NOTE ON LONG-TERM FINANCING COMMITMENTS

At the closing meeting of the Second Replenishment donors recognized, “that the needs of countries and communities living with HIV/AIDS, tuberculosis and malaria will stretch far beyond the current replenishment period. In order to be able to plan and resource the fight against the three pandemics together with the requisite strengthening of their health systems, they need long-term sustained and predictable funding.” Donors noted the need to strengthen the Global Fund’s capacity to provide such funding and acknowledged the value in donors providing long-term funding commitments to the Fund.

This note highlights the status of long-term financing options for the Global Fund. Its purpose is to provide an update and to prompt discussion among donors on opportunities and constraints for extending their financial commitment to the Global Fund to longer timelines. The note also discusses the Comprehensive Funding Policy and Promissory Notes, which are closely related to the subject of long-term financing commitments.

The replenishment mechanism and multi-year pledges

Before the establishment of a Global Fund replenishment mechanism in 2005, donors contributed to the Global Fund on an ad-hoc basis and timing, through pledges made often for one year at a time. The replenishment mechanism, in addition to being a forum for reviewing Global Fund performance and joint planning among donors, has provided greater predictability of contributions through the multi-year pledging system that it has promoted.

For the replenishment period 2008-2010 donors have pledged support to the Global Fund for periods ranging from 3 to 8 years, and most of them have pledged contributions up to 2010. The replenishment mechanism has increased predictability and sustainability of support by donors. Increasingly, multi-year pledging for the replenishment period has allowed stakeholders a clearer view of the Global Fund’s ability to meet future needs including for grant renewals.

Longer term commitments

As emphasized in the introduction to this note, the needs of countries and communities living with the three diseases will stretch far beyond a three-year replenishment period. Hence, longer term predictability of funding is required. Donors recognize this and have in some cases committed support to the Global Fund for longer periods than those so far established through the replenishment process. The United Kingdom, in particular, committed to a longer multi-
year funding framework during the Second Replenishment. The UK pledged up to GBP 640 million over the 5 years from 2011 to 2015, provided that the Global Fund would receive good quality demand, perform well, and demonstrate sustainable impact. Thailand is another donor that has committed for a period that is longer than the current replenishment, through its pledge of US$ 1 million annually up to 2012.

A consultation involving seven donors aimed at building up additional consensus around long-term funding was held during the Global Fund Board meeting in China in November 2007. Bilateral discussions have taken place on longer term financial support and on building consensus among donors on this approach, but no further long-term pledges have yet been made by other donors.

The opportunities and constraints of long-term financing commitments should also be discussed in the light of the Global Fund’s Comprehensive Funding Policy that looks at resource mobilization modalities, at approving proposals and signing grant agreements, and at the process of selecting proposals in a resource constrained environment.

The Comprehensive Funding Policy

The Comprehensive Funding Policy, which defines the Global Fund’s ability to approve and fund grant obligations, was approved in October 2003 and amended in April 2006 in order to bring it more closely in line with similar policies of other international organizations. This policy determines the maximum amount of grants that the Board can approve on the basis of resources available at the time of the approval decision.

The Comprehensive Funding Policy requires that “an amount of assets equivalent to the maximum financial commitment under a grant agreement must be deposited with the Trustee or readily available as promissory notes on demand prior to the Secretariat signing such grant agreement” \(^1\). In practice, this requires having sufficient resources deposited or readily available with the trustee to cover new programs and renewals two to three years in advance. The policy allows both cash and promissory notes or similar obligations to be considered as assets for the purposes of entering into grant agreements \(^2\).

Furthermore, donor pledges are taken into account in forecasting the amount of assets that will be available at the time of future signing of grant agreements, and this forecast determines the amount of (new and renewed) grants that the Board can approve \(^3\). Thus, long-term pledging of contributions provides predictability regarding the amount of grants that can be approved in the years in which those pledges will be contributed. The Global Fund’s policy framework therefore enables it to make optimum use of long-term donor pledges and commitments while respecting the need for financial prudence and for protecting and serving both donors and beneficiaries.

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\(^1\) Comprehensive Funding Policy, paragraph 3d.

\(^2\) Comprehensive Funding policy, paragraph 4: “The Global Fund shall consider as assets for the purposes of entering into grant agreements, both cash and promissory notes or similar obligations issued by the government of a sovereign state (or its designated depository) which shall be non-negotiable, non-interest bearing and payable at par value to the account of the Fund in the designated depository on demand or in accordance with an encashment schedule agreed between the contributor and the Secretariat.”

\(^3\) Comprehensive Funding policy, paragraph 3c: “The Board may approve Rounds-Based proposals, Phase 2 Renewals, and RCC-II and RCC-III continuations, and commit funds for the resulting financial commitments up to the cumulative uncommitted amount of assets that the Board determines will be available at the time of signing the related grant agreements.”
Promissory Notes

As noted above, the Comprehensive Funding Policy regards promissory notes as equivalent to cash for the purposes of entering into grant agreements. Such notes must be convertible to cash on demand or in accordance with an encashment schedule agreed upon between the contributor and the Secretariat. More extensive use of promissory notes by donors would therefore enable the Global Fund to sign long-term grant agreements without building up large cash balances, which currently amount to about US$ 5 billion.

Promissory notes offer donors a means of aligning their contributions with the cash flow needs of the Global Fund. The financial commitment under a grant agreement is disbursed over a period of two to three years following signature of the agreement. The encashment dates for the installments payable under a promissory note (as specified in the ‘encashment schedule’ for the note) are aligned with grant disbursement needs. Hence, if all donor contributions were made by promissory note, the Fund’s cash balance would equate only to an amount that safely enabled disbursements to be made as needed and there would be no appearance of “excess” cash balances.

However, currently only two donors contribute by promissory note. Because all other pledges are contributed in cash (effectively front-loading the cash relative to disbursement needs) the Global Fund currently has cash on hand to cover almost two years’ disbursement needs. All of this cash (and more) will, of course, be used for future disbursements to grants that have been either already signed, or approved by the Board but not yet signed. Thus, while none of the large cash balance is available for funding additional grants, it is open to being misunderstood as suggesting that the Fund has surplus funding. Greater use of promissory notes would reduce the cash balance by making the cash available to the Fund on an ‘as needed’ basis.

The use of promissory notes can also be advantageous to donors. They can delay their payments until they are required according to the encashment schedule of the note, which would be financially beneficial to donors. However, for some donors the issuance of a promissory note may require its entire amount to be covered by the budget allocation for the year in which the note is issued, regardless of the encashment dates.