

**INDICATIVE AND INCENTIVE FUNDING SPLIT**

**Purpose:**

This report summarizes the recommendations of the Strategy, Investment and Impact Committee (SIIC) to the Global Fund Board in relation to the implementation of the new funding model and proposes one Decision Point to the Board, as follows:

- GF/B29/EDP 10      Division between Indicative and Incentive Funding

This document is part of an internal deliberative process of the Global Fund and as such cannot be made public at this point in time.

## **FOR DECISION**

1. At the Twenty-Eighth Board Meeting, the Board agreed that it will divide the resources allocated to each Country Band into “Indicative” and “Incentive” funding and defined the overall purpose of each. The Board also requested the Strategy, Investment and Impact Committee (SIIC) to make a recommendation to the Board concerning the division of resources (GF/B28/DP4 paragraph 5c).
2. The SIIC has developed the Decision Point below through a number of meetings and conference calls:
  - At the 7<sup>th</sup> in-person SIIC Meeting in April 2013, the Secretariat presented principles to guide the division between indicative and incentive funding;
  - During April and early May 2013, SIIC members (and some other Board constituencies) submitted input papers to guide further deliberations;
  - An analysis of this input, as well as further analysis presented by the Secretariat, was discussed by the SIIC in two conference calls in May and June 2013;
  - Two special SIIC meetings were held during the Twenty-Ninth Board Meeting to identify key areas for consideration and develop consensus on them;
  - At its 8<sup>th</sup> in-person Meeting in July 2013, the SIIC further discussed the four key areas and agreed to recommend the proposed decision point for approval by the Board.

### **OUTCOME OF DISCUSSION ON PROPOSED DECISION POINT**

3. Deliberations at the 8<sup>th</sup> SIIC Meeting were focused on four key areas:
  - The percentage of funding to be allocated to the incentive funding stream (and whether it is fixed or sliding);
  - Band differentiation<sup>1</sup>;
  - Eligibility for incentive funding for countries that are notionally “over-allocated”; and
  - The pace of reduction for notionally “over-allocated” countries.
4. The SIIC recommends that the percentage of resources apportioned to incentive funding be fixed. The percentage shall be set based on the resources available for the initial allocation following the fourth replenishment according to the following scenarios:
  - Up to US\$11 billion, 10%;
  - Over US\$11 billion and up to US\$13.5 billion, 15%;
  - Over US\$13.5 billion, 20%.
5. The SIIC further recommends that the percentage of resources for incentive funding will be used for Bands 1, 2 and 3. Resources allocated to Band 4 would not be split between incentive and indicative funding, and accordingly countries in this Band would not compete for incentive funding.
6. The SIIC discussed access to incentive funding by countries that exceed their notional formula shares (i.e. notionally “over-allocated” countries). It recommends that the decision point should refer to disease components rather than countries, noting that some countries were notionally “over-allocated” for one disease but not others. It is further recommended that any disease component exceeding its notional formula shares by more than 50% should be excluded from incentive funding. It is also noted that the Secretariat and TRP should use discretion in recommending incentive funding for countries with disease components very

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<sup>1</sup> 'Bands' refers to the following broad groupings: Band 1: Lower Income, higher burden. Band 2 - Lower income, lower burden; Band 3 - Higher income, higher burden; Band 4 - Higher income, lower burden. Work is continuing to identify which countries fall into specific groups.

close to the 50% over-allocated mark. In addition, the Secretariat should provide annual updates to the SIIC on progress in normalizing funding levels to notionally “over-allocated” countries.

7. Concerning the pace of reduction for notionally “over-allocated” countries, the SIIC recommends a target minimum reduction of 20% across the portfolio for the 2014 – 2016 allocation period, relative to recent funding. Nevertheless, the expectation is that some countries would be able to achieve a faster rate of reduction.
8. Finally, the SIIC recommends that any additional funds made available through accelerated reductions of notionally “over-allocated” components or additional donor contributions would go to fund Unfunded Quality Demand for which countries in all four Country Bands will be eligible.

## **DECISION POINT ON INDICATIVE AND INCENTIVE FUNDING SPLIT**

The Strategy, Investment and Impact Committee (the “SIIC”) recommends the following decision point to the Board for electronic approval prior to its Thirtieth Meeting:

### **GF/B29/EDP10: Division between Indicative and Incentive Funding**

**1. The Board affirms its goal of raising US\$ 15 billion so that it can effectively support countries in their fight against HIV/AIDS, tuberculosis and malaria in the 2014 – 2016 period. The available resources will be awarded to indicative and incentive funding to invest strategically in areas where there is high potential to achieve impact and value for money while rewarding ambitious, high-quality expressions of full demand, based on robust National Strategic Plans or investment cases. The 2014 – 2016 allocation period is the first where principles adopted under the new funding model (GF/B28/DP4) will be applied. The Board notes that the current replenishment cycle will result in unique actions in order to adjust investments in notionally over- and under-allocated countries. Accordingly, the Board acknowledges implementation methodology developed for the 2014 – 2016 allocation period will be reviewed and modified, as appropriate, for future allocation periods.**

**2. The Board decides:**

**a. For each allocation period, a fixed percentage of the amount of resources approved by the Board for initial allocation (the “Initial Allocation”), after deduction of the amount allocated to the Country Band corresponding to higher income (GNI per capita) and lower disease burden (“Band 4”), will be used for allocating Incentive Funding to Country Bands 1, 2 and 3. For the 2014 – 2016 allocation period, the Incentive Funding fixed percentage will be set, based on the following Initial Allocation scenarios: 10% for up to US\$ 11 billion, 15% for over US\$ 11 billion and up to US\$ 13.5 billion, or 20% for over US\$ 13.5 billion. The balance of the Initial Allocation will be used for Indicative Funding.**

**b. No Incentive Funding will be allocated to the countries within Band 4 since Band 4 is subject to a separate allocation methodology approved by the Strategy, Investment and Impact Committee (the “SIIC”), which recognizes the particular needs of countries / disease components in Band 4.**

***c. A graduated reduction will be applied to the funding levels of disease components that have received funding at levels above their notional shares under the allocation methodology. For 2014 – 2016, this graduated reduction will seek to reflect a target minimum reduction of 20% across the portfolio of impacted disease components relative to the most recent available three-year disbursement levels. The Secretariat shall have discretion to apply appropriate reductions for such disease components to reach the target reduction across the portfolio.***

***d. Disease components that will, after the reduction referred to above, receive funding at levels that exceed their notional shares under the allocation methodology by more than 50% over the 2014 – 2016 allocation period will not be eligible for Incentive Funding during the 2014 – 2016 allocation period.***

***e. Additional resources that become available after the initial allocation of available resources, including accelerations in the graduated reductions described in paragraph 3 of this decision and additional contributions from donors, will be apportioned to fund Unfunded Quality Demand in accordance with the methodology approved by the SIIC for which countries in all four Country Bands will be eligible.***

***f. The SIIC will review this decision and propose appropriate modifications to the Board for approval prior to the 2017 – 2019 allocation period.***

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