Operational Policy Note

Co-financing Interim Guidance

Approved on: 21 February 2021 by the Global Fund Executive Grant Management Committee

Explanatory Note: This co-financing interim guidance provides additional considerations for GC7 grant-making and is to be read alongside the Co-Financing OPN, for which a more comprehensive update is forthcoming.

Context and objectives

The Global Fund's approach to sustainability is set out in the [Sustainability, Transition and Co-financing (STC) policy](). This policy aims to strengthen the sustainability of national disease responses and health systems and support countries as they transition from external financing, with co-financing being a critical element.

For Grant Cycle 7 (GC7) implementation, Global Fund is enhancing its approach to co-financing. This includes, among others, increased country ownership and accountability for co-financing commitments, increased clarity on the types of financial and programmatic co-financing commitments made by countries in the context of Global Fund grants, improved routine monitoring and tracking, strengthened data quality, and improved documentation to support co-financing commitments and their realization. This interim guidance informs the GF Secretariat, PRs, partners and other stakeholders on the requirements, processes, and specific flexibilities related to co-financing for GC7 grant-making.

Summary of Co-Financing Guidance for GC7 grant-making:

I. Commitment letter requirements and best practices (NEW)

A commitment letter (CL) outlining financial and programmatic commitments is now mandatory for all countries and must be submitted prior to GAC approval the approval of the grants. While specific co-financing commitments are country-owned and vary heavily across portfolios, all CLs must include standard requirements.

Requirements: A CL submission must include the following:

1. GC7 commitment on overall health expenditure (with flexibility for UMIC countries, as described below);
2. GC7 commitments disaggregated by year and disease component (for all disease components for

which the country is eligible);
3. Data source for monitoring and evaluation of GC7 commitments clearly indicated;
4. GC7 specific programmatic commitments;
5. GC6 budget execution and budget allocation data, supplemented with other sources where needed, disaggregated by year and disease component; and
6. Signed by the Ministry of Finance or budget authority (with flexibility for Focused countries, as described below).

Best practices:

- Commitments should be expressed in both local currency and allocation currency, with exchange rate described.
- Commitment letters should use the CL template, [available on the Global Fund website](), inserted into the government letterhead.

Approved flexibilities:

- Upper-middle income countries (UMICs) are exempted from making overall health spending commitments in their CL, hence the section on health expenditure in the CL template may not be included.
- For all countries, it is recommended for the CL to be signed by the Ministry of Finance or budget authority. However, for Focused countries, the signature of another relevant government authority (e.g., Ministry of Health) may be accepted.
- Where grants for a country are reviewed separately, commitments for the initially approved disease component can be provided through a draft CL, on the condition that the CL is finalized once the remaining disease components are reviewed by the GAC. In this case, a country is "conditionally compliant" at the time of the initial GAC recommendation.

II. Co-financing Compliance Assessment

Definition of GC6 backward-looking compliance (UPDATED)

The interim guidance clarifies the Secretariat approach to reviewing compliance with previous co-financing requirements for each disease component, as part of the grant approval process.

Compliance with core co-financing requirement 1 (*Progressive government expenditure on health*)

- Whether the country's **average government expenditure on health**, as a % of total government expenditure or in absolute terms, over the GC6 implementation period is greater than the GC5 implementation period.
- UMICs are exempted from the compliance assessment against Requirement 1.

Compliance with core co-financing requirement 2 (*Increasing co-financing of Global Fund-supported programs*)

- For each disease component (assessed separately), whether the country's **GC6 co-financing realizations** (supported by evidence) fulfil the **GC6 total minimum co-financing requirement** as described at the time of the relevant GC6 grants approval.
- UMICs must also submit evidence that key and vulnerable populations targeting requirements are fulfilled.

Data requirements for compliance with requirement 2 (UPDATED)

Backward-looking (i.e., reviewing compliance with previous co-financing requirements) co-financing compliance requires verified budget execution and budget allocation data to demonstrate GC6 co-financing realizations. This may be evidenced through;

- Country-submitted documentation / data with budget lines detailing spending / allocation against the three diseases and/or RSSH, including evidence of fulfillment of the programmatic commitments specified in the GC6 CL, and/or
- Expenditure assessments (e.g., National Health Accounts (NHAs), National AIDS Spending Assessment (NASA), Tuberculosis spending assessments) which are up to date, sufficiently granular and clearly linked to budgets. Such assessments can also be used to interpret or triangulate disease specific realization information or identify elements such as Human Resources for Health where the latter are integrated into budgets, and/or
- LFA- or Supreme Audit Institution- or other independently verified budget execution and budget allocation data.

Definition of GC7 forward-looking compliance (UPDATED)

Compliance with core co-financing requirement 1 (*Progressive government expenditure on health*)

- Whether the country has committed to increase their government expenditure on health in GC7 (% or absolute) from their GC6 "baseline" (per signed, final and compliant CL).
- UMICs are exempted from the compliance assessment against Requirement 1.

Compliance with core co-financing requirement 2 (*Increasing co-financing of Global Fund-supported programs*)

- For each disease component (assessed separately), whether the **GC7 commitment** (per signed, final and compliant CL) fulfils the **GC7 total minimum co-financing requirement**; The GC7 total minimum co-financing requirement is determined by taking the sum of verified GC6 realizations / budget allocation submitted by countries ("GC6 baseline") and the minimum additional co-financing requirement.

Options for compliance outcome recommendations at time of the Global Fund grant approval (UPDATED)

- **Requirements met**: If co-financing core requirements 1 & 2 are fulfilled based on the country-submitted evidence.
- **Requirements conditionally met / not met**: The final compliance decision is reserved until specific evidence or a signed / final CL is submitted by an agreed-upon due date.
- **Requirements not met with Justifiable Circumstances**: If requirements are not met, however, a waiver of requirements is approved.
- **Requirements not met**: If requirements are not met and non-compliance actions will be taken.

III. Approach and principles for RSSH commitments (UPDATED)

- **For backward-looking compliance for GC6:** RSSH realizations are assessed flexibly, considering the country submitted overall RSSH spending, provided it is highlighted / verified in the submitted budget documentation / data.
- **For forward-looking compliance:** RSSH commitments for GC7 must be aligned with Global Fund Modular Framework RSSH interventions. Certain other interventions outside the Modular Framework may be accepted on a case-by-case basis, if discussed and agreed between the Secretariat and the

country prior to grant approval.

Principles for backward-looking compliance assessment at the end of GC7 (NEW)

When assessing compliance with co-financing at the end of GC7, the Secretariat considers realization of the financial and specific programmatic commitments in a country's commitment letter, considering efficiencies (as needed). The Secretariat also considers realization against total minimum requirements, including when making decisions related to implications of non-compliance.

Annex: Key terms and definitions

Term	Definition
Co-financing incentive	The proportion of a country's allocation that is subject to co-financing. This is a minimum of 15% but may be adjusted higher by the Global Fund Secretariat or waived in exceptional circumstances
Backward-looking compliance	Compliance related to evidencing sufficient realizations to fulfil STC policy requirements for the previous allocation period / Grant Cycle
Forward-looking compliance	Compliance related to making sufficient commitments to fulfil STC policy requirements for the current allocation period / Grant Cycle
Minimum additional co-financing requirement	The minimum additional increase in domestic spend on HIV, TB, Malaria and / or RSSH (typically represented by a % of the country's allocation) required by the STC policy. Used to determine the total minimum co-financing requirement
Baseline	The amount of domestic spend on HIV, TB, Malaria and / or RSSH realized in the previous allocation period. Used to determine the total minimum co-financing requirement (forward-looking)
GC6 total minimum co-financing requirement	The minimum realizations in GC6 for HIV, TB, Malaria and / or RSSH which a country must evidence for backward-looking compliance
GC7 total minimum co-financing requirement	The minimum amount which a country must commit to in GC7 for HIV, TB, Malaria and / or RSSH for forward-looking compliance. This amount is calculated by the Secretariat as the GC6 baseline + GC7 minimum additional co-financing requirement.
Financial commitment	The specific USD or EUR or local currency[1] amounts which a country has committed to in their commitment letter to fulfil the STC policy requirements
Specific programmatic commitment	The specific, monetized goods & services which a country has committed to in their commitment letter

1. Where commitments are made in local currency with no foreign exchange (FX) rate to allocation currency specified, the GC7 grant-specific FX rate is used to describe the equivalent amount in allocation currency.

Operational Policy Note

Co-financing

Issued on: 31 March 2017
Issued by: Strategic Information Department
Approved by: Executive Grant Management Committee
Purpose: To describe the operational policies and processes in the grant management lifecycle necessary to fulfill the Board's requirements for 'co-financing'.

Background and Objectives

1. The Global Fund's co-financing policy is set forth in the Global Fund's Sustainability, Transition and Co-financing (STC) Policy; which is aimed at[1]
    1. Enabling long term sustainability of Global Fund supported programs and successful transitions from Global Fund financing;[2] and
    2. Mobilizing additional resources to achieve the ambitious goals and targets of the Global Fund Strategy 2017-2022.[3]
2. This Operational Policy Note (OPN) describes the key grant management processes through which to implement the co-financing policy for grants arising from the 2017-2019 allocation period onwards[4]. The OPN also describes implications to grants in countries due to non-compliance with willingness to pay requirements under the 2014-2016 allocation period.

Key Principles

3. The STC policy aims to strengthen the sustainability and impact of Global Fund supported programs through measures that include stimulating increased co-financing for the health sector, health systems, and for the three disease programs.
4. Co-financing, in the context of the Global Fund, pertains to domestic public resources and domestic private contributions[5] that finance the health sector and the national response against HIV, tuberculosis and malaria. Domestic public resources include: government revenues, government

[1] The Global Fund Sustainability, Transition and Co-financing Policy, as set forth in Annex 1 to GF/B35/04 – Revision 1, and approved by the Board in April 2016 under decision point GF/B35/DP08: https://www.theglobalfund.org/media/4221/bm35_04-sustainabilitytransitionandcofinancing_policy_en.pdf
[2] The Global Fund Sustainability, Transition and Co-financing Policy, GF/B35/04 – Revision 1, April 2016.
[3] The Global Fund Strategy 2017 – 2022: Investing to End Epidemics, April 2016 https://www.theglobalfund.org/media/2531/core_globalfundstrategy2017-2022_strategy_en.pdf
[4] Co-financing requirements (previously called counterpart financing and willingness-to-pay requirements) for grants arising from the 2014-2016 allocation period is as set forth in the OPN on Counterpart Financing.
[5] Restricted to verifiable contributions from domestic corporations and philanthropies that finance National Strategic Plans (excludes direct out of pocket expenditures borne by households)

borrowings[6], social health insurance, and debt relief proceeds (including Debt2Health arrangements with the Global Fund[7]). With the exception of loans and debt relief, all other forms of international assistance, even when channeled through government budgets, are not considered as co-financing.

5. The operationalization of the co-financing policy and requirements is guided by the following principles:

   a. **Maximizing leveraging of domestic financing.** The overarching goal of country engagement on co-financing is to leverage additional domestic financing in line with overall health need, National Strategy Plan targets, and fiscal capacity of the country. While this OPN specifies minimum additional co-financing investments required to access the full Global Fund allocation across country income groups, the overall focus is to use provisions of the co-financing policy to maximize leveraging of domestic financing;

   b. **Systematic assessment of co-financing, and implementation of the policy.** It is important to more systematically enforce implications of non-compliance with co-financing requirements, while at the same time providing maximum flexibility for Country Teams and the Secretariat to enforce such implications in a manner that minimizes negative consequences on grant performance and overall impact. This includes flexibility to enforce implications either via current grants or future allocations, taking into account relevant contextual factors;

   c. **Tailoring requirements and differentiation.** Co-financing requirements are tailored along the development continuum according to income level, disease burden and other contextual factors to enable long-term sustainability and successful transitions of disease programs from Global Fund support. The Secretariat's approach to engaging with countries and monitoring co-financing commitments is also differentiated to focus efforts on mitigating sustainability and transition risks;

   d. **Alignment with existing in-country and Global Fund systems and processes.** Rather than establishing parallel processes, co-financing considerations should be aligned to country systems and processes, to the extent possible. For the Global Fund, the implementation of the co-financing policy is integrated with existing operational policies and processes throughout the grant lifecycle. Unless otherwise specified, the processes for implementing the co-financing policy shall follow the existing decision-making processes for access to funding and grant management;[8] and

   e. **Clear communication of co-financing requirements and implications of non-compliance to key country stakeholders**. All communication on co-financing requirements and implications of non-realization of commitments should be addressed to key stakeholders beyond the Principal Recipient and Country Coordination Mechanism, including Ministry of Finance, the Ministry of Planning and other authorities, as relevant. In general, Country Teams should seek to communicate the implications of non-realization of commitments to the highest authorities to which the Global Fund Secretariat has access and with whom the Global Fund has an established relationship.

6 This pertains to expenditure from loan proceeds in a grant implementation period and excludes repayment and interest
7 Debt2Health contributions to the Global Fund are considered towards co-financing of disease programs subsequent to Board decision GF/BM32/DP13.

[8] OPNs on Access to Funding, Grant-making and Approval, Grant Revisions, Annual Funding Decisions and Disbursements and Signature Authority Procedure as of date

Operational Policy

Scope and Applicability:

6. All countries receiving an allocation from the Global Fund for a particular disease component must comply with the co-financing requirements to access the allocation, irrespective of whether the Principal Recipient is a governmental or non-governmental (including the private sector) entity.
7. Multi-country priorities (comprised solely of catalytic funding), non-CCM applicants and countries included in multi-country grants that are no longer eligible for a standalone Global Fund grant for the same disease component are exempt from co-financing requirements. However, countries included in multi-country grants composed of individual allocations must show that they comply with co-financing requirements, on a country by country basis. Applicability of co-financing requirements for such countries is communicated through the Allocation Letter.
8. Co-financing requirements for accessing funds beyond country allocations[9], will be subject to the rules governing the use of such funding, if applicable.

Core Co-financing Requirements

9. The STC Policy outlines two **core Co-Financing Requirements** that are prerequisites for countries to access the full allocation. These requirements serve to strengthen the overall financing for the health sector and the sustainability of HIV/AIDS, TB and/or malaria programs. Countries must demonstrate during the implementation period of grants arising from the allocation, the following:
    a. *Requirement-1*: Progressive government expenditure on health to meet national universal health coverage (UHC) goals; and
    b. *Requirement-2*: Increasing co-financing of Global Fund supported programs, focused on progressively taking up key costs of national disease plans.

Requirement 1: Progressive government expenditure on health

10. Governments should increase their health expenditure in accordance with recognized international declarations[10] and national strategies. Specifically, applicants should demonstrate:
    a. For countries where government spending on health is less than 8%: this share will increase over the implementation period of grants arising from the allocation;
    b. For countries where government spending on health is equal to or greater than 8%: health expenditure will increase in line with government expenditure such that the current share is at least maintained, if not increased during the implementation period of grants arising from the allocation.
    c. For countries with high', 'severe' or 'extreme' disease burden[11] for two or more disease components who have a low prioritization of government spending on health and/or low capacity for domestic revenue capture[12]: development a robust health financing strategy and

[9] E.g. catalytic funds or additional funding through portfolio optimization as per terms of GAC approval
[10] Such as the Abuja Declaration of 2001
[11] As defined in Annex 1 of the Eligibility Policy
[12] Less than 8% of government expenditure on health and/or tax revenues are lower than 15% of the GDP.

incorporation of its provisions in national development frameworks (such as medium term expenditure frameworks) before the end of 2020.

Requirement 2: Increasing co-financing of Global Fund supported programs

11. During the implementation period of grants arising from the allocation, applicants should demonstrate increasing co-financing to progressively absorb costs of key program components such as human resources, procurement of essential drugs and commodities, programs that address human rights and gender related barriers and programs for key and vulnerable populations[13].

12. In line with fiscal capacity and health system capabilities, countries should ensure co-financing for priority interventions of the National Strategic Plan to reduce over-dependence on external resources and pave the way for longer term sustainability of Global Fund supported programs.

Co-Financing Incentive

13. In order to encourage additional domestic investments, a co-financing incentive is included as part of the allocation for each country component. The 'co-financing incentive' is at least 15 percent of the Global Fund allocation (as specified in the Allocation Letter). In order to access the co-financing incentive, countries must: (1) provide commitments of additional domestic investments to the relevant disease programs and/or related Resilient and Sustainable Systems for Health (RSSH) over the implementation period of the grant arising from the allocation, as per the requirements in the STC policy; and (2) demonstrate realization of such commitments.

14. To access the co-financing incentive for each relevant disease component, the additional domestic investments must be:
    a. More than the domestic investments made in the corresponding implementation period of the grants arising from the prior allocation period,[14] by at least:
        i. 50 percent of the co-financing incentive *for low income countries*
        ii. 100 percent of the co-financing incentive *for 'middle income countries*[15]; and
    b. Invested in priority areas of national strategic plans, in line with the investment guidance developed with partners (including region specific guidance, as applicable); and
    c. Evidenced through allocations to specific budget lines, or other agreed assurance mechanisms.

15. The focus of additional domestic investments required to access the co-financing incentive must be agreed upon during country dialogue or grant making. As per the STC policy, the following requirements will apply for additional co-financing contributions to access the co-financing incentive:

---

[13] Indicative list of requirements for assessment and will be assessed on a case by case basis.
[14] In assessing additional domestic investments to a disease program, one-off loan contributions or capital investments for infrastructure development in the prior period can be discounted. Where major efficiencies are targeted in disease program spending in line with technical partner guidance (example: shift from hospitalized TB care to ambulatory DOTS), re-investment of savings to priority areas can be considered as additional domestic investments
[15] According to the Global Fund Eligibility List, based on World Bank's income classification.

Country Income Classification	Disease Burden	Additional Co-Financing Investments
Low Income	Any	Invested in either disease programs or RSSH. Flexibility to demonstrate 100% of their additional investments are towards RSSH
Lower-LMI	Any	At least 50 percent invested in priority areas within the disease program. Remainder can be in RSSH
Upper LMI	High, Severe, Extreme	At least 75 percent invested in priority areas within the disease program. Remainder can be in RSSH
Upper LMI	Low and Moderate	Focused on addressing systemic bottlenecks for transition and sustainability[16], with at least 75 percent in priority areas within the disease program.
UMI	Any	Focused on disease components and RSSH activities to address roadblocks to transition[17], with a minimum of 50% invested in specific disease components targeting key and vulnerable populations[18]

16. By default, the co-financing incentive available for each component is the same percentage across the allocations for each component following the final program split. However, on an exceptional basis, based on country context and priorities[19], Country Teams may negotiate with country stakeholders and agree to a different distribution of the additional domestic investments to access the co-financing incentive among eligible components, provided that:
    a. The revised distribution that is agreed upon will determine (1) the co-financing incentive for each component and (2) the additional investments per component to access the co-financing incentive;
    b. The aggregate amount of the co-financing incentive across all disease components remains unchanged;
    c. Co-financing commitments for all components are available prior to the final Grant Approvals Committee (GAC) review of the first component;
    d. The deviation from the default level of additional co-financing for a component is approved by the GMD Department Head/Regional Manager and communicated to the GAC through the Grant-making Final Review and Sign-off Form.
    e. The additional investments per component to access the co-financing incentive and the co-financing incentive for each component will be communicated by the Country Team to the CCM and country stakeholders through a 'management letter'
17. **Extenuating Circumstances:** In exceptional circumstances, where the country is not in a position to meet the co-financing requirements, the Country Team may recommend a full or

[16] Identified by the country either through a transition readiness assessment or transition work plan or through national strategic plans or other relevant assessments.
[17] Ibid
[18] As defined in the Global Fund Key Populations Action Plan 2014 – 2017 https://www.theglobalfund.org/media/1270/publication_keypopulations_actionplan_en.pdf
[19] Among others, such priorities could include substantive scale up of domestic funding required for a component due to reductions in Global Fund allocation or other donor funding for such component; or where the focus is not to just increase domestic contribution to a disease component but rather to channel efficiencies to a component with already high levels of domestic funding to priority interventions by changing delivery models or provider payment systems (example: shift from hospitalized TB care to ambulatory DOTS).

partial[20] exemption from the requirements. Any waiver of co-financing requirements will require strong justification, as well as a plan for addressing funding shortfalls, where applicable. Exemptions from co-financing requirements may be considered in limited cases of strongly justified and/or exceptional circumstances, such as:

a. The country is a Challenging Operating Environment (COE), where in-country engagement on domestic financing is not feasible;[21]

b. Severe economic/fiscal crisis impacting government revenues/expenditure, which results in lower health and disease spending;

c. *Force majeure* events such as natural disasters, sudden outbreaks of disease, sudden or unforeseen outbreaks of war, civil or political unrest that result in severe disruption of program implementation or in the reallocation of government resources to address emergencies.

18. Partial or full exemptions must be approved by the Head, Grant Management Division through a memo (standardized memo template [link forthcoming]) and may be granted prior to communication of the allocation, during country dialogue, at the time of review of the funding request, at grant making and/or during grant implementation. The Head, Grant Management Division, may seek guidance from the GAC on the request for exemption. Once approved, the exemption applies for the duration of the implementation period. If a full exemption is granted, the applicant has access to the total allocation, including the funding that would be provided as co-financing incentive. If a partial exemption is sought and granted, the country will be reviewed and monitored for the approved lower level of requirements, as outlined in the memo seeking the partial exemption. Exemptions will be communicated by the Country Team to the CCM and country stakeholders through a 'management letter'. All exemptions will be reported to the Board and captured in the relevant GAC Report to the Board (See Annex-2).

Determining and Communicating the Co-Financing Incentive

19. By default, 15% of a country component's allocation will be available as a co-financing incentive if the country makes additional domestic commitments to three diseases as well as RSSH, as per policy requirements.

20. The co-financing incentive may be set at greater than 15% based on the following factors: evidence of less than 8% of government spending on health; the need to proactively strengthen transition preparedness and plan for transition if the country is a UMI (regardless of disease burden) or LMI with low/moderate disease burden; and/or other country specific contextual factors. Such other country specific contextual factors include but are not limited to: how the country compares with peers of the same income classification and region, macro-economic and fiscal trends, programmatic performance and impact against the three

[20] In instances, where country is in a position to make additional investments in the next phase but not sufficient to access the full co-financing incentive.
[21] The classification of a country as a COE does not automatically guarantee the application of flexibilities.

diseases, the overall funding landscape for the three diseases, and previous co-financing commitments.

21. The key parameters, guidance, and background data to determine the share of co-financing incentive is developed by the Health Financing Team of the Strategic Information Department as part of the Access to Funding processes for finalizing the Allocation Letter.

22. The share of the co-financing incentive of each country component is determined by the Country Team taking into account contextual priorities and considerations, with support from the Health Financing team, where appropriate. Country Team's recommendations are endorsed by the Department Head/Regional Manager. The proposed co-financing incentive share of the allocations are then reviewed and validated by the Grant Approvals Committee (GAC).

23. Countries are informed of their total allocation across eligible disease components and the share of the allocation for each eligible component that is available as a co-financing incentive, through the Allocation Letter. The required level and focus of domestic investments to access the co-financing incentive is also communicated through the Allocation Letter.

24. The requirements that apply to access the co-financing incentive component of the allocation are based on 'country income classification' as per the latest Eligibility List published prior to communication of the allocation[22]. If there is a change to the income classification during an allocation period, requirements associated with the new income level will apply only to the subsequent allocation.

Country Dialogue and Development of Funding Request

25. Co-financing of Global Fund supported disease programs and RSSH, as applicable, will be agreed upon during the country dialogue and/or grant making. In addition to the minimum additional investments to access the co-financing incentive, overall co-financing commitments should take into account funding need, existing commitments, fiscal space, sustainability and transition considerations; as applicable.

26. Country dialogue should include engagement on:

    a. The realization of co-financing commitments for the implementation period of the grants arising from the previous allocation period,[23] as applicable;

    b. Co-financing investments in the health sector and disease programs over the implementation period of the grant arising from the next allocation;

    c. Leveraging the co-financing incentive to increase strategic domestic investments for health, in line with country priorities and STC policy requirements;

    d. Ensuring that the funding request for UMICs irrespective of disease burden and LMICs with low and disease burden describes the major bottlenecks to financial sustainability and how these bottlenecks will be strategically addressed with additional domestic investments that comply with the co-financing requirements.

[22] Country income classification used for the 2014-16 allocation period applies to previous 'Willingness to Pay' requirements.
[23] Was referred to as 'willingness to pay' in the 2014-16 allocation period.

27. **Realization of co-financing commitments for the implementation period of the grants arising from the previous allocation period:** Evidence of realization of previous co-financing commitments is required to assess implications to grant funds tied to co-financing commitments and/or the subsequent allocation, as well as establish the baseline to determine additional investments for the next implementation period.

28. Evidence of realization of co-financing commitments and any justification for not meeting commitments (if applicable) must be formally submitted to the Global Fund prior or along with the submission of first funding request. Evidence of realization of co-financing commitments may be requested earlier, if the Country Team perceives a risk in materialization of commitments. If not at risk of realizing commitments, a country whose first funding request is through the 'program continuation' application modality can submit evidence on realization of co-financing commitments during grant making, as per the schedule agreed with the Country Team.

29. **Co-financing investments in the health sector and disease programs in the next implementation period:** Domestic financing of the broader health sector and of disease programs should be a focus of country dialogue, engaging key stakeholders including the Ministries of Finance and Health.

30. In high burden[24] countries with low government spending on health and/or low revenue capture[25] and countries where there is a declining trend in government health expenditure, country dialogue should explore government plans to develop and/or implement health financing strategies to increase domestic financing of health. With partners and through global platforms[26], Country Teams and CCMs are encouraged to discuss needs of additional support through grants to accelerate the implementation of health financing strategies, if relevant. Where there are no specific initiatives in place to develop or implement a health financing strategy, the Secretariat and CCMs may explore, in consultation with partners, support for developing health financing strategies through grants.

31. The development of the funding request should include a review of available resources and funding gaps for Global Fund supported programs, preferably based on costed National Strategic Plans. Through the CCM and key stakeholder engagement, country dialogue should discuss co-financing contributions over the next implementation period as well as longer-term strategies for sustaining programs with increased domestic investments.

32. **Leveraging the co-financing incentive for strategic domestic investments for health, in line with country priorities:** Country dialogue should aim to establish strategic actions and co-financing commitments to meet the co-financing requirements and access the total co-financing incentive.

33. The ongoing country dialogue process must ensure a clear understanding of:
    a. Mechanisms through which government will finance the disease program or RSSH (central/regional/local government revenues, loans, debt relief and/or social health insurance);
    b. Current and planned additional domestic financing of disease programs and RSSH in terms of the extent of funding and the interventions supported;
    c. Timing or annual cycle of co-financing investments; and

[24] Countries with high', 'severe' or 'extreme' disease burden for two or more disease components, as defined by Eligibility Policy
[25] Defined as less than 8% of government expenditure on health and tax revenues are lower than 15% of the GDP.
[26] Such as the Global Financing Facility.

d. The mechanism by which co-financing will be tracked and reported, including assurance provided by the country's public finance management systems and 'supreme audit institutions' for reliable monitoring of realization of co-financing commitments.

Funding Request Review and Assessing Compliance with Co-Financing Requirements

34. The Country Team (supported by inputs from the Strategic Information Department) will review and assess (a) compliance with core co-financing requirements (see paragraphs 9-12) based on qualitative assessment of co-financing trends, taking into account relevant contextual factors; (b) realization of co-financing commitments for the implementation period of the grant arising from the previous allocation period; and (c) co-financing commitments to access the co-financing incentive for the grant arising from the subsequent allocation period. The Country Team's assessment is captured in the Secretariat Briefing Note submitted to the TRP.[27] The Country Team's assessment of compliance will also be captured in the Grant-making Final Review and Sign-off Form, and reviewed by the GAC (see paragraph 50).

ASSESSING REALIZATION OF CO-FINANCING COMMITMENTS FOR THE PREVIOUS ALLOCATION PERIOD[28]:

35. Realization of a co-financing commitment is defined as reasonable assurance of either execution of funds for agreed upon activities or implementation of agreed upon activities.
36. In assessing co-financing in the implementation period of grant (s) arising from the previous allocation, it is expected that information on budget execution for completed fiscal years and the budget of the final implementation year will be reviewed. With respect to the execution/or budgeting of funds, countries will be considered as compliant with requirements to access the co-financing incentive of the previous allocation[29], if:
    a. Realization of co-financing commitment in completed fiscal years plus budget allocated for the final year in USD/EURO[30] is equal to or higher than the requirements to access the co-financing incentive (willingness to pay of the 2014-16 allocation), as per policy existing at time of the previous allocation;[31] OR
    b. Realization of co-financing commitment in completed fiscal years plus budget allocated for the final year in local currency, adjusted for inflation is equal to or higher than the requirements to access the co-financing incentive (willingness to pay of the 2014-16 allocation) as per policy existing at the time of the previous allocation
37. In High Impact and Core countries, the Finance Specialist, with support of Health Financing Team (if applicable) will be responsible for assessing evidence on execution of funds and allocation of budget funds committed towards meeting co-financing requirements and the

[27] For program continuation, the Country Team will present the assessment of compliance to the GAC
[28] Was referred to as 'willingness to pay' in the 2014-16 allocation period
[29] Was referred to as 'willingness to pay' in the 2014-16 allocation period.
[30] Depending on which currency the country had used to provide commitments.
[31] For the 2014-16 allocation; the minimum requirements of additional investments was 25% of the co-financing incentive (referred to earlier as 'willingness to pay') for low income countries, 50% for lower LMI, 100% of upper LMI, and 200% for UMI. For subsequent allocations, as per the STC Policy, outlined in paragraphs 14-15.

extent to which the required co-financing commitments were realized. The Fund Portfolio Manager, taking into consideration the assessment of the Finance Officer and supplementary evidence on implementation of agreed upon activities, determines compliance with co-financing requirements in consultation with the Legal Officer and other Country Team members (as applicable). In Focused countries, the Fund Portfolio Manager will determine compliance with support from the Health Financing Team and/or STC Specialists (as applicable) and in consultation with the Legal Officer[32]

38. The possible outcomes of the compliance determination and their implications are summarized below:

   a. **Requirements Met:** Requirements are considered met if execution of funds or implementation of agreed activities in completed fiscal years (a) is greater than requirements to access the co-financing incentive OR (b) meets the requirements together with budget/approved implementation plan for the final year and there are no identified risks for execution of the allocated budget/ implementation plan **Implications:** There are no implications to existing grant(s) or the new allocation, if requirements are met

   b. **Requirements Conditionally Met:** Requirements are considered conditionally met, if execution of funds or implementation of agreed activities has been inconsistent with actual commitments, but allocated budget/approved implementation plan for the final year implies that the country will meet the requirements to access the co-financing incentive. **Implications:** If requirements are deemed conditionally met, the implications are the following:

      i. Country teams, with the support of the Health Financing Team, should monitor realization of commitments during the remainder of the implementation period;

      ii. Where feasible and appropriate[33], Country Teams should consider tying subsequent disbursements to realization of commitments;

      iii. Subsequent actions based on whether requirements were ultimately met or not met

   c. **Requirements Not Met with Justifiable Circumstances:** If country does not meet requirements to access the co-financing incentive, but has justifiable reasons for non-compliance (see paragraph 17). **Implications:** Exemption of requirements, approved by the Head, Grant Management Division through a memo based on a standardized memo template (see paragraph 18 and Annex 2).

   d. **Requirements Not Met:** If country does not meet requirements to access the co-financing incentive, and has no justifiable reasons (see paragraph 17) for non-compliance. **Implications:** The implications of not meeting requirements include the following:

      i. Withholding of disbursements or reduction of grant funds during the current grant implementation period, where feasible and appropriate; or

[32] The same process will be applicable for assessment of compliance during grant implementation.
[33] Disbursement can be linked to specific co-financing milestones based on an assessment of potential impact of its withholding, should co-financing not materialize.

ii. Downward adjustment of subsequent allocation, proportionate to the level of non-realization of commitments, where feasible and appropriate.

39. **Applying consequences of non-realization of co-financing on existing grants**: Disbursements may be withheld or the grant funds amount may be reduced, for the grant (s) arising from the prior allocation period, in the event of non-realization of commitments to access the co-financing incentive[34]. The proportion of realized co-financing commitments will be applied to the amount provided as co-financing incentive[35], and the residual amount either withheld as disbursement or reduced from the grant funds amount[36].

40. Disbursements may be withheld for non-realization of co-financing commitments at any point of time during the implementation period. The Principal Recipient will receive notification of the reduced disbursement through a Management Letter accompanying Disbursement Notification Letter (see Annex-2).

41. The grant funds amount may be reduced for non-realization of co-financing commitments, in the final year of implementation. Reduction of grant funds and the related program revisions (if applicable) should be processed following the OPN on Grant Revisions. After approval, reductions in grant funds amount due to non-compliance with co-financing requirements will be communicated to the country, through a management letter.

42. **Applying consequences of non-realization of co-financing on subsequent allocation:** Non-compliance with co-financing requirements will result in reduction of subsequent allocation, if the country is not exempted from requirements and did not have consequences of not meeting co-financing requirements[37] applied to existing grants. The amount to be deducted from the subsequent allocation will be calculated in the same manner as outlined in paragraph 39. However, given potential for significant reductions in subsequent allocations, any adjustments to future allocations because of non-realization of co-financing commitments will be proportional to any reductions in allocations[38]. The reduction will be prorated across the eligible components of the subsequent allocation. Any reductions to the allocation will have to be approved by the GAC. A GAC review can be requested by Country Teams, in consultation with A2F, for downward adjustments to the allocation due to non-realization of co-financing commitments (See OPN on Access to Funding, Grant-making and Approval). GAC review for downward adjustment of allocation should be scheduled sufficiently in advance of the final GAC review of the disbursement-ready grants to provide the necessary time to negotiate budgets for the revised upper-ceiling amount. After approval, reductions in allocation due to non-compliance with co-financing requirements will be communicated to the country, through a management letter.

ASSESSING CO-FINANCING COMMITMENTS TO ACCESS THE CO-FINANCING INCENTIVE FOR THE NEXT ALLOCATION:

43. The amount of the ‘co-financing incentive’ available to each component will be proportional to the level of additional co-financing commitments provided by the country, unless justified by extenuating circumstances (see paragraph 17)

[34] Was referred to as ‘willingness to pay’ in the 2014-16 allocation period.
[35] Was referred to as ‘willingness to pay’ in the 2014-16 allocation period.
[36] The reductions will be applied to individual grant components, proportionate to share of co-financing incentive applicable to each component. However, for grants under the 2014-16 allocation, reductions can apply to any grant component in any proportion as per strategic requirements of the portfolio since willingness to pay commitments were not tied to a specific component.
[37] Withholding of disbursements or reduction of grant funds.
[38] Proportion will be capped at 100%, for countries receiving a higher level of funding in the current allocation.

44. For countries applying via program continuation' application modality, co-financing commitments should be provided during grant-making, prior to the final GAC approval of the grant. For full and tailored funding requests, it is expected that co-financing commitments to access the full co-financing incentive for a component is submitted along with the funding request. If additional time is required for country processes[39], the commitments can be formalized at grant-making or during grant implementation, provided indicative commitments are available prior to final GAC. If the time required for formal commitments extends into grant implementation period, grant agreements must have 'grant requirements' specifying the time-frame when the co-financing commitments will be provided and the expectations of realization of these commitments.

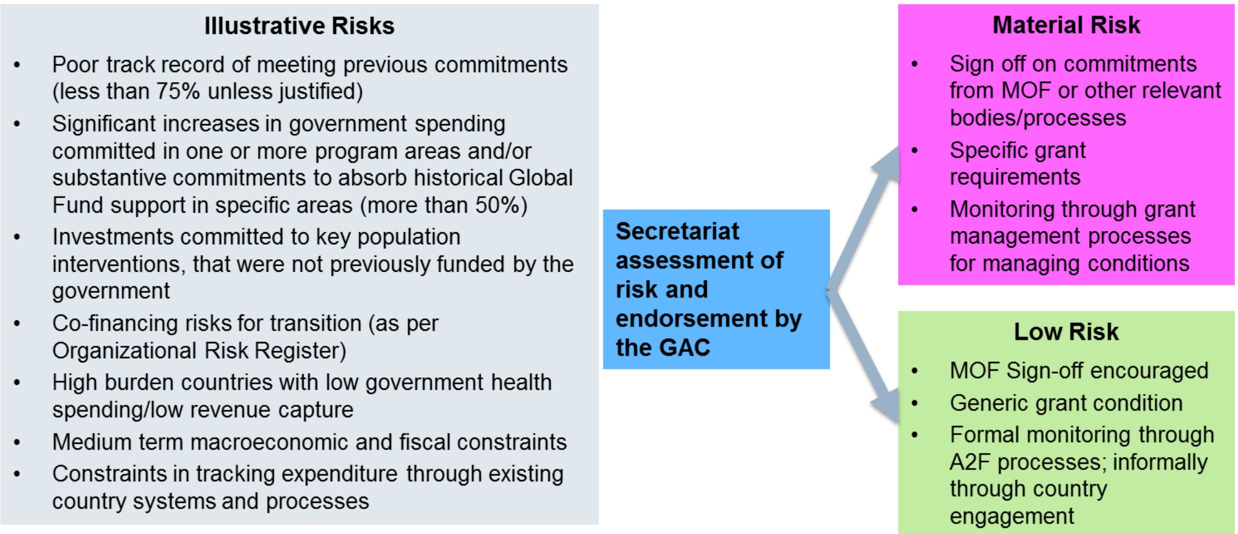
45. If during grant making sufficient commitments (either indicative or formal) to access the full co-financing incentive are not forthcoming, the allocation will be proportionally reduced based on available co-financing commitments, unless exempted. Any reductions to the allocation will have to be approved by the GAC. A GAC review can be requested by Country Teams, in consultation with A2F, for downward adjustments to the allocation (See OPN on Access to Funding, Grant-making and Approval).

46. After approval, reductions in allocation due to non-compliance with co-financing requirements will be communicated to the country, through a management letter.

Grant Approval

47. Co-financing considerations at grant approval as well as subsequent monitoring during grant implementation will be differentiated based on whether there is a material risk for realization of commitments. Figure-1 provides an illustrative list of key risks that should be considered by the Country Team.

Figure 1. Risk based approach for Approval and Monitoring of Co-Financing Commitments[40].



[39] Ongoing processes for budget formulation, parliamentary approval, development of medium term expenditure frameworks, approval of national strategy plans, development of sustainability plans, resource tracking etc.

[40] As part of the ORR, a framework is currently being defined to measure and monitor key risks levels across the organization, including co-financing risks.

48. If the Country Team determines that there is a material risk of non-realization of co-financing commitments, appropriate mitigation measures such as endorsement of co-financing commitments by the Ministry of Finance/other relevant bodies specific to the country and/or specific grant requirements should be presented to the GAC for approval.

49. Country Teams should consult their Legal Officer to capture co-financing requirements in the grant agreement, which will depend on the Country Team's assessment of risk and endorsement by the GAC. Accordingly, two options are available:

    - No Material Risk: If it is determined that there is a low risk of non-realization of domestic commitments, a generic grant requirement must be included in the grant agreement that reserves the right of the Global Fund to withhold funding during the implementation period of the grant (through withholding of disbursements or reduction of the grant funds amount), or from the subsequent allocation proportionate to non-compliance with the additional domestic commitments

    - Material Risk: If it is determined that there is a material risk of non-realization of domestic commitments, country-specific grant requirement(s) that will formalize the co-financing commitments for the implementation period must be included in the grant agreement. The grant requirement will specify annual co-financing investments or specific outputs related to co-financing commitments (as applicable), and the mechanisms and time-frame for reporting realization of co-financing commitments. If appropriate, the grant requirement should specify the disbursement amount per year that is tied to realization of co-financing commitments. The amount tied per year will generally be proportional to the amount of co-financing commitment per year as confirmed to the Global Fund. If appropriate, the Country Team may at its discretion tie specific components of the grant budget to realization of co-financing commitments.

50. The Country Team captures its assessment of risk of non-compliance with co-financing requirements and the outcome of the grant-making considerations on co-financing in the Grant-making Final Review and Sign-off Form. By recommending the proposed grant for Board approval, the GAC will also be endorsing the assessment of risk of non-compliance with co-financing requirements and the option recommended by the Country Team for the monitoring of realization of additional domestic commitments during the implementation period.

Monitoring Co-Financing Commitments during Grant Implementation

51. The monitoring of co-financing commitments and implications of non-compliance will be differentiated as presented in the table below:

Option	Grant Agreement	Approval of Approach	Monitoring	Implications for Non-Compliance	Approval of Implications
1	Generic grant requirement in grant agreement for countries with low risk of non-realization of co-financing commitments, that reserves the right of Global Fund to withhold funding proportionate to non-compliance	GAC	Periodically followed up through country engagement, budget execution reports, NHA, NASA, and partner data	If evidence of non-compliance, based on country context, strategic requirements and impact on the program; one or more of the following actions: (a) withholding of disbursement (b) reduction in grant funds amount (c) reduction of subsequent allocation	Withholding of disbursement as per OPN on Annual Funding Decisions and Disbursements Reduction of grant funds amount as per OPN on Grant Revisions Reduction of Allocation – GAC Approval
2	Country specific requirement in grant agreement for countries where there is a material risk of non-realization of co-financing commitments	GAC	Monitoring of specific commitments as per the terms of the grant requirement in the grant agreement (i.e. at the time of an Annual Funding Decision or other specified date).		

52. In exceptional cases, depending on the context, risk profile and country specific requirements, verification of realization of co-financing commitments may be included within the terms of reference of the external audit or LFA services.

53. If a country does not meet its additional co-financing commitments, it is mandatory to have a country-specific requirement in all subsequent grant agreements until a track record of compliance can be (re-) established.

Process and Responsibilities

RESPONSIBILITIES

54. **Country Team:** Strategic engagement and negotiation of co-financing to enhance sustainability of Global Fund supported programs, appropriate to the country context. Provide necessary guidance to country stakeholders on co-financing requirements and articulation of its compliance through relevant documentation and mechanisms at the time of accessing funding and grant implementation. With support from the health financing team, assess compliance, with co-financing requirements at the time of accessing funding and reflect the assessment in 'Secretariat Briefing Notes' and GAC documentation. Incorporate 'requirements' related to co-financing commitments in Grant Agreements based on country context and requirements, and accordingly track their materialization during grant implementation. Take appropriate actions for non-compliance in line with guidance provided in the OPN based on country context, strategic requirements and impact on the supported program(s).

High Impact and Core Countries

a. **Fund Portfolio Manager (FPM) supported by Program Officer(s)**: Lead Global Fund negotiations and decision making related to co-financing requirements in the grant lifecycle. Ensure timely communication of co-financing requirements and decisions related to co-financing to country stakeholders. Leverage Secretariat resources' and strategically engage with country stakeholders to advocate and support actions for improving co-financing and sustainability of Global Fund supported programs.

b. **Finance Specialists**: Finance Specialists advise and strengthen Country Team understanding of public financing mechanisms in the country; monitor grant conditions related to co-financing; responsible for assessing evidence on execution of funds committed towards meeting co-financing requirements, with support of the Health Financing Team, where applicable; incorporate verification of co-financing within the terms of reference of the external audit or LFA services, where appropriate; and provide internal clearance prior to approval of withholding of disbursements, reduction in grant funds and/or reduction of future allocation for non-realization of co-financing commitments, as per normal processes for disbursements, modifications in grant agreements, and GAC approvals.

Focused Countries

c. **Fund Portfolio Manager (FPM):** Lead Global Fund negotiations and decision making related to co-financing requirements in the grant lifecycle. Leverage Secretariat resources' and strategically engage with country stakeholders to advocate and support actions for improving co-financing and sustainability of Global Fund supported programs. Responsible for assessing evidence on execution of funds committed towards meeting co-financing requirements, with support of the Health Financing Team and/or STC Specialists, where applicable

d. **Portfolio Support Team**: With support of the Health Financing Team and/or Sustainability and Transition Specialists, if applicable, the PST provides internal clearance prior to approval of withholding of disbursements, reduction in grant funds and/or reduction of future allocation for non-realization of co-financing commitments, as per normal processes for disbursements, modifications in grant agreements, and GAC approvals. Incorporates verification of co-financing within the terms of reference of the external audit or LFA services, where appropriate.

All Countries

e. **Legal Officer:** Incorporates co-financing requirements in grant agreements in a manner that is enforceable and consistent with Board and Secretariat policies; advises on determination and legal implications of non-compliance with co-financing requirements; and provides the internal clearance prior to approval of actions to enforce consequences of non-compliance.

f. **Public Health and Monitoring & Evaluation Officer** Where appropriate, support negotiations by identifying key programmatic gaps that could be potentially supported by the government; assess commitments to absorb existing support and/or scale up program provided through previous requests to the Global Fund; support assessment of evidence with regard to implementation of agreed upon activities.

g. **Health Product Management Specialist:** Where appropriate, assess implications of commitments for absorbing and/or scaling up procurement of drugs and commodities. Support as required tracking of realization of specific co-financing commitments related to procurement.

55. **Health Financing Team**: Based on requests from Country Teams, provides technical support and advice for co-financing negotiations, assessment of public financing mechanisms, macroeconomic and fiscal outlook, updated data and other information inputs on program and health sector financing; capacity building of Secretariat staff and sharing of best practice; supports assessment of compliance with requirements at the time of accessing funding and tracking materialization of co-financing commitments during grant implementation. Responsible for tracking and reporting of progress on co-financing at the portfolio level including KPI on domestic financing and actions taken for non-realization of commitments; and facilitating support of technical partners in expenditure tracking and development of sustainability plans.

56. **Sustainability and Transition Specialists:** Supports negotiation of increased domestic financing to enable the gradual absorption of Global Fund financed interventions into government-supported programs and to comply with the requirements of the co-financing policy; supports country engagement on transition plans and related co-financing; supports strategic initiatives to strengthen co-financing, sustainability, and transition preparedness, including (as appropriate and relevant) enhanced access of transition countries to favorable prices for health products, innovative financing schemes, etc.; supports monitoring and assessing compliance with co-financing requirements in applicable focused countries, within the context of ongoing country work on sustainability and transition.

57. **Sustainability, Transition and Co-Financing Coordination Mechanism (including STC Working Group and Steering Committee, as applicable):** Support integration and mainstreaming of co-financing considerations within grant management processes; identify needs and facilitate development of guidance, tools, training and skill-sets required to effectively operationalize co-financing policy requirements; coordinate internal and external communication on co-financing issues.

58. **External Relations Department:** Implement multi-sector advocacy strategy to promote increased domestic financing for health by reaching key decision-makers through country engagement, global and regional platforms; facilitate targeted country support for domestic resource mobilization for health; private sector engagement on domestic financing; support the development and implementation of innovative financing mechanisms such as Debt2Health, Social Impact Bonds, and Blended Finance, based on direction provided by the Audit and Finance Committee.

59. **Policy Hub:** Coordinate development of Global Fund strategies and Board policies on sustainability, transition and co-financing; incorporation of co-financing considerations in Strategy implementation Plan and its monitoring.

60. **Access to Funding Department**: Facilitate and support TRP/GAC review process and GAC reports to the Board; provide applicant support for submission of funding requests; and facilitate GAC reviews for con-compliance with co-financing requirements, where applicable. In addition, take an active role in advising country teams on the requirements of Global Fund co-financing policies, and develop best practices examples of how co-financing has strengthened sustainability and transition preparedness.

61. **Risk Department:** As part of the Risk Specialist's oversight role in the grant cycle, the c0-financing risks will be analyzed in selected High Impact and Core portfolios, especially during grant-making and disbursements[41]. As necessary, the Risk Specialist will also input in identifying options for applying consequences of non-compliance with co-financing requirements.

62. **Technical Review Panel**: Reviews Secretariat Briefing Notes and Funding Requests to assess implications of co-financing on program targets and sustainability of programs; and assess material program impact of reduction of grant funds amount due to non-compliance with co-financing requirements, as per OPN on Grant Revisions.

63. **Grant Approvals Committee**: Validates share of co-financing incentive for each disease allocation and exceptional revision in distribution of co-financing incentive among components; through normal GAC review process prior to making funding recommendation to the Global Fund Board, approves assessment of compliance with co-financing requirements, assessment of co-financing risks, grant requirements for co-financing, approach for monitoring co-financing; approves reduction of allocation due to non-compliance with co-financing requirements.

64. **External Auditor/Local Fund Agent**: Where relevant, external audit or LFA services to be used as a source of assurance for appropriate monitoring and verification of compliance with co-financing requirement.

65. **National Government:** (as represented by the ministries of health, finance and/or other relevant authorities) is expected to engage in negotiations to augment sustainability of Global Fund supported programs, commit additional government investments to Global Fund supported programs according to specific timelines that can be tracked and reported, and provide official documentation as evidence of government commitments and spending during grant implementation.

66. **CCM:** Responsible for facilitating engagement with country stakeholders and advocates for additional domestic investments in Global Fund supported programs with key country stakeholders, including appropriate government authorities as required. Ensures submission of co-financing commitments with the funding requests, and facilitates monitoring and reporting of materialized commitments during grant implementation.

Monitoring and Reporting

67. Progress on co-financing will be monitored and reported to the Board and within the Secretariat by the Strategy, Investment and Impact Division, as part of the oversight of the overall Global Fund portfolio:

    e. **Corporate KPI on Domestic financing (KPI 11).** Annual reporting on progress with realization of co-financing commitments. Reporting to provide supplementary information on co-financing commitments to Global Fund supported programs and RSSH.

    f. **GAC Report to the Board.** GAC recommendations to the Board for grant approval to include the amount of additional domestic commitments made by countries reviewed in each wave.

    g. **Strategy Implementation Plan:** Implementation KPIs and milestones under Strategic Objectives 1 and 4.

[41] Refer to OPN on Risk Management Across the Grant Life Cycle.