



Thirty-Second Board Meeting  
Amended and Restated  
Policy for Restricted Financial  
Contributions

**AMENDED AND RESTATED GLOBAL FUND POLICY FOR RESTRICTED  
FINANCIAL CONTRIBUTIONS****Purpose:**

1. The Policy for Restricted Financial Contributions (the “PRFC” or “existing PRFC”) sets rules and parameters for private donors, as well as certain approved public mechanisms, to restrict their contributions to the Global Fund to specific Board-approved priorities and activities.
2. The Finance and Operational Performance Committee (the “FOPC”) recommends to the Board for approval the Amended and Restated Global Fund Policy for Restricted Financial Contributions (the “Amended PRFC”) set forth in Annex 1 of this paper.
3. The purpose of the amendments are to align the Amended PRFC with the Global Fund’s allocation-based funding model by allowing eligible donors to target their contributions towards the unfunded quality demand of specific countries or country components.

## BACKGROUND

- 1 The Policy on Restricted Financial Contributions (the “PRFC”)<sup>1</sup> was adopted at the Fifteenth Board Meeting to increase opportunities to access additional resources by accommodating certain donors’ desires to target their support for Secretariat activities as well as Global Fund grants within the context of the rounds-based funding model. These donors include private donors (i.e., corporations, foundations and individuals) and a limited number of authorized public mechanisms (i.e. UNTAID<sup>2</sup> and Debt2Health<sup>3</sup>). Contributions from Official Development Assistance (i.e., public-sector contributions) cannot be restricted.
- 2 Under the existing PRFC, eligible donors may restrict contributions towards Secretariat activities as well as Global Fund grants under certain parameters outlined in paragraph 3 below.<sup>4</sup> In both cases, the restricted contributions cannot result in unreasonable transaction costs for the Global Fund, substantive changes to the Global Fund systems or processes, or the responsibilities of the World Bank (the “Trustee”), or any deviation from the Global Fund rules and procedures.
- 3 For restricted contributions to Global Fund grants, the following conditions are required:
  - a. The funding goes towards activities and priorities within a grant that has been *approved* by the Global Fund Board;<sup>5</sup>
  - b. The contribution must be made *through* the Global Fund; and
  - c. The total amount of earmarked funds must be less than the total amount of Global Fund financing to the grant/activity that is financed through the restricted contribution.
- 4 In addition, the policy further states that contributions to grants can be restricted at the gross (e.g., country or region), grant and procurement component level but not at the Service Delivery Area (SDA) level or below. As noted in paragraph 2 above, this is to avoid the substantial transaction costs required to accommodate SDA component level restrictions (vis-à-vis the Global Fund’s accounting and reporting systems) relative to the potential magnitude of the funding opportunity.
- 5 The existing PRFC does not permit a restricted contribution to “new areas or activities” that are not part of a Board-approved grant, which means such contributions do not increase the Board-approved upper-ceiling of funding for a grant. Rather, the restricted contributions of eligible donors allow resources that would have been utilized by the grant receiving such restricted contribution to be added to the general pool of Global Fund resources to support other Board-approved activities. So while the net effect is a gain in overall resources for the Global Fund portfolio, the overall maximum funding for the grant receiving the restricted contribution would not change. Since the approval of the

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<sup>1</sup> GF/B15/DP29

<sup>2</sup> UNTAID was the first approved public mechanism when the Board adopted the PRFC (GF/B15/DP29).

<sup>3</sup> Board decision Point GF/B20/DP17.

<sup>4</sup> Board decision point GF/B15/DP29.

<sup>5</sup> When the Finance and Audit Committee (the “FAC”) recommended the PRFC to the Board, it was made clear “that earmarking should be discouraged in cases where the restrictions would be linked to new priorities and activities which have not been approved by the Board; as such restrictions could result in funding decisions inconsistent with recipient needs or Board direction.”

PRFC in 2007, the restricted financial contributions from private donors and authorized public mechanisms have amounted to over US\$ 477 million.<sup>6</sup>

- 6 At the 11<sup>th</sup> and 12<sup>th</sup> Meetings of the Finance and Operational Performance Committee (the “FOPC”) held in June and September 2014, discussions focused on how to further enhance the PRFC as an effective resource mobilization tool given the significant changes to the Global Fund’s funding model, notably the shift from the rounds-based funding model to an allocation-based funding model, which includes unfunded quality demand (“UQD”),<sup>7</sup> items requested by funding applicants that remain on a prioritized register following technical assessments and recommendations by the Technical Review Panel (the “TRP”) until additional sources of funds become available to finance such items.<sup>8</sup>
- 7 Following these discussions, the FOPC agreed to recommend the amended and restated PRFC, as set forth in Annex 1 to this paper (the “Amended PRFC”), to the Board for approval.

## DISCUSSION

### Resource mobilization opportunities

- 8 UQD has generated interest from donors eligible to make restricted financial contributions because there is an opportunity to support parts of a country’s full expression of demand that has been evaluated by the TRP, and deemed technically sound and strategically focused, which would otherwise remain unfunded. Potential donors include High Net Worth Individuals, businesses and foundations with geographic and component-specific interests. Facilitating additional mechanisms to bring their contributions to the fight against the three diseases, could lay the groundwork for continued engagement with such donors over the longer term. In the case of Debt2Health transactions, the possibility of channeling converted payments into the debtor’s UQD could enhance the scheme’s appeal for implementing countries.
- 9 The opportunities for contributions targeted towards UQD represent a total estimated value of US\$200 million in additional funds for the current allocation period, a significant part of which is unlikely to be invested in the fight against the three diseases at all under the current PRFC. This is because a key driver to attract the types of private contributions in question is the expected return in terms of global visibility and, more importantly, local recognition in the countries and communities where HNWI, foundations and companies have their social and business interests.

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<sup>6</sup> This amount corresponds to the cumulative total contributions (paid) as well as pledges, including those announced at the Replenishment Conference in December 2013, for the period of 2008 to 2016. This amount does not include the contributions from the Bill & Melinda Gates Foundation (BMGF) and Anglo American which are not restricted financial contributions.

<sup>7</sup> Under the NFM, all applicants are encouraged to formulate their ‘full expression of demand’ – the total funding that is needed for an appropriate response to the disease(s) and/or cross-cutting HSS - and submit a prioritized request for this full amount in their concept notes. Interventions proposed for funding should be prioritized (e.g., planning to avoid gaps in service or commodity delivery), both in terms of needs covered under the funding allocation as well as proposed interventions that exceed the funding allocation (above allocation request). Any part of a ‘full expression of demand’ that is deemed technically sound and that is not funded through indicative or (where applicable) incentive funding is registered as UQD to be funded through additional resources that become available to the Global Fund after the initial allocation or made available by other donors. The methodology to manage UQD, as approved by the Strategy, Impact and Investment Committee (SIIC), specifies that resources available to finance UQD will be based on an annual financial assessment by the Secretariat and endorsed by the FOPC, and awarded across the entire grant portfolio based on the priority of investments on the register of UQD (“UQD register”) as recommended by the Technical Review Panel (TRP) and confirmed by the Secretariat.

<sup>8</sup> GF/FOPC11/13: Chair and Vice-Chair’s Summary Report.

- 10 Because the items on the UQD register are not part of a Board-approved grant at the time they are added to the UQD register, the existing PRFC's requirement that restricted contributions may only fund activities within a Board-approved grant would preclude eligible donors from restricting their contributions to any UQD. As such, the Secretariat and FOPC discussed possible revisions to the current PRFC with the aim of enabling eligible donors to make restricted contributions, which could result in additional or complementary amounts of funding to Board-approved grants (the "Complementary Restricted Financial Contribution"). Such Complementary Restricted Financial Contributions could allow eligible donors to restrict contributions towards specific investments on the UQD register.
- 11 Maintaining the existing PRFC preserves the current mechanism where the restricted contribution realizes gains at the Global Fund portfolio level (i.e., net increase in resources for Global Fund grants) rather than at the individual grant level (i.e., in the form of an increased funding upper ceiling or introduction of new priorities and activities). Also important to note is that the Board has decided any additional resources that become available after the initial allocation to country bands will be available to finance UQD investments in accordance with the framework adopted by the Strategy, Investment and Impact Committee (the "SIIC"),<sup>9</sup> according to which UQD would be prioritized according to the review and recommendation of the TRP and confirmed by the Secretariat.<sup>10</sup>
- 12 Under the existing PRFC, restricted financial contributions remain possible, but they would not increase a Board-approved grant's upper ceiling i.e., they would displace resources that would otherwise have been allocated to the grant. These displaced, or freed, resources would then become 'additional resources' that can be awarded across the portfolio to elements in the UQD register,<sup>11</sup> or as otherwise approved by the Board. This could make it less appealing to the private donors mentioned above and could also limit utilization of the Debt2Health mechanism.
- 13 To help the Global Fund position the programs it supports as the main beneficiaries for some of the emerging resource mobilization opportunities described above, the FOPC and the Secretariat recommend the incorporation of Complementary Restricted Financial Contributions to UQD into the PRFC in line with the below principles.

### **Guiding principles for proposed modifications to the PRFC**

- 14 The proposed Amended PRFC would adhere to the following principles, some of which have been applicable under the existing PRFC while others have been tailored for Complementary Restricted Financial Contributions:
- a. Only private donors and a limited number public mechanisms that must be first approved by the FOPC (i.e., UNITAID and Debt2Health) may make restricted contributions to the Global Fund;
  - b. Official Development Assistance (ODA) will continue to be outside the scope of PRFC and cannot be restricted, thus ensuring that the majority of the funding continues to be unrestricted;
  - c. Any restricted financial contributions cannot result in unreasonable transaction costs, substantive system/process changes or deviations from the Global Fund rules and procedures;

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<sup>9</sup> Board decision point GF/B29/EDP10.

<sup>10</sup> Strategy, Investment and Impact Committee decision point GF/SIIC09/DP02.

<sup>11</sup> Based on Strategy, Investment and Impact Committee decision point GF/SIIC09/DP02

- d. Restricted contributions can only be made towards:
- i. Board-approved grants; or
  - ii. Components listed on the UQD register (i.e., deemed technically sound and strategically focused by the TRP) and are subject to Board approval prior to the inclusion of the financial amounts and associated activities in a grant program (e.g., signature of a new or amended grant agreement); or
- e. Restricted contributions that will result in additional or complementary funding available for a Board-approved grant will be subject to the following parameters:
- i. Restrictions will be limited to the gross (e.g., country or region) or grant (e.g., country component) level;
  - ii. Funding decisions,<sup>12</sup> by which the resultant use of funds will be matched to sources of funds that have been restricted by the donor, shall be in accord with the Amended and Restated Comprehensive Funding Policy; and
  - iii. Notwithstanding the standard framework for prioritizing and awarding financing towards UQD,<sup>13</sup> the Secretariat may assess the available amount of Complementary Restricted Financial Contributions outside of the annual assessment by the FOPC of the unrestricted additional resources that may be available for UQD investments to finance components on the UQD register in an order based on the restriction, which may differ from the prioritization of items on the UQD register.

15 The proposed changes to the PRFC can be accommodated without significant changes to the systems and processes currently in place to receive and disburse all types of contributions. Such contributions would be integrated into existing grants in accordance with established procedures and practices with respect to re-programming or grant-making, depending on the timing of when such funds become available.

### Potential risks and mitigation measures

16 As noted in paragraph 14 above, certain mitigation measures and/or safeguards will be put in place to ensure consistency with other Global Fund policies and processes. To this effect, the Secretariat will report regularly to the FOPC on the implementation of the Amended PRFC and specific risk mitigation metrics as described below.

17 Risks and mitigation measures associated with Complementary Restricted Financial Contributions (“CFRC”):

Risk and description	Measures to address challenges/ mitigate risks	Monitoring
<b>Quality risk</b> refers to the risk of CRFC flowing to activities that are not technically sound or	CRFC can only fund investments or activities requested by an applicant that have been recommended as technically sound and strategically	Closer cross-division/ department coordination to ensure only items on the UQD

<sup>12</sup> In accordance with the Amended and Restated Comprehensive Funding Policy approved by the Board on March 6, 2014, decisions that create an accounting liability with related cash outflows over the period covered by such decision.

<sup>13</sup> As approved by the Strategy, Investment and Impact Committee (GF/SIICo9/DPo2) and reflected, in relevant part, in the Amended and Restated Comprehensive Funding Policy.

<b>Risk and description</b>	<b>Measures to address challenges/ mitigate risks</b>	<b>Monitoring</b>
strategically focused and that do not align with country and Board priorities.	<p>focused by the TRP.</p> <p>As with all UQD investments under the SIIC-approved framework, the Secretariat may engage the TRP, as appropriate, to validate the continued technical soundness and strategic focus of elements in the UQD register over the allocation period.</p>	register are identified and made available for this complementary funding.
<p><b>Timing risk</b> refers to the risk that private donors may wish to make their contributions at a specific time/period that is not aligned with implementing country cycles or Global Fund processes.</p>	<p>Once a potential private donor expresses interest in making a CRFC towards UQD, the Secretariat will seek to align all parties timing-wise while minimizing system changes and additional costs.</p> <p>Thus, while it is technically possible for private donors to make a CRFC at any point in the grant lifecycle (i.e. prior to or after grant signing but only with respect to components that have been identified as technically sound and strategically focused by the TRP for the UQD Register) for as long as the UQD remains valid on the register, the Global Fund Secretariat will need to ensure that the additional resources are incorporated as efficiently and consistently as possible, with minimum disruption to grant implementation.</p>	Closer cross-division/ department coordination to ensure efficient and consistent incorporation of CRFC into grant processes.

<b>Risk and description</b>	<b>Measures to address challenges/ mitigate risks</b>	<b>Monitoring</b>
<p><b>Priority risk</b> refers to the possibility that a CRFC is channeled to lower priority UQD, for example to over-allocated disease components.</p>	<p>Viewed from a portfolio perspective, the potential additional resources that CRFC is forecasted to generate for the current period, USD 200 million, represent less than 2% of the USD 10.22 billion of the Initial Allocation amount resulting from the announced results from the Fourth Replenishment (GF/B31/DPO8), which is part of the total allocation that is to be utilized over the 2014 – 2017 period.</p> <p>The process for incorporating CRFC to UQD into grants will be informed by the overarching principles approved by the Board (GF/B28/DP4 Paragraph 5.d. ii) for awarding financing to UQD thus ensuring alignment with the Global Fund’s implementer-driven, merit based and Board-led principles. Any CRFC negotiated by the Secretariat shall be with a view towards complementing Global Fund strategic investments in a specific country as well as take into account overall portfolio considerations, and will be submitted to the Board for approval.</p>	<p>The Secretariat will monitor and report regularly to the FOPC and SIIC on the percentage of grant funding and the percentage of overall Global Fund portfolio for a given allocation period that CRFC is financing. Based on observations, the FOPC and the Board may consider adopting maximum ceilings for CRFC relative to Board-approved funding at the grant or portfolio level.</p>
<p><b>Sustainability risk</b> refers to funding that may move the distribution of funding across the portfolio in a direction or trajectory that is inconsistent with the distribution of funding derived from the allocation formula. CRFCs (often one-time, short term contributions) may not align with long-term funding needs (e.g. ARV treatment) could establish a programmatic scope and scale that would be challenging to maintain without other sources of financing or fail to align with the principle of graduated reductions of</p>	<p>Internal systems will be in place, through coordination among Grant Management and Finance Divisions to identify funding derived from the Global Fund’s allocation and subsequent CRFC to inform future discussions and calculations on the appropriate graduated reduction of disease components receiving funding above their notional, formula-derived amounts, including more sophisticated bases for benchmarking future funding levels (e.g., minimum required level) to existing funding levels.</p>	<p>The Secretariat will monitor and report to the FOPC and SIIC on CRFCs flowing towards disease components receiving funding above their notional, formula-derived amounts as a percentage of overall grant funding.</p>

<b>Risk and description</b>	<b>Measures to address challenges/ mitigate risks</b>	<b>Monitoring</b>
disease components receiving funding above their notional shares derived from the allocation formula. <sup>14</sup>		
<p>The <b>influence risk</b> means the risk of a Private donor or authorized public mechanism exercising undue influence on the program implementer/PR through its significant contribution to a grant.</p>	<p>A CRFC, as opposed to the Co-investment alternative, ensures that the Global Fund is the only counterpart facing each of the key stakeholders (Private or D2H donors, the grant recipients (Principal Recipients and Sub-Recipients), the Local Fund Agent).</p> <p>Specific terms and conditions included in the Memorandum of Understanding for financial contributions from the private donor or under a specific authorized public mechanism act as additional safeguards against this risk.</p> <p>Finally, total CRFC will not exceed the total sum of Global Fund financing committed to any grant or activity receiving CRFC, thus ensuring that results are attributable to all donors and not just the donor making the CRFC.</p>	<p>The Secretariat will monitor and report regularly to the FOPC and SIIC on the percentage of grant funding that CRFC is financing.</p>
<p><b>Non-payment risk</b> arises when a donor fails to honor amounts and/or timing of contributions.</p>	<p>It should be noted that the historical pledge/contribution ratio for non-traditional donors currently stands at 100 percent. To prevent non-repayment of CRFC, the Secretariat will consider several options, including appropriate provisions in legal agreements. Adherence to the Comprehensive Funding Policy also provides three-tiers safeguards for financial management of funding decisions with respect to CRFC, as with other Global Fund financing.</p>	<p>The Secretariat will monitor and report regularly to the FOPC and SIIC on the conversion of CRFC into contributions.</p>
<p>The risk of <b>D2H displacing any potential future contributions to the Global Fund</b> by</p>	<p>The Secretariat will engage only those creditors who view their support to Debt2Health as separate and additional to the Global Fund</p>	<p>The Secretariat will monitor and report regularly on trends of donor pledges to</p>

<b>Risk and description</b>	<b>Measures to address challenges/ mitigate risks</b>	<b>Monitoring</b>
public sector donors.	contribution through the regular replenishment process, as Germany and Australia have done in the past. D2H schemes entailing privately held debt will also be considered.	central funding vs. D2H.

## DECISION

18 Based on the discussion above, the Board is requested to approve the following decision point:

***GF/B32/DP13: Approval of the Amended and Restated Global Fund Policy for Restricted Financial Contributions***

- 1. Based on the recommendations of the Finance and Operational Performance Committee, the Board approves the Amended and Restated Global Fund Policy for Restricted Financial Contributions, as set forth in Annex 1 to GF/B32/09 (the “Amended and Restated Policy”).***
- 2. The Amended and Restated Policy shall supersede the prior version of the Policy for Restricted Financial Contributions (GF/B15/DP29) and be effective as of 22 November 2014, and shall not alter the characterization of any sources of funds that have been factored into the 2014 allocation of resources.***

***Amended and Restated Global Fund Policy for 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>15</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, and Eligible Donors are precluded from prescribing the specific items of such unfunded quality demand that would be financed by Complementary Restricted Financial Contributions;
- c. Although Complementary Restricted Financial Contributions may be excepted from parts of the process adopted by the Strategy, Investment and Impact 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 shall become unrestricted sources of funds available for the Global Fund grant portfolio; 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.

### 3.4. 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.

### 4.5. Oversight

The Board requests the Secretariat to provide the Finance and ~~Audit~~Operational Performance Committee (the "FOPC") 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:

- a. A report on the results of mobilizing ~~restricted financial~~ contributions and (b) ~~identification~~ under this Amended and Restated Policy, which outlines the programs receiving such contributions and will be presented to the Strategy, Investment and Impact Committee for consideration of any associated strategic investment matters; and

<sup>15</sup> As defined in GF/B28/DP4 and further described in GF/SIIC09/DP02.

a.b. Identification of new public mechanisms for inclusion in the Amended and Restated Policy.

The Board delegates to the ~~Finance and Audit Committee~~ FOPC the authority to approve new public mechanisms proposed by the Secretariat for inclusion in the ~~Restricted Financial Contributions~~ Amended and Restated Policy, and acknowledges UNITAID and Debt2Health as ~~the first such~~ approved public ~~mechanism~~ mechanisms.

The Board further requests the ~~Finance and Audit Committee~~ FOPC to consider new developments as they arise and to propose any changes to the Amended and Restated Policy deemed appropriate by the ~~Finance and Audit Committee~~ FOPC for adoption by the Board.