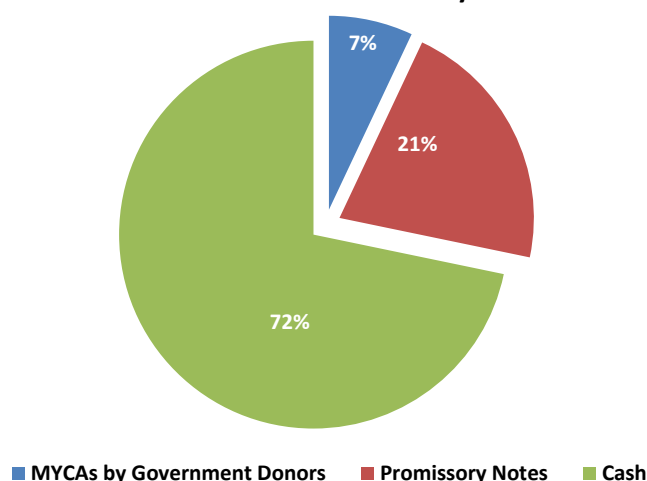
11. The Global Fund is currently exploring ways to limit net foreign currency exposure. A study will be carried out to enable better matching of foreign currency inflows to foreign currency outflows. Following this matching exercise, the remaining net foreign currency exposure will then be considered for hedging.

## **Donor Contribution Modalities**

### ***Cash***

12. Cash pledges continue to remain the main form in which donors make contributions to the Global Fund, accounting for 72 percent of the 2011-2013 adjusted portfolio of donor pledges (see pie chart). Upfront donor cash contributions provide the Global Fund with increased flexibility in matching them to the timing and amount of cash payments to grant recipients. Such upfront donor cash payments are made through regular, payment-specific contribution agreements that are usually entered into in conjunction with the transfer of the funds. These agreements therefore provide little or no medium- to long-term predictability of funding.

**2011-2013 Adjusted Pledges by Donor Contribution Modality**



### ***Promissory Notes***

13. About a fifth of the adjusted pledged amounts for the 2011-2013 period are expected to be received in the form of promissory notes. Under the new funding model that is being rolled out, promissory notes with a maturity of up to three years and a predetermined regular encashment schedule allow the Global Fund to match cash inflows from donors to grant cash outflow needs. Promissory notes of such maturity also provide donors with the flexibility to defer some cash transfers to a later date rather than pay the full contribution amount upfront.

### ***Multiyear Contribution Agreements***

14. Following the 2010 pledging conference in New York, government donors have made limited use of multiyear contribution agreements, which currently represent 7 percent of the overall pool of resources pledged for 2011-2013 (see earlier pie chart). However, based on recent public announcements and early discussions with selected donors, the ratio of multiyear contribution agreements is expected to increase in the future.

15. In addition to the generally slow multiyear contribution agreement uptake by donors, various donor-driven conditions added bilaterally to the standard multiyear contribution agreement template approved by the Board<sup>5</sup> and included in the already signed multiyear contribution agreements prevent the Secretariat from recognizing amounts beyond a one-year time horizon for grant commitment purposes. Furthermore, in some instances, at donors' discretion, amounts already paid in may be subject to recall, which further undermines funding predictability for implementers.

16. Multiyear contribution agreements that essentially follow the standard template allow donors to make binding and clear commitments for periods longer than one year. Consequently, multiyear contribution agreements can increase the degree of predictability of funding to the Global Fund and, ultimately, to grant recipients. Enhanced funding predictability is a critical factor to the success of the new funding model that has just been launched.

17. A multiyear contribution agreement that delivers increased funding predictability would ideally be unqualified, i.e. unconditional, and provide firm payment dates and amounts in a predetermined convertible currency, with payments preferably front-loaded rather than back-loaded over the term of the multiyear contribution agreement. In case conditions are nevertheless used in a multiyear contribution agreement, they should be of a standard nature established through a multilateral donor process to allow for financial modeling of future donor inflows. Multiyear contribution agreements may cover a period of three years or more.

18. In summary and as part of implementing the new funding model, the Global Fund will continue to strengthen the forecasting model and optimize the cash flows. At the same time, the successful implementation of the changes to the business and funding models will require increased focus on improving the reliability and visibility of donor financial commitments to the Global Fund. In this regard, an increased use of promissory notes and unconditional multiyear contribution agreements will be paramount in providing the Global Fund with confirmed cash resources in the right amount and at the right time.

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<sup>5</sup> GF/B21/EDP20







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