

GF/B31/06

Board Decision

**INITIAL AND TOTAL ALLOCATION TO COUNTRY BANDS
FOR THE FOURTH REPLENISHMENT PERIOD**

Purpose:

1. This paper presents the methodology for calculating Initial and Total Allocation amounts for the Fourth (2014-2016) Replenishment Period as recommended by the Finance and Operational Performance Committee (the “FOPC”) with input from the Strategy, Investment and Impact Committee (the “SIIC”).
2. This paper describes one of six Board decision points presented to the Thirty-First Board Meeting to enable the full implementation of the allocation-based funding model.
3. The financial figures presented in this paper reflect updated amounts that have been reviewed and endorsed by the FOPC on 21 February 2014, in accordance with the discussions and decisions that took place at the 10th FOPC Meeting in January 2014. Revised versions of the Board papers titled “Transition from the Third to the Fourth Replenishment Period” (GF/B31/05 – Revision 1) and “Composition of and Allocations to Country Bands” (GF/B31/09 – Revision 1) will be reissued to the Board to reflect these updated financial figures.

PART 1: INTRODUCTION

1.1 This paper recommends to the Board for approval the Initial Allocation, which represents the amount of sources of funds that donors have pledged for the Fourth (2014-2016) Replenishment Period, subject to certain adjustments and qualifying deductions, as defined in the Amended and Restated Comprehensive Funding Policy set forth in Annex 1 to GF/B31/04 (the “Amended CFP”). Such adjustments include, for example, donor withholdings for technical assistance and other donor-specified conditions.

1.2 Qualifying deductions include Operating Expenses of the Global Fund for the 2014 - 2016 period, and amounts that the Board decides to invest towards Special Initiatives and Regional Programs, which are not accommodated through the allocation to Country Bands.

1.3 Based on its review of the calculation methodology and resultant figures, the Finance and Operational Performance Committee (the “FOPC”) recommends the Board to approve the:

- i. Initial Allocation, in the amount of US\$ 10.22 billion, which will also determine the amount of incentive funding available; and
- ii. Amount of sources of funds originating from the Third Replenishment or earlier, as at 31 December 2013, (the “Existing Funds”) in the amount of US\$ 5.55 billion.

1.4 The sum of the Initial Allocation and Existing Funds combine to form the total amount available for allocation to Country Bands for the 2014 – 2016 period (the “Total Allocation”). A more detailed description of this Total Allocation is available in the Board paper titled “Transition from the Third to the Fourth Replenishment Period” (GF/B31/05 – Revision 1).

1.5 The decision point presented in this paper is one of six decisions that the Board must approve to enable full implementation of the allocation-based funding model.

PART 2: DISCUSSION

2.1 The Initial Allocation amount derives from pledges announced by donors during the Fourth Global Fund Replenishment Conference held on December 3, 2013 and includes any subsequent public donor announcements up to the date of the Thirty-First Board Meeting, including any matching pledge amounts from certain donors, up to a predetermined amount and according to a pre-announced ratio (the “Adjusted Replenishment Results”). To note, the US pledge-matching offer is valid until September 30, 2014, while the offer from the UK is valid throughout the Fourth Replenishment Period.

2.2 In accordance with the principles set forth in the Amended CFP, to calculate the Initial Allocation recommended by the FOPC, the Adjusted Replenishment Results are reduced by the following:

- i. US\$ 900 million for the Operating Expenses of the Global Fund that have been estimated over the 2014-2016 period; and
- ii. US\$ 100 million for Special Initiatives and US\$ 200 million for new Regional Programs, as recommended to the Board by the Strategy, Investment and Impact Committee (the “SIIC”).

2.3 The amount of the Initial Allocation is the basis for calculating Incentive Funding as previously decided by the Board (GF/B29/EDP10) and outlined in the Amended CFP.

2.4 Together with the amount of Existing Funds as at 31 December 2013 of US\$ 5.55 billion, the Initial Allocation is included in the Total Allocation for the Fourth Replenishment Period.

2.5 The amount of Existing Funds consists of actual and anticipated cash and other financial assets that originate from the Third (2011-2013) or earlier replenishment periods as at 31 December 2013:

- i. Cash and cash equivalents on hand and in the Global Fund Trust Fund;
- ii. Other financial instruments as previously deposited by donors into the Global Fund Trust Fund, including long-term promissory notes;
- iii. Remaining collectible pledges and other assets;
- iv. Allowance for undisbursed funds earmarked for non-grant activities (e.g., OPEX and AMFm) and which are not part of allocations to Country Bands; and
- v. Allowance for existing regional programs and ineligible programs and which are not part of allocations to Country Bands.

2.6 The Total Allocation will address the US\$ 9.06 billion of uses of funds originating under proposals and decisions previously endorsed by the Board that remain undisbursed as at 31 December 2013 (the “Existing Grants Pipeline”). The full amount of the Existing Grants Pipeline is being carefully merged into the Total Allocation, in accordance with the transitional approach recommended by the FOPC and SIIC (GF/B31/05 – Revision 1), to allow for a comprehensive, balanced and equitable approach to managing sources and uses of funds.

2.7 Using a grant life stage approach, the US\$ 9.06 billion of Existing Grants Pipeline as at 31 December 2013 can be split as follows: (i) US\$ 5.74 billion, signed into grant agreements, but undisbursed; (ii) US\$ 0.97 billion, Board-approved, but unsigned into grant agreements; (iii) US\$ 2.35 billion, approved in principle by the Board, but subject to further review and affirmation by the Board. The amount that has only been approved in principle by the Board is net of Board-mandated reductions and performance-based adjustments based on average 2013 reductions.

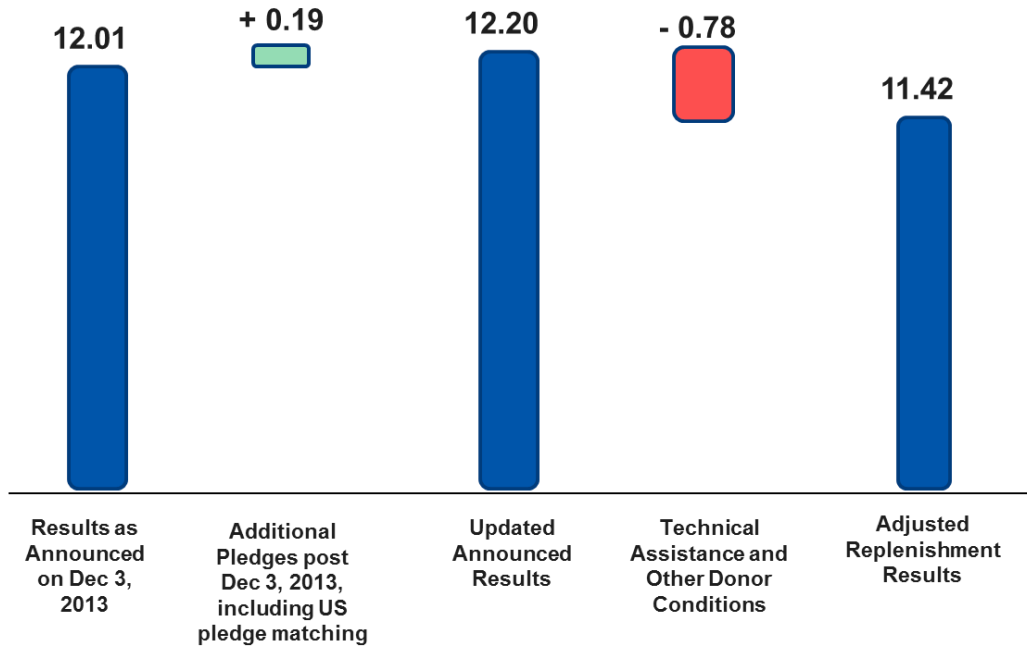
2.8 When calculating the above amounts related to the Existing Grants Pipeline, the pipeline is reduced by US\$295 million to address the funding needs of existing regional programs and programs that are ineligible for funding after 2013¹. Such an adjustment is necessary because such amounts are not addressed through the allocations to country bands. Consequently and based on the financial logic of matching uses and sources of funds, the same amount is deducted from the Existing Funds, before calculating the Total Allocation.

2.9 Any additional pledges announced by donors after the Thirty-First Board Meeting, including any pledge matching by the US and the UK, shall be utilized to finance investments on the register of Unfunded Quality Demand (GF/B29/EDP10).

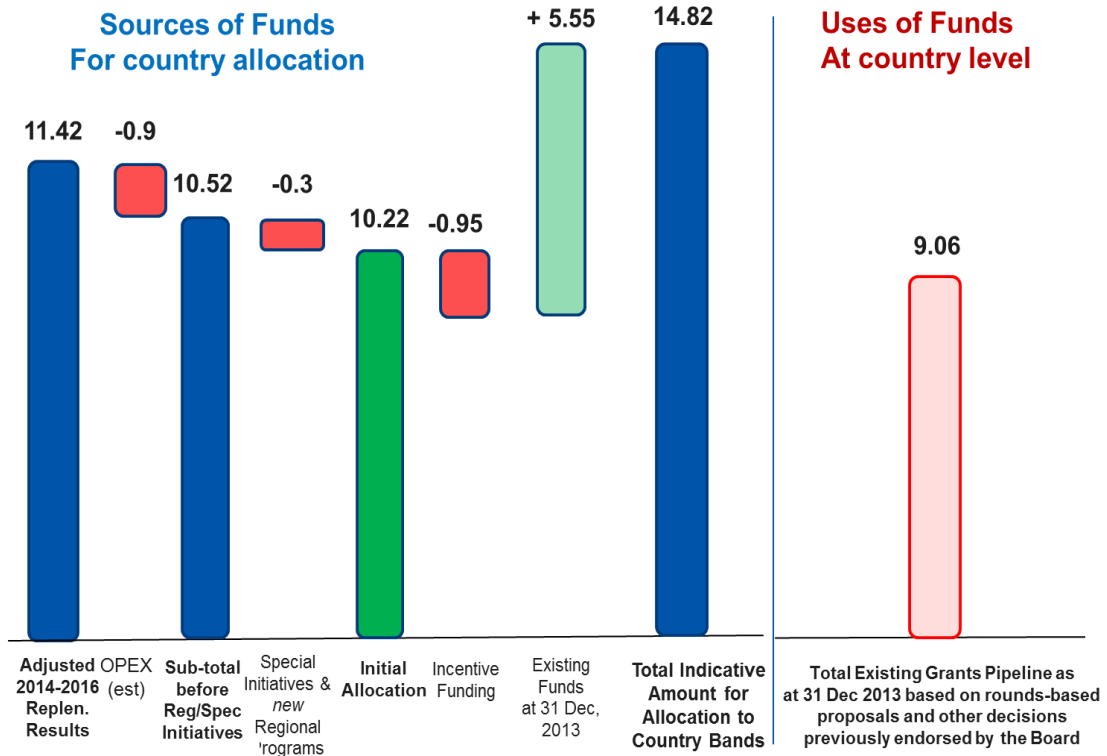
2.10 The calculation steps to arrive at the Total Indicative Amount for Allocation to Country Bands are depicted graphically in the chart below.

¹ An additional US\$ 14.1 million, which is not part of the Existing Grants Pipeline, represents top-up for selected ineligible grants. It is therefore deducted from the Existing Funds along with the US\$ 295 million to arrive at the total indicative amount for allocation to country bands.

In billion US Dollars, rounded



In billion US Dollars, rounded



2.11 Therefore, the Total Allocation, in the amount of US\$ 15.77 billion is comprised of the Existing Funds as at 31 December 2013, as well as the Initial Allocation. The Existing Funds, in the amount of US\$ 5.55 billion, will be allocated to Country Bands as indicative funding. The Initial Allocation, in the amount of US\$ 10.22 billion, will be divided into US\$ 9.27 billion of indicative funding and US\$ 0.95 billion of incentive funding.

2.12 In addition to the Total Allocation, funding for existing Regional Programs and ineligible components, Special Initiatives and new Regional Programs results in an overall investment of existing and future assets to country programs totaling US\$16.38 billion as outlined below:

i.	Indicative funding allocation	US\$ 14.82 billion
ii.	Incentive funding allocation	US\$ 0.95 billion
iii.	<i>Existing</i> Regional Programs and Ineligible Components	US\$ 0.31 billion
iv.	Special Initiatives	US\$ 0.1 billion
v.	<i>New</i> Regional Programs	US\$ 0.2 billion

Overall Allocation to Country Programs US\$ 16.38 billion

PART 3: RECOMMENDATION

3.1 Based on the above analysis of the Secretariat, the FOPC recommends that the Board approve the:

- i. Initial Allocation in the amount of US\$ 10.22 billion, which is comprised of
 - a. US\$ 9.27 billion of indicative funding; and
 - b. US\$ 0.95 billion of incentive funding.
- ii. Existing Funds as at 31 December 2013, in the amount of US\$ 5.55 billion, which will be allocated as indicative funding.

3.2 In accordance with the transitional measures described in GF/B31/05 – Revision 1, the Initial Allocation and Existing Funds, will be combined and allocated to Country Bands as follows and further detailed in GF/B31/09 – Revision 1:

- i. US\$ 14.82 billion of indicative funding; and
- ii. US\$ 0.95 billion of incentive funding.

PART 4: DECISION POINT

4.1 Based on the discussion above, the FOPC, with input from the SIIC, recommends the following decision point to the Board for approval at the Thirty-First Board Meeting:

Decision Point GF/B31/DP10:

1. The Board acknowledges:

a. The Finance and Operational Performance Committee's recommendation on the amount of announced replenishment results for the 2014 – 2016 Replenishment Period, net of certain adjustments and qualifying deductions, that will be allocated to Country Bands at the start of the Allocation Period (the "Initial Allocation"), as set forth in GF/B31/06, in accordance with the Comprehensive Funding Policy, as amended and restated under decision point GF/B31/DP04; and

b. The Board's approval of the Strategy, Investment and Impact Committee's recommendation to apportion USD 100 million to finance Special Initiatives and USD 200 million to finance Regional Programs over the 2014 – 2016 period (GF/B31/DP06 and GF/B31/DP07, respectively).

2. Accordingly, the Board decides the Initial Allocation for the 2014 – 2016 Replenishment Period is USD 10.22 billion.