



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Report of the Finance and Audit Committee: Resource Mobilization

**Christoph Benn,
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25-27 April 2007
Geneva, Switzerland

- Second Replenishment
- Restricted Financial contributions
- Debt to Health Conversion
- Product and Service Contributions

First Replenishment Meeting

Oslo, March 6-7

- The first meeting on the Second Replenishment took place in Oslo on 6-7 March 2007 hosted by the Norwegian Government
- Thirty-two delegations participated

The meeting was chaired by Mr. Sven Sandström

In the Chair's Summary, it has been stated that:

“Participants welcomed the progress made by the Global Fund and its partners since the First Replenishment and the consistent follow-up that had been demonstrated on the issues raised in previous meetings.”

Extracts of the Chair's Summary are in italics

Funding Scenario for Replenishment

- Participants discussed a Global Fund Secretariat report on resource needs for 2008-2010 and the associated funding scenarios, which range from US\$ 12 billion to US\$ 18+ billion for the three-year period.
- Donors agreed to consider ambitious but realistic funding targets in this range.
- They welcomed the upcoming April Board discussion on the size of the Global Fund, which would further inform them as they consider a specific target for the replenishment.

Resource Forecast for 2007

“With regard to the 2006-2007 replenishment period, they welcomed the encouraging funding trend and the more solid foundation now emerging to meet the resource needs of the Global Fund.”

*“About **US\$ 0.6 billion** is already available for Round 7 new grants, including additional contributions for 2007 announced at the meeting. Donors acknowledged the need for further contributions for Round 7.”*

- *“Participants noted that the Results Report will be very helpful in their discussion with various interest groups in their respective countries.”*
- *“They indicated that visits by Secretariat staff to help disseminate the Report and its findings would be helpful.”*
- *“Several bilateral meetings in donor capitals have already been arranged and Board Members are encouraged to explore further opportunities where appropriate.”*

Process leading to the Second Meeting in Berlin

- The Second Meeting in 2007 will be held in Berlin, September 25-26
- The Secretariat is working closely with the Chair and the Vice-Chair and with the host government to achieve the best possible outcome in September
- The Chair Mr. Kofi Annan met with Chancellor Angela Merkel on April 24
- Invitations from the German Government are expected to go out in May
- It was emphasized in Oslo that at least ministerial-level representation is expected at the Berlin meeting.

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- **Mobilizing resources from new sources** will require the Global Fund to accommodate targeted financial contributions, that is, contributions which are restricted towards supporting specific priorities and activities.
- A limited form of restricted contributions at the “gross” level (i.e. by disease and continent) has **already been explored** vis-à-vis (PRODUCT)RED, based on the deliberations of the RMCC and subsequent communication to the Board in early 2005.
- Other opportunities have since emerged from new **private sources** as well as select **public mechanisms** such as innovative financing mechanisms (e.g. UNITAID, Debt2Health) and inter-governmental bodies (e.g. the OPEC Fund) which represent additional resources for the Global Fund and require further specificity vis-à-vis the accommodation of restricted contributions.
- The proposed policy has been developed to enable the Global Fund to mobilize additional resources, while **ensuring the integrity of its principles** and **minimizing the impact on its current business model**.
- The policy also addresses contributions restricted towards supporting specific Secretariat activities.

Definition

- The accounting standards applicable to **contribution income** distinguish all donor contributions as being either **Unrestricted or Restricted**.
- Unrestricted contributions refer to contributions which have been provided by a donor without specifying how they may be used by the recipient (other than for supporting the overall mission and activities of the recipient).
- **Restricted contributions**, sometimes labeled as targeted funding or earmarked funding, **refer to contributions which have been provided by a donor with specifications of how they may be used by a recipient** (with more specificity than for supporting the overall mission and activities of the recipient).

Guiding Principles

- Accommodate restrictions in order to mobilize contributions which represent additional funding from **new donors and mechanisms**:
 - **private sector donors**, such as corporations, foundations and individuals; **and**
 - **nominated public mechanisms**, such as UNITAID and Debt2Health, to be approved by the Board on a case by case basis.

The Global Fund shall not accommodate restrictions on contributions through Official Development Assistance (ODA), which presently and in the foreseeable future will account for the majority of contributions to the Global Fund.

- Ensure all restrictions are consistent with the Global Fund's recipient-driven, Board-led approach by **limiting restrictions to TRP and Board approved grant activities and priorities** and approved Secretariat activities and priorities.

The Global Fund shall not accommodate restrictions on contributions which cannot be satisfied within approved priorities and activities.

Decision Point 4 – Part 1

Guiding Principles

The Board acknowledges the need to accommodate restricted financial contributions in order to fully realize the Global Fund's mission of mobilizing significant additional resources for the fight against AIDS, tuberculosis and malaria, and authorizes the Secretariat to mobilize and accept such contributions which represent additional new funding in accordance with the following guiding principles:

- a) Restricted financial contributions to the Global Fund shall be limited to those from private donors and a limited number of public mechanisms approved in advance by the Board for this purpose; [The Global Fund shall not accommodate restrictions on contributions through Official Development assistance, thereby ensuring that the majority of contributions to the Global Fund remain unrestricted.]
- b) Restricted financial contributions shall be used solely for the purpose of supporting grants approved by the Board and activities of the Secretariat in line with the recipient-driven, Board-determined priorities of the Global Fund; and
- c) Restricted financial contributions shall not result in unreasonable transaction costs for the Global Fund, substantial changes to Global Fund systems and processes, or the responsibilities of the Trustee, or any deviation from Global Fund rules and procedures. The Secretariat shall maintain the accounting records necessary to record restrictions attached to contributions and to identify the expenditure that satisfies such restrictions.

For these purposes “restricted financial contributions” (sometimes referred to as “targeted funding” or “earmarked funding”) has the meaning assigned by accounting standards applicable to contribution income, i.e. contributions which have been provided by a donor with specific restrictions on how they may be used by a recipient.

Decision Point 4 – Part 2

Restricted Funding for Grant Activities

The Board authorizes the Secretariat to mobilize and accept contributions which are restricted to broad categories of expenses such as by disease and region (e.g. AIDS grants in Africa), to specific grants and/or to the procurement of specific goods and services, provided that:

- a) Such restricted financial contributions comply with the Guiding Principles outlined in part 1 above;
- b) Such restricted financial contributions are made through the Global Fund; and
- c) The total amount of restricted financial contributions is less than the total sum of Global Fund financing committed to any grant or activity receiving restricted financial contributions, ensuring that the programmatic results of such grants or activities are attributable, not just to the restricted financial contributions, but to contributions from all Global Fund donors.

Decision Point 4 – Part 3

Restricted Contributions for Secretariat Activities



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The Board authorizes the Secretariat to mobilize and accept restricted financial contributions for use to pay for Secretariat activities. Such restricted financial contributions may be made either directly to the Global Fund or to third parties in payment for liabilities of the Global Fund, provided that such contributions comply with the Guiding Principles outlined in part 1 above.

Decision Point 4 – Part 4

Oversight

The Board requests the Secretariat to provide the Finance and Audit Committee with progress updates on the implementation of this Restricted Financial Contributions Policy, including (i) a report on the results of mobilizing restricted financial contributions and (ii) identification of new public mechanisms for inclusion in the Policy.

The Board delegates to the Finance and Audit Committee the authority to approve new public mechanisms proposed by the Secretariat for inclusion in the Restricted Financial Contributions Policy, and acknowledges UNITAID as the first such approved public mechanism.

The Board further requests the Finance and Audit Committee to consider new developments as they arise and to propose any changes to the Policy deemed appropriate by the Finance and Audit Committee for adoption by the Board.

Decision Point 5 - UNITAID

The Board acknowledges that, in developing a roadmap for future collaboration with UNITAID, the Policy and Strategy Committee, working together with the Secretariat and the Finance and Audit Committee, may consider the possibility of UNITAID providing direct funding to third party procurement mechanisms to support Global Fund grants.

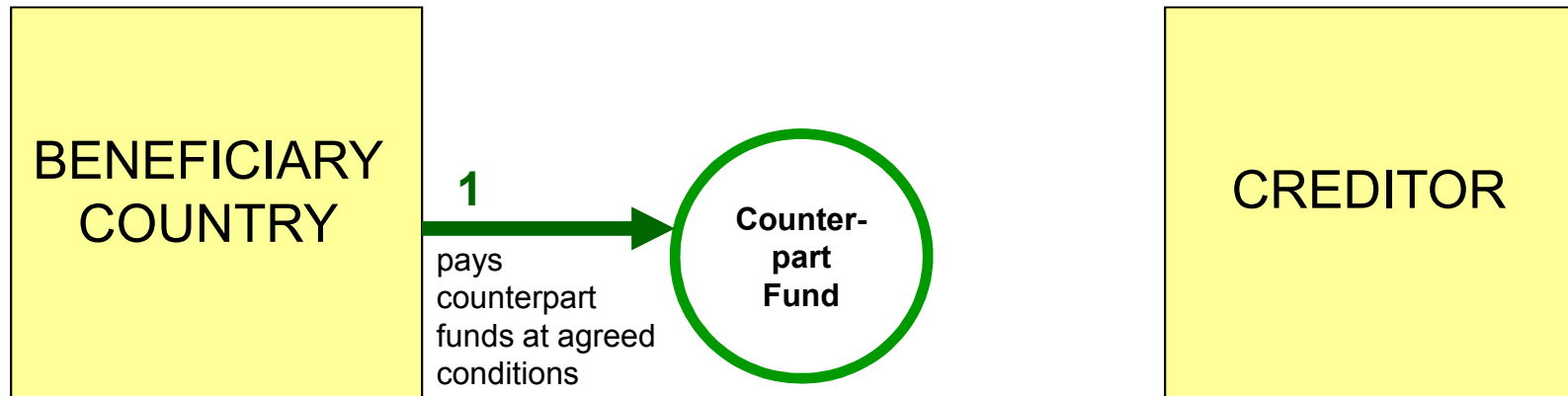
The Board notes that the roadmap, including the contribution structure and funds-flow mechanism, will be presented to the Board for its approval.

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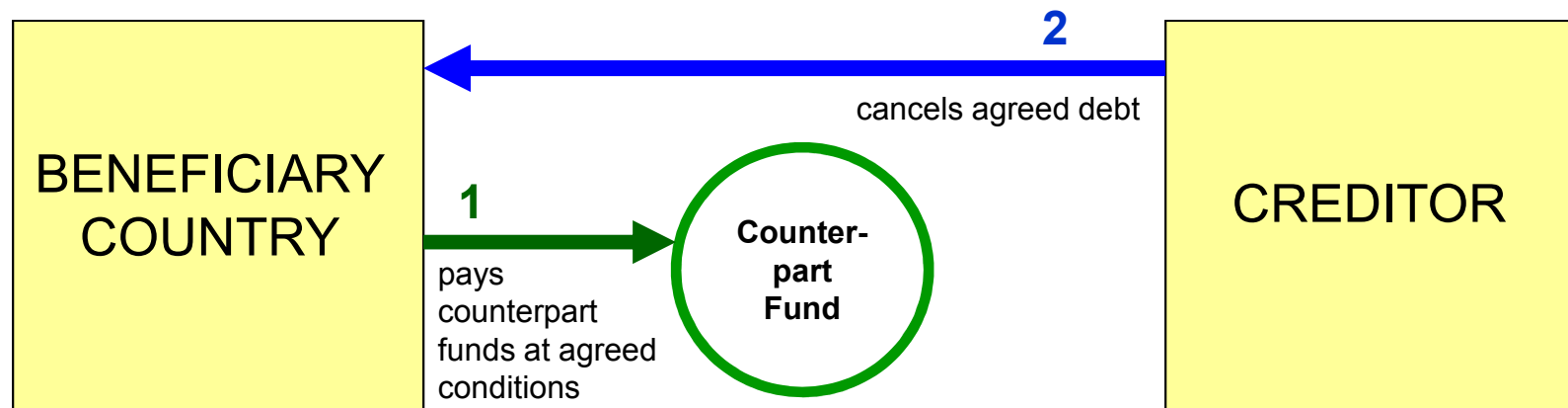
”Debt 2 Health”

Debt2Health is a Global Fund-facilitated debt swap agreement in which creditors agree to cancel a portion of their sovereign debt on the condition that the beneficiaries invest counterpart amounts in a Global Fund approved program.

The D2H Mechanism

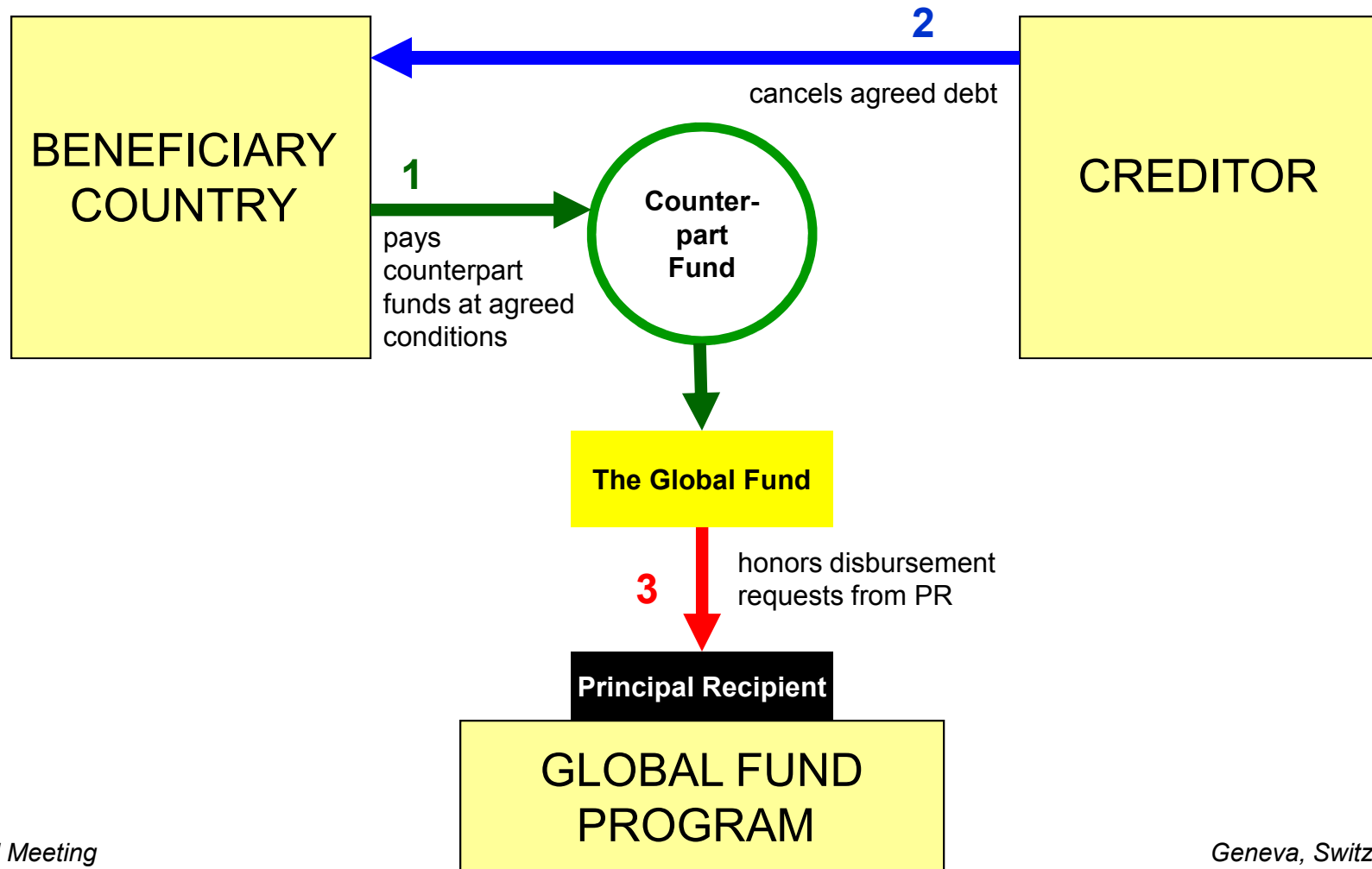


The D2H Mechanism



Debt2Health Mechanism

The D2H Mechanism



- payment in cash
- or by promissory note
- funds held in World Bank accounts
- funds disbursed following Global Fund principles of performance-based funding

- Indonesia, Pakistan, Peru, Kenya
- criteria:
 - disease burden
 - demonstrated need, potential & capacity
 - good past performance
 - liquidity to invest in the counterpart fund
 - adequate mix of convertible debt
 - involvement of civil society
- first D2H offer by Germany for € 50 million @ 50% discount to Indonesia (29 March 07), agreement expected by July 07.

"Debt2Health" is supported by:

BILL & MELINDA
GATES foundation



Global AIDS Alliance





1. D2H Mechanism

The Board acknowledges the potential for additional resources for the Global Fund from debt conversions and authorizes the Secretariat to implement a two year pilot phase (2007-2009) of the Debt2Health mechanism in up to four beneficiary countries.

2. Counterpart Funds

The Board requests and delegates authority to the Secretariat for the purposes of the implementation of Debt2Health to accept restricted contributions from counterpart funds which are attributed at the country level.

3. Oversight

The Board requests the Secretariat to implement and monitor the Debt2Health pilot phase and to report on the results and lessons learned to the Finance and Audit Committee on a regular basis.

There are no material budgetary implications for this decision.