

GF/B31/09

Board Decision

Revision 1

COMPOSITION OF AND ALLOCATIONS TO COUNTRY BANDS

Purpose:

1. This paper presents to the Board the proposed composition of country bands as well as the preliminary allocation of funding to country bands for the allocation period 2014 to 2016, as recommended by the Strategy, Investment and Impact Committee (SIIC) at its 10th meeting.
2. The financial figures presented in the decision point recommended at the end of this paper have been updated to reflect the outcome of the Finance and Operational Performance Committee's (FOPC) teleconference on 21 February 2014. During this teleconference, the FOPC reviewed and endorsed updates to the calculation of the total sources of funds available for allocation, which were originally reviewed and affirmed by the FOPC at its 10th Meeting in January 2014. A more detailed description of the calculations is set forth in the Board paper titled "Initial and Total Allocation to Country Bands for the Fourth Replenishment Period" (GF/B31/06).

In this document, the following revisions have been made:

- Paragraph 2.4.vi of the paper changed from 87% to 88%.
- The following paragraphs in the Decision Point have been changed as follows:
 - 2 from 15.2 to 15.8
 - 2.a from 14.3 to 14.8
 - 2.b from 940 to 950
 - 3.a from 10,750 to 11,250
 - 3.b from 910 to 915
 - 3.c from 1,535 to 1,530
 - 3.d from 1,065 to 1,105
 - 4 from 940 to 950
- Figures 2 and 3 have been updated accordingly and reflect these new figures.

1. BACKGROUND

1.1 As part of the development of the new funding model (NFM), the Global Fund Board, at its Twenty-Eighth meeting, decided on the establishment of country bands. (GF/B28/DP4, part 3, “Evolving the Funding Model”).

1.2 The Board decided that eligible countries will be placed in one of four country bands (i.e., Band 1: Lower income, higher burden; Band 2: Lower income, lower burden; Band 3: Higher income, higher burden; Band 4: Higher income, lower burden).

1.3 The Board also decided that, prior to each allocation period, the Board may revisit the composition of the Bands, based on recommendations from the Strategy, Investment and Impact Committee (SIIC).

1.4 In addition, the following principles for determining country bands were approved:

- i. sufficient critical mass;
- ii. logical coherence within each band;
- iii. bands should not be disease-specific; and
- iv. simplicity.

1.5 This paper presents to the Board, as recommended by the SIIC at its 10th meeting:

- i. the proposed composition of country bands, based on newly available data.
- ii. the allocation of resources to each country band, including a proposed funding allocation to Band 4.

1.6 It should be noted that the final amount of available resources is still to be determined and therefore all figures regarding allocation of resources remain subject to potential change.

2. BAND COMPOSITION

2.1 The Secretariat presented the SIIC at its 5th meeting with a preliminary proposal for band composition (GF/SIIC05/02 – Annex 1). This band composition was used for illustrative purposes only and has changed significantly due to updated data for gross national income per capita (GNI pc) and disease burden.

2.2 The SIIC considered a number of options based on the GNI pc level that determines the threshold that divides lower income from higher income countries, and is recommending a change. It decided not to change the previously discussed disease burden threshold between lower and higher disease burden. This was because 0.26% of the total disease burden, the previously discussed threshold, remains an appropriate separator between lower and higher burden countries and changing the threshold would not have a significant impact on the resulting band compositions.

2.3 The SIIC decided to recommend to the Board a band composition based on the following thresholds:

- i. USD 2,000 GNI pc to divide lower from higher income countries.
- ii. 0.26% of total disease burden amongst Global Fund eligible countries to divide lower from higher disease burden countries.

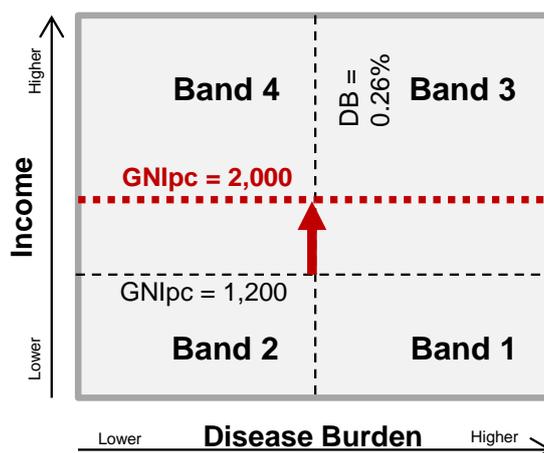
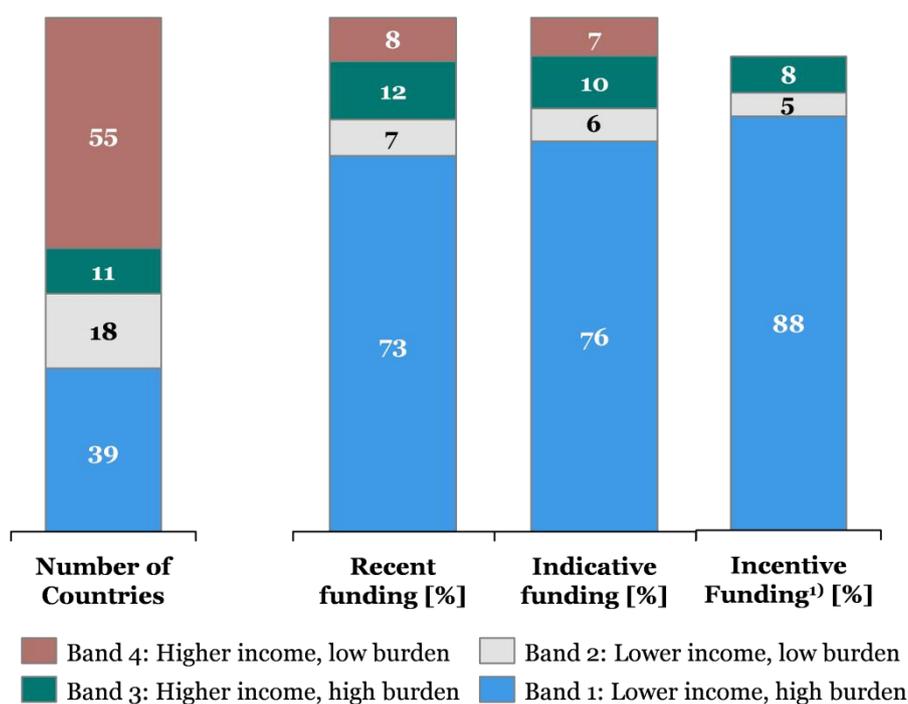


Figure 1: Schematic overview of income and disease-burden thresholds

- 2.4 The recommended thresholds (i.e., cut-off points) have the following advantages:
- i. The GNI per capita cut-off point of USD 2,000 is placed within the largest “corridor” between the countries in that income range (see Annex 2). This is in line with the principle of logical coherence and avoids scenarios where marginal differences in income could lead to countries being placed in different Bands.
 - ii. Because income growth projections suggest only very few countries are likely to cross the GNI per capita threshold of USD 2,000 within the allocation period, this cut-off point and the resulting composition of Country Bands are durable throughout the allocation period.
 - iii. The chosen cut-off point of USD 2,000 is approximately USD 1,000 higher than the World Bank demarcation point between Low Income and Lower Middle Income Countries (USD 1,036). It covers the first third of the Lower Middle Income range and as such is consistent with the objective at hand to divide lower from higher income countries.
 - iv. The band composition in Annex 1 follows directly from the two recommended thresholds. The recommended option therefore avoids moving countries “manually” between bands or even the use of a “jagged” threshold¹ along the income or burden dimension. It therefore is simpler than other options that were discussed.
 - v. Applying the GNI per capita threshold of USD 2,000 concentrates the great majority of indicative funding in Band 1 (i.e., 76%), which is in line with the general intent to focus investment on lower income, higher burden countries. In particular, the two countries in the portfolio with the largest funding share, India and Nigeria, are now placed in Band 1.
 - vi. This composition of Country Bands also leads to 88% of the incentive funding being assigned to Band 1, which is also the Country Band with the majority of the components that are eligible for incentive funding. This further enables the fair and equitable awarding of incentive funding.
 - vii. Given the concentration of resources and the large amount of components in Band 1, the principle of sufficient critical mass is well addressed for the great majority of the portfolio. For the case of Band 2 and Band 3, which are comparatively smaller in sized, the management of incentive funding could be combined for specific application review windows to ensure adequate competition among a sufficient number of components, based on the incentive-funding parameters approved by the SIIC (GF/SIIC09/DP2).

¹ A “jagged” threshold along the income dimension would imply the use of two different thresholds to divide lower from higher income countries for lower and higher disease burden countries respectively.



1) Incentive funding breakdown is based on proportion of incentive funding eligible components. This is subject to change, due to qualitative factor adjustments.

Notes: “Recent funding” is 2010-2013 disbursements to all grants, including HSS; excludes funding for multi-country grants and countries with no eligibility as of 2014. “Indicative funding” is based on simulations and data available as of 21 February 2014. Simulations assume the sum of the Initial Allocation and Existing Funds amounts to USD 15.8 billion, with a 7 percent share for Band 4. Simulated figures represent allocations at the time of Band aggregation, including the external financing and Minimum Required Level adjustments. Percentages and figures may include rounding differences.

Figure 2: Band distribution with GNI pc USD 2,000 threshold

3. BAND ALLOCATION

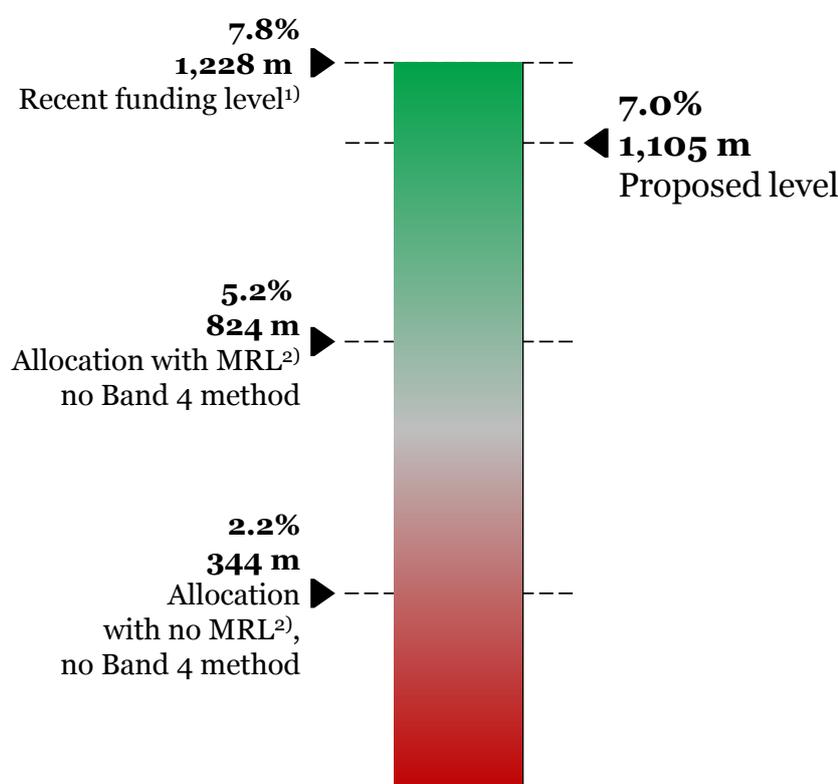
3.1 The Global Fund Board, at its Twenty-Eighth meeting, decided the SIIC would approve a separate allocation methodology for Band 4 (GF/B28/DP4, paragraph 4.d. “Evolving the Funding Model (Part Two)”). The SIIC approved this methodology at its 9th Meeting (GF/SIICo9/DP1, “Indicators for the Allocation Formula and the Band 4 Methodology”)

3.2 The SIIC did not decide on the percentage of funding that would be available for Band 4. For the purposes of the transition phase of the NFM approved by the Board under GF/B28/DP5, the funding share for Band 4 was set at 7%, which corresponded to the historic funding share at the time (GF/SIICo6/DP1). It was also decided that the 7% are based on total resources available before deduction of incentive funding, as Band 4 countries do not access incentive funding but already have their incentive funding share reflected in their allocation. The rationale for this was to safeguard the funding level in Band 4 to a certain extent because otherwise it would drop significantly and impair progress against the three diseases in these typically concentrated epidemic countries. In addition, it was recognized that the funding needs for countries in this Band often stem from Most at Risk Populations not fully reflected in the burden definition and calculations underlying the allocation formula, and that many other bilateral donors are no longer active there.

3.3 Figure 3 shows a number of reference points that the SIIC considered in its deliberations:

- i. Allocation with no Minimum Required Level (MRL)²: This is the allocation of resources to Band 4 if no separate allocation methodology was applied, and if the allocation formula based on burden and income was applied with no provision for the MRL.
- ii. Allocation with MRL: same as above but including the provision for the MRL.
- iii. Recent funding level: Funding level of Band 4 based on recent four year disbursements (2010 to 2013).

3.4 Based on these reference points the SIIC recommends to the Board a funding share to Band 4 for this allocation period of 7%. This is consistent with the previous discussion and the level agreed for the transition phase of the NFM launched by GF/B28/DP5.



- 1) incl. 50% of all multicounty grant funding, 25% of now ineligible countries. This reference point percentage refers to the recent absolute funding amount divided by 15.8 bn.
- 2) MRL is defined as total of past 4 years' disbursement data reduced by 10% per year (or 25% overall)

Note: Allocation figures correspond to simulations based on data available as of 21 February 2014. Simulations assume an initial allocation of \$15.8 bn.

Figure 3: Funding share of Band 4

² GF/B29/EDP10 "Division between Indicative and Incentive Funding" defines Minimum Required Level (MRL), stating that a graduated reduction will be applied to the funding levels of disease components that have received funding at levels above their notional shares under the allocation methodology.

4. DECISION POINT

4.1 Based on the discussion above, the decision point below is presented to the Board for approval at the Thirty-First Board Meeting.

4.2 If the financial figures in the decision point are updated prior to the Thirty-First Board Meeting, the SIIC will review the updates and confirm its final recommendation to the Board.

Decision Point GF/B31/DP10:

- 1. Based on the recommendations of the Strategy, Investment and Impact Committee (the “SIIC”), the Board approves the composition of Country Bands for the 2014 – 2016 allocation period, as defined and set forth in Annex 1 to GF/B31/09 – Revision 1.**
- 2. In accordance with its decision to approve the transition framework recommended by the Finance and Operational Performance Committee and the SIIC (GF/B31/DPXX), the Board acknowledges USD [15.8] billion is available for allocation to Country Bands for the 2014 – 2016 allocation period, consisting of the following:**
 - a. USD [14.8] billion for indicative funding; and**
 - b. USD [950] million for incentive funding.**
- 3. The Board approves the following allocation of indicative funding for the 2014 – 2016 allocation period:**
 - a. Country Band 1: USD [11,250] million;**
 - b. Country Band 2: USD [915] million;**
 - c. Country Band 3: USD [1,530] million; and**
 - d. Country Band 4: USD [1,105] million.**
- 4. The Board also decides incentive funding, in the amount of USD [950] million, will be apportioned across and within Country Bands 1, 2 and 3 in accordance with the methodology approved by the SIIC under authority delegated by the Board (GF/SIIC09/DP2).**

This document is part of an internal deliberative process of the Global Fund and as such cannot be made public until after the Board meeting.

List of countries per band

	Band 1: Lower-income, higher-burden	Band 2: Lower-income, lower-burden	Band 3: Higher-income, higher-burden	Band 4: Higher-income, lower-burden	
	GNIpc < 2,000, DB > 0.26%	GNIpc < 2,000, DB <= 0.26%	GNIpc >= 2,000, DB > 0.26%	GNIpc >= 2,000, DB <= 0.26%	
1	Cambodia	Korea, DPR	Indonesia	Kiribati	Saint Vincent and the Grenadines
2	Myanmar	Lao PDR	Philippines	Malaysia	Suriname
3	Papua New Guinea	Solomon Islands	Thailand	Marshall Islands	Algeria
4	Viet Nam	Kyrgyzstan	Russian Federation	Micronesia	Egypt
5	Haiti	Tajikistan	Ukraine	Mongolia	Morocco
6	Chad	Uzbekistan	Angola	Samoa	Syrian Arab Republic
7	Mali	Nicaragua	Botswana	Timor-Leste	Tunisia
8	Niger	Djibouti	Congo	Tonga	West Bank and Gaza
9	South Sudan	Mauritania	Namibia	Tuvalu	Bhutan
10	Sudan	Somalia	South Africa	Vanuatu	Iran
11	Bangladesh	Yemen	Swaziland	Albania	Maldives
12	India	Afghanistan		Armenia	Sri Lanka
13	Pakistan	Nepal		Azerbaijan	Cape Verde
14	Benin	Comoros		Belarus	Gabon
15	Burkina Faso	Eritrea		Bulgaria	Mauritius
16	Burundi	Gambia		Georgia	Seychelles
17	Cameroon	Guinea-Bissau		Kazakhstan	
18	Central African Republic	Sao Tome and Principe		Kosovo	
19	Congo, DR			Moldova	
20	Côte d'Ivoire			Romania	
21	Ethiopia			Turkmenistan	
22	Ghana			Belize	
23	Guinea			Bolivia	
24	Kenya			Colombia	
25	Lesotho			Costa Rica	
26	Liberia			Cuba	
27	Madagascar			Dominica	
28	Malawi			Dominican Republic	
29	Mozambique			Ecuador	
30	Nigeria			El Salvador	
31	Rwanda			Grenada	
32	Senegal			Guatemala	
33	Sierra Leone			Guyana	
34	Tanzania (Mainland)			Honduras	
35	Tanzania (Zanzibar)			Jamaica	
36	Togo			Panama	
37	Uganda			Paraguay	
38	Zambia			Peru	
39	Zimbabwe			Saint Lucia	
	39 countries	18 countries	11 countries	55 countries	

Latin America & the Caribbean

East Asia & the Pacific

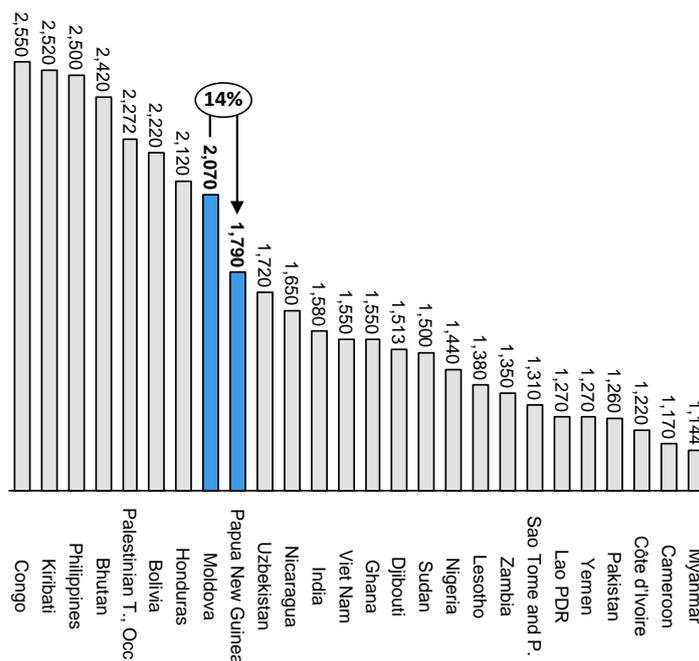
North Africa & the Middle East

Eastern Europe & Central Asia

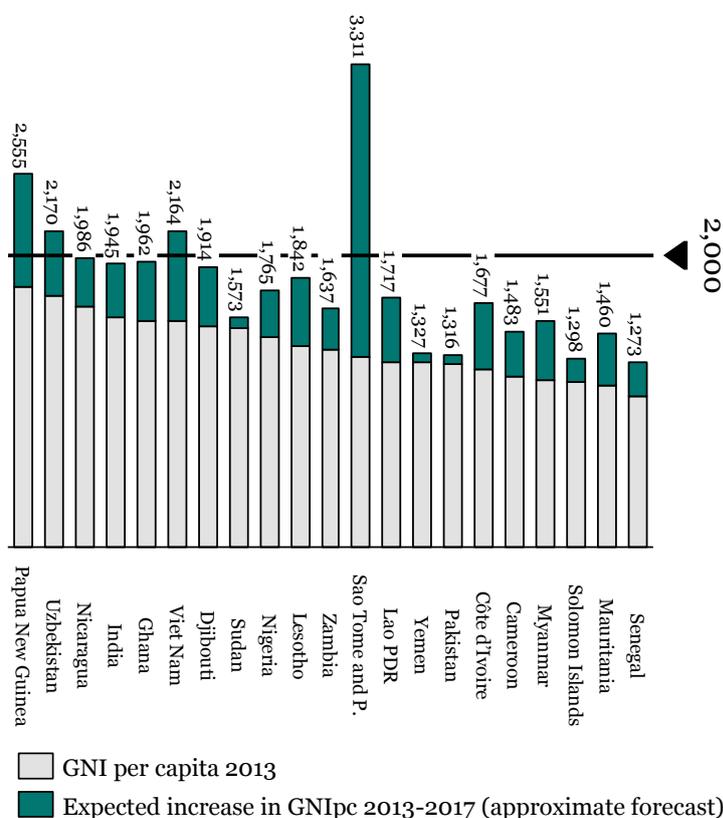
South Asia

Sub-Saharan Africa

Distribution of eligible countries per GNI per capita (USD), showing corridor at USD 2,000 GNI pc



Forecast of GNIpc development 2013-2017 for countries near the USD 2,000 threshold



Note: GNIpc growth forecast is based on IMF forecast data on GDP per capita, assuming similar growth rate for GNIpc. Growth rate forecast is therefore an approximation only.