

# 37<sup>th</sup> Board Meeting

## Update on the Implementation of the Amended and Restated Policy for Restricted Financial Contributions and Revision Proposal

GF/B37/04

03-04 May 2017, Kigali, Rwanda

### **Board Decision**

Purpose of the paper:

This paper proposes revisions to paragraph 3 of the Amended and Restated Policy on Restricted Financial Contributions (the “Amended PRFC”) relating to Complementary Restricted Financial Contributions (“CRFC”) that the Audit and Finance Committee (the “AFC”) recommends to the Board for approval in order to facilitate implementation of the policy in the current 2017-2019 allocation period.

## Part 1 - Decision Point

1. Based on the rationale described below, the following decision point is recommended to the Board:

**Decision Point: GF/B37/DP08: Approval of Revisions to the Amended and Restated Global Fund Policy for Restricted Financial Contributions**

1. ***Based on the recommendations of the Audit and Finance Committee (the “AFC”), the Board approves the Amended and Restated Global Fund Policy for Restricted Financial Contributions, as revised and set forth in Annex 1 to GF/B37/04 (the “Amended and Restated Policy”).***
2. ***The Amended and Restated Policy shall supersede the prior version of the Policy as approved by the Board in November 2014 under decision point GF/B32/DP13.***

**This decision has no budgetary implications.**

## Part 2 - Relevant Past Decisions

Relevant past Decision Point	Summary and Impact
<b>GF/B36/DP03: Continuing Resource Mobilization Efforts Throughout the Replenishment Cycle (November 2016)<sup>1</sup></b>	The Board requested that the Secretariat, under the oversight of the AFC, develop an ambitious action plan for attracting additional resources over 2017-19, which may include providing additional pledging opportunities for donors and maintaining visibility of both unfunded quality demand and progress in achieving impact. The Action Plan is to be shared with the Board at its 37th Meeting, and subsequently reported on by the AFC to the Board on a regular basis.
<b>GF/B32/DP13: Approval of the Amended and Restated Global Fund Policy for Restricted Financial Contributions (“Amended PRFC”) (November 2014)<sup>2</sup></b>	In light of the changes to the Global Fund’s model, the Board introduced an amendment to the Policy on Restricted Financial Contributions permitting eligible donors (i.e., private sector donors and approved public mechanisms) to target contributions towards unfunded quality demand at the country or country-component level, generating additional resources beyond the initial allocation or Board approved grant amount but precluding eligible donors’ ability to prescribe the specific items of unfunded quality demand that would be financed.
<b>GF/B15/DP29: Global Fund Policy for Restricted Financial Contributions (“Original PRFC”) (April 2007)<sup>3</sup></b>	Restricted financial contributions — also referred to as “earmarked” or “targeted” funding — are contributions that have been provided by a donor with specific restrictions on how they may be used. The PRFC was approved by the Board to increase resource mobilization opportunities by accommodating certain donors’ desires to target their support for the Global Fund to specific priorities and activities within

<sup>1</sup> <http://www.theglobalfund.org/Knowledge/Decisions/GF/B36/DP03/>

<sup>2</sup> <http://www.theglobalfund.org/Knowledge/Decisions/GF/B32/DP13/>

<sup>3</sup> <http://www.theglobalfund.org/Knowledge/Decisions/GF/B15/DP29/>

Relevant past Decision Point	Summary and Impact
	Board-approved Global Fund grants or Secretariat activities. Only private sector donors, such as corporations, foundations and high net-worth individuals (“HNWIs”), and a limited number public mechanisms expressly approved in advance may make restricted contributions. To date, two public mechanisms have been approved for inclusion: UNITAID and Debt-to-Health.

### Part 3 - Action Required by the Board

2. This paper requests the Board to approve the revisions to the Amended and Restated Global Fund Policy for Restricted Financial Contributions set forth in Annex 1 to this paper, based on the recommendation of the AFC.

### Part 4 - Executive Summary

3. The framework for restricted financial contributions to the Global Fund was adopted by the Board in 2007 to offer private sector donors and a limited number of authorized public mechanisms the ability to direct contributions towards Board-approved grants and Secretariat activities, while preserving a robust pool of unrestricted funding for programs. Following the shift to the allocation-based funding model, the Board revised the framework in 2014 to also allow eligible donors to restrict contributions towards a country’s unfunded quality demand (“UQD”), thus providing funding additional to the country allocation. This is referred to as a Complementary Restricted Financial Contribution (“CRFC”) or a restricted contribution to UQD.
4. At its 36th Meeting in November 2016, the Global Fund Board highlighted the importance of continuing to mobilize increased resources throughout the Replenishment cycle and requested that the Secretariat develop an ambitious resource mobilization action plan. In the context of developing this action plan, the Global Fund has identified a potential to raise up to US\$140 million more during 2017-19 from private donors, including HNWI, foundations, corporations and third-party fundraising campaigns. A key enabler for realizing these opportunities for the Global Fund is a conducive policy framework for restricted contributions from private donors.
5. While total CRFC currently represents a small share relative to the Global Fund’s portfolio and to private sector restricted contributions to date, these partnerships generate impact beyond financial gains, including increased advocacy and visibility for the Global Fund and its mission, innovation and mutual learning to improve business practices and systems, and other partnership gains.
6. Recent experience shows that private donor interest in contributing to UQD tends to be driven not only by a specific geography or disease, but also by the possibility of supporting a specific area or intervention in the UQD register that overlaps with the donor’s mission or cause. This emerging trend is mostly linked mission-driven foundations and third-party fundraising entities.
7. Although the Amended Policy on Restricted Financial Contributions (the “Amended PRFC”) and UQD register have enabled access to a new pool of potential donors, some provisions in the current policy framework present a challenge in securing additional private donor funding. These relate to the prescribed level of restriction and the lack of flexibility regarding the use of unutilized portions of CRFC.

8. The two revisions set out in Annex 1 are proposed to provide increased flexibility to address these issues. These revisions do not alter the existing limitation of restricted contributions to private donors, and are expected to increase the Global Fund's ability to generate contributions from certain types of private donors, including mission-driven foundations and third-party fundraising entities, in line with the Resource Mobilization Action Plan for 2017-2019. As discussed in this paper, the flexibilities afforded by revised policy need to be balanced against the operational implications, risks and costs related to any new mitigation activities.
9. The Secretariat presented an update on the implementation of the Amended PRFC and the revision proposal at the 3<sup>rd</sup> AFC meeting (March 2017). The operational implications of the policy revisions were discussed, including the due diligence process for private donors; monitoring, reporting and accounting requirements; and the possible effect on unrestricted funding. Following the discussion, the AFC unanimously endorsed the revised policy, and requested continued updates from the Secretariat on funds raised through this mechanism.

## Part 5 - Background<sup>4</sup>

10. The Policy on Restricted Financial Contributions (the "Original PRFC") was adopted at the 15<sup>th</sup> Board Meeting (April 2007). Under this framework, only private donors and a limited number of authorized public mechanisms are eligible to target their contributions to the Global Fund, and only towards Board approved grants or Secretariat activities. This form of restricted contribution is also referred to as "notionally restricted contribution".
11. At its 32<sup>nd</sup> meeting (November 2014), the Board adopted the Amended PRFC with the aim of further enhancing the effectiveness of the policy as a resource mobilization tool in light of the shift from the competitive to the allocation-based funding model, which includes the register of UQD. The amendments introduced by the Board enable those eligible to also make restricted contributions that add to or complement Board-approved grants by channeling investments towards a country's UQD. This form of restricted contribution is also called Complementary Restricted Financial Contribution ("CRFC") or "restricted contribution to UQD".
12. The current framework is designed not only to offer an attractive option for the private donor but also to benefit the Global Fund and implementing partners:
  - Global Fund processes provide a certain level of assurance to the donor that investments are programmatically sound and aligned with broader national health/disease programs;
  - Cost efficiencies or economies of scale in procurement, program implementation and monitoring and evaluation translate into more resources for scale up and a greater return of investment, compared to the co-investment alternative (i.e. where private donor makes a direct contribution to the implementer);
  - Significant visibility and advocacy for all partners;
  - No duplication of reporting or other requirements for the implementer; and
  - Potential to unlock additional resources through matching mechanisms.
13. Since the adoption of the Amended PRFC, new pledges from private donors with restrictions on the use of funds amount to US\$211 million, representing 26 percent of new private donor pledges since the adoption of the Amended PRFC.<sup>5</sup> Of these, US\$ 18 million or 2 percent are restricted to UQD.

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<sup>4</sup> Please refer to [GF/AFC03/04](#) for a more detailed description of the policy framework for restricted financial contributions and the full update on restricted financial contributions raised since the adoption of the Amended PRFC in November 2014.

<sup>5</sup> The calculation only includes confirmed pledges the majority of which were announced at the Global Fund's Fifth Replenishment Conference.

These restricted pledges include most of the pledges announced at the Fifth Replenishment Conference in September 2016.

14. While the vast majority of the Global Fund's private donors made restricted pledges, a large proportion of the overall value of private sector donor pledges, 74 percent, remains unrestricted as the largest private donor, the Bill and Melinda Gates Foundation ("BMGF"), does not restrict its contributions.
15. Although restricted contributions remain small relative to the overall pool of Global Fund financing, these partnerships generate impact beyond financial gains, including increased advocacy and visibility for the Global Fund and its mission, innovation and mutual learning to improve business practices and systems, and other partnership gains.

## **Part 6 – Discussion**

### Emerging trends related to Contributions on Complementary Restricted Financial Contributions

16. Relative to the overall portfolio, the effect of income generated through private donor notionally restricted contributions and CRFC remains fairly modest. Similarly, relative to country-component grant amounts, CRFC amounts are fairly small, ranging from 1% to 9% of total grant funding for the country-component. The displacement of previously unrestricted and notionally restricted funds has not materialized, with most long-standing private sector donors opting to continue arrangements in place prior to adoption of Amended PRFC.
17. Most CRFC are made by new donors, representing a previously untapped or underexploited market for the Global Fund: mission-driven foundations and third-party fundraising initiatives. Trends show that donor interest in UQD is driven not only by a specific geography (region or country) or disease, but also by the possibility of supporting a specific area or intervention in the UQD register that overlaps with the donor's mandated mission or cause.

### Challenges related paragraph 3 of the Amended Policy on Restricted Financial Contributions on Complementary Restricted Financial Contributions

18. For mission-driven foundations and third-party fundraising entities, a key driver for restricted contributions to UQD is the overlap with the organization's mission/mandate or the causes supported by its fundraising campaigns. For these donors, the key tenants for a grant or contribution often consist of assurances on the use of funds donated aligning with the mandate of their organization or its particular area of interest; on meeting the donor's constituencies/donors' expectations and having a level of comfort that the tracking and accounting of the contribution reflects these institutional priorities. In many cases, a contribution agreement on the basis of a country/country-component may be too broad to satisfy the strict requirements and limitations faced by these types of donors (i.e. country/country-component grants may include activities that are outside the organization's mandate).
19. Paragraph 3 b) of the Amended PRFC currently states: "CRFC may only be restricted to support the UQD of a country or country disease component, and eligible donors are precluded from prescribing the specific items of such UQD that would be financed by the CRFC." The intent was to accommodate CRFC without significant changes to the systems and processes in place to receive and disburse all types of contributions, and, more importantly, to ensure alignment with the Global Fund's demand-driven, merit based and Board-led principles.

20. However, the exclusion of restrictions at the intervention level poses a significant challenge in mobilizing additional resources for UQD from private donors for two main reasons:
- The UQD register presents unmet funding needs at the intervention level, which creates the expectation that prospective private donors may select an intervention or set of interventions for their restricted contribution; and
  - As noted above, prospective donors may face limitations related to the types of interventions they can support owing to their specific mandate or because they are accountable to their own constituents/donors to invest only towards those causes for which they have raised funds.
21. Another related issue for prospective donors is the use of unutilized portions of CRFC as delineated in paragraph 3 e) of the Amended CRFC. The policy prescribes that “unutilized portions of CRFC shall become unrestricted sources of funds available for the Global Fund grant portfolio.” This provision is currently proving to be a major hurdle because, as noted above, certain donors are precluded from having any portion of their contribution channeled to purposes other than those that are permitted by their respective mandate.
22. In the case of the few agreements that have been signed, negotiations tended to be unnecessarily complex and time consuming because of these two provisions. This prevented the advancement of other opportunities and outreach to other potential new donors and resulted in avoidable delays in implementation. Where an agreement with the Global Fund cannot be reached, the prospective donor has the alternative option of co-investment. However, there is a significant risk that the private donor will not contribute at all.
23. Thus, while the Amended PRFC and UQD register have enabled access to a new pool of potential donors interested in contributing to the Global Fund, some adjustments are needed in order to address the above challenges and ensure a more timely and efficient process for securing the funds.

#### Opportunities in the pipeline and Action Plan for continuing resource mobilization

24. Five private donors are in the process of negotiating agreements with the Global Fund and, based on their expressed preference, are likely to restrict their contributions to UQD. If negotiation reach a positive outcome, an additional US\$ 20 million of restricted contributions to UQD could be secured.
25. At its 36th Meeting in November 2016, the Global Fund Board highlighted the importance of continuing to actively engage to mobilize increased resources throughout the Replenishment cycle and requested that the Secretariat, under the oversight of the AFC, develop an ambitious action plan for attracting additional resources to be shared at the 37<sup>th</sup> Board Meeting in May 2017.<sup>6</sup>
26. In developing this action plan, the Global Fund has identified a potential to raise up to US\$140 million more during 2017-19 from private donors, including HNWI, foundations, corporations and third-party fundraising campaigns. A key enabler for realizing these opportunities for the Global Fund in a more timely and efficient manner is a more conducive policy framework for CRFC.
27. The Board is therefore requested to approve the proposed revisions in Annex 1. The objective is to introduce flexibilities on the level of restriction and the treatment of unutilized portions of CRFC in order to provide a more conducive framework for private sector resource mobilization efforts, while keeping as closely as possible with the overall existing framework of the Global Fund.

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<sup>6</sup> <http://www.theglobalfund.org/Knowledge/Decisions/GF/B36/DP03/>

28. It is important to note that under the revised paragraph 3 b) private donors would still be precluded from unilaterally prescribing the items of UQD that would be financed by CRFC. However, there will be sufficient flexibility for the Global Fund and the donor to negotiate and to specify in the resulting contribution agreement the area(s) of investment for the CRFC, where needed. Reference to the area(s) of investment in the contribution agreement could in most cases satisfy the requirements faced by the donor vis-à-vis its own Board and constituents.
29. The proposed revision to paragraph 3 e) is closely related to the above. It would ensue from the agreement with the donor on an area(s) of investment that there be flexibility to negotiate alternative treatment or use for the unutilized portions of CRFC than what is currently permitted within the Amended PRFC. Alternative treatment could consist of establishing mutually agreed alternative area(s) of investment within UQD and/or no-cost extensions of the original contribution period, but would also include, in extreme cases, the return of unutilized portions of CRFC to the donor (i.e. a refund).

### Operational implications of the proposed policy revision

30. The operational implications of the policy revisions may include increased reporting and budgeting requirements for implementers as well as changes to existing Global Fund process and system requirements to track and report on CRFC and related transaction costs. For example, in cases where a more specific CRFC targeting or alternative treatment for unutilized funds is agreed, the CRFC would need to be tracked and treated separately throughout the grant making and implementation processes. In particular, treatment of these CRFC would differ with respect to the normal processes for portfolio optimization, reforecasting and reprogramming of grant funds or efficiencies/savings. In addition, CRFC requires separate tracking in the context of Access to Funding and Asset and Liability Management processes.
31. The operational implications will be mitigated through:
- While flexibilities are expected to help secure more CRFCs, overall CRFCs are likely remain fairly modest relative to grant funding and to the Global Fund's portfolio;
  - Close and early engagement of Grant Management and Finance, (i.e., Country Team, and Program Finance) ahead of formal negotiations with prospective donors so that they can input on the feasibility, practicability and value for money of the requirements that may result from a particular donor's CRFC;
  - CRFCs are expected to continue to be channeled towards high-performing programs (in particular, financial management and absorption). This is in the interest of both the Global Fund and the private donor, and also reduces the risk of there being significant portions of CRFC being unutilized; and
  - The private donor and the Global Fund are expected to have a mutual interest in CRFC generating significant results and impact, and efforts will be made by the Secretariat to pursue and exhaust alternative uses for the CRFC before resorting to an eventual refund.
32. The proposed revision will enhance the Global Fund's flexibility to accept or decline a CRFC on a case-by-case basis, balancing the risks and operational implications, on one hand, against the expected potential partnership impact and value, on the other, while remaining in line with the Global Fund's partnership values and implementer-driven, merit-based and Board-led principles.

## **Part 7 – Risk Assessment Process Summary/Outcomes**

33. **Strategic risks** associated with restricted contributions to UQD are mitigated through existing Global Fund policies and procedures, including TRP and GAC review and Board approval. Close engagement of Country Teams also ensures consistency with country and Global Fund investment priorities.

34. **Operational risks** may include increased reporting obligations, system requirements to track and report on restricted contributions to UQD and other potential transaction costs. However, these are expected to be mitigated by the measures described in paragraph 31.
35. **Reputational risks** related to private donors of restricted contributions to UQD are managed through the Global Fund's screening and internal due diligence (IDD) processes as well as the applicable policies for managing perceived, potential or actual conflicts of interest applicable to all private sector donors and partners.
36. The Global Fund will continue to report regularly to the AFC on funds raised through this mechanism, document lessons learned and propose further improvements to the framework for Board approval through the AFC, if needed.

## **Part 8 - Recommendation**

37. Based on the above discussion, the Board is requested to approve the revisions to Paragraph 3 of the Amended PRFC relating to CRFC as set forth in Annex 1, to allow a more flexible approach to:
  - (i) The level of restriction of CRFC; and
  - (ii) The provision that unutilized portions of CRFC shall become part of the pool of unrestricted funds.



## Annex 1

### Amended and restated policy on restricted financial contributions

#### 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 "Eligible Donors"); 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.*

#### 2. Restricted Financial Contributions 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 paragraph 1 above;*
- b. *such restricted financial contributions are made through the Global Fund and support only the activities and priorities within a grant approved by the Board; 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.*

#### 3. Complementary Restricted Financial Contributions for Unfunded Quality Demand (UQD)<sup>7</sup>

*The Board authorizes the Secretariat to mobilize and accept contributions that provide additional and complementary funding to a grant program approved by the Board or the resultant grant program of a country component's concept note (the "Complementary Restricted Financial Contribution"), provided that:*

- a. *Complementary Restricted Financial Contributions comply with the Guiding Principles outlined in paragraph 1 above;*
- b. *Complementary Restricted Financial Contributions may only be restricted to support the unfunded quality demand of a country or country disease component;*

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<sup>7</sup> As defined in GF/B28/DP4 and further described in GF/SIIC09/DP02.

- c. *Although Complementary Restricted Financial Contributions may be excepted from parts of the process adopted by the Strategy Committee for prioritizing and awarding resources available to unfunded quality demand, particularly with respect to annual assessments of additional resources that may be available for unfunded quality demand and the prioritization of items on the unfunded quality demand register, such contributions are subject to the Amended and Restated Comprehensive Funding Policy and standard financial and operational processes;*
- d. *Complementary Restricted Financial Contributions are made through the Global Fund and subject to funding approval by the Board, based on the Secretariat's matching of sources and uses of funds arising from such contributions, prior to inclusion in a grant program;*
- e. *Unutilized portions of Complementary Restricted Financial Contributions are expected to become unrestricted sources of funds available for the Global Fund grant portfolio and any alternative treatment must also comply with the Guiding Principles outlined in paragraph 1 above; and*
- f. *The total amount of Complementary Restricted Financial Contributions is less than the total sum of Global Fund financing committed to any grant receiving such contributions, ensuring that the programmatic results of such grants remain primarily attributable to contributions from all Global Fund donors.*

#### 4. *Restricted Financial Contributions for Secretariat Activities*

*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 paragraph 1 above.*

#### 5. *Oversight*

*The Board requests the Secretariat to provide the Audit and Finance Committee (the "AFC") with progress updates on the implementation of this Amended and Restated Global Fund Policy for Restricted Financial Contributions (the "Amended and Restated Policy"), including:*

- a. *A report on the results of mobilizing contributions under this Amended and Restated Policy, which outlines the programs receiving such contributions and will be presented to the Strategy Committee for consideration of any associated strategic investment matters; and*
- b. *Identification of new public mechanisms for inclusion in the Amended and Restated Policy.*

*The Board delegates to the AFC the authority to approve new public mechanisms proposed by the Secretariat for inclusion in the Amended and Restated Policy, and acknowledges UNTAID and Debt2Health as approved public mechanisms.*

*The Board further requests the AFC to consider new developments as they arise and to propose any changes to the Amended and Restated Policy deemed appropriate by the AFC for adoption by the Board.*