36th Board Meeting

Comprehensive Funding Policy

GF/B36/02 – Revision 1

16 – 17 November 2016, Montreux, Switzerland

For Board Decision

Purpose of the paper: This paper presents proposed amendments to the Amended and Restated Comprehensive Funding Policy (the "CFP") to: (i) align terminology with the refined allocation methodology adopted by the Board in April 2016; (ii) integrate the portfolio optimization mechanism developed over the 2014 – 2016 allocation period; and (iii) update the methodology for determining sources of funds for an allocation period. The paper is accompanied by a modified CFP for the Board to approve at its November 2016 meeting.

The Global Fund

Part 1: Decision Point

Decision Point GF/B36/DP04: Amended and Restated Comprehensive Funding Policy ***1. Based on the recommendation of the Audit and Finance Committee, the Board approves the Amended and Restated Comprehensive Funding Policy, as set forth in Annex 1 to GF/B36/02 – Revision 1.*** ***Budgetary implications not applicable***

Part 2 - Relevant Past Decisions

Relevant past Decision Point	Summary and Impact
GF/AFC02/DP03: Recommendation on the Amended and Restated Comprehensive Funding Policy (October 2016)	The Audit and Finance Committee discussed the proposed revisions to the Amended and Restated Comprehensive Funding Policy and agreed to recommend the updated policy presented in this paper to the Board for approval. In doing so, the Audit and Finance Committee recognized the updates and clarifications to align the policy with the refined allocation methodology. Furthermore, the committee emphasized the importance of clarity on the respective roles and responsibilities of the Secretariat and Audit and Finance Committee with respect to the methodology applied to determine the announced replenishment results as well as those used to derive the sources of funds for allocation prior to the start of each allocation period. Also important was clarification with respect to how the underlining asset and liability management (the "ALM") forecast of sources and uses of funds would be the basis for determining availability of funds for portfolio optimization as well as determining sources of funds when transitioning from one allocation period to the next.
GF/B35/DP10: Allocation Methodology 2017 – 2019 (April 2016)[1]	In April 2016, the Board adopted a refined allocation methodology and acknowledged the technical parameters for the 2017 – 2019 allocation period, which the Strategy, Investment and Impact Committee approved in March 2016. The decision point presented in this paper, if

[1] http://www.theglobalfund.org/Knowledge/Decisions/GF/B35/DP10/

Relevant past Decision Point	Summary and Impact
	adopted by the Board, would result in modifications to the Amended and Restated Comprehensive Funding Policy to align terminology and concepts with the allocation methodology adopted by the Board in April 2016.
GF/B31/DP05: Amended and Restated Comprehensive Funding Policy (March 2014)[2]	The Board approved the Amended and Restated Comprehensive Funding Policy in March 2014 to establish the financial framework to support the full implementation of the allocation-based funding model. The modifications to the policy recommended in this paper would: (i) align terminology with the refined allocation methodology approved by the Board in April 2016; (ii) integrate the portfolio optimization mechanism developed during the 2014 – 2016 allocation period; and (iii) update the methodology for determining sources of funds for an allocation period accordingly. If the Board approves the decision point presented in this paper, it will supersede GF/B31/DP05 and the accompanying policy in Annex 1 will supersede and replace all prior versions.

Part 3 - Action Required by the Board

1. This paper presents the Board with a decision point to approve the amended and restated policy set forth in Annex 1, based on the recommendation of the Audit and Finance Committee (the "AFC").

Part 4 - Executive Summary

2. In March 2014, the Board approved the Amended and Restated Comprehensive Funding Policy set forth in Annex 1 to GF/B31/04 (the "CFP") to establish the financial framework for supporting the full implementation of the allocation-based funding model.

3. Following a review of implementing the CFP over the 2014 – 2016 allocation period, as well as the allocation methodology adopted by the Board in April 2016, the Secretariat proposes the following revisions to the CFP:

    a. Alignment of terminology and concepts with the allocation methodology adopted by the Board in April 2016.

[2] http://www.theglobalfund.org/Knowledge/Decisions/GF/B31/DP05/

b. Incorporation of the mechanism for portfolio optimization,[3] including clarification that during an allocation period, the availability of funds to re-optimize the portfolio may arise due to:

    i. Additional pledges and contributions by donors;

    ii. Actual unutilized funds remaining at the end of grants from a previous allocation period; or

    iii. Forecasted unutilized funds of grants arising from the current allocation period.

c. Clarifying that the announced replenishment results are derived from a methodology decided by the Secretariat and shared with the Audit and Finance Committee (the "AFC") for approval prior to its application, and including foreign-exchange among the existing adjustments that may be necessary to derive sources of funds for an allocation period.

d. Updating the methodology for determining sources of funds for allocation, in particular when moving from one allocation period to the next to correspond with portfolio optimization principles under the ALM, by clarifying both actual and forecasted unutilized funds from a prior allocation period may be included in the sources of funds for allocation for a subsequent allocation period.

Part 5 – Background

4. In March 2014, the Board approved the CFP to establish the financial framework for supporting the full implementation of the allocation-based funding model. The adoption of the CFP followed a detailed review by the Secretariat and the Finance and Operational Performance Committee (the "FOPC"), predecessor to the AFC.

5. The CFP incorporated the then-existing body of decisions taken by the Board and Strategy, Investment and Impact Committee (the "SIIC") with respect to the allocation-based funding model. It also included refinements or replacements to certain areas of the previous policy that facilitated the rounds-based system of grant financing.

6. The following three fundamental financial measures or safeguards, as depicted in Figure 1 below, serve as the foundation for the CFP: (i) asset and liability management ("ALM"); (ii) cash management; and (iii) liquidity-risk management.

[3] As described in GF/FOPC17/03, which accompanied the recommendation on the available funds for portfolio optimization (GF/FOPC17/10) that the FOPC validated in March 2016 under GF/FOPC17/DP02, and in previous Board and FOPC reports (i.e., GF/FOPC16/22, GF/FOPC15/14, GF/B33/24, GF/FOPC15/19, GF/B32/29, GF/FOPC13/18, GF/FOPC12/16 – Revision 1).

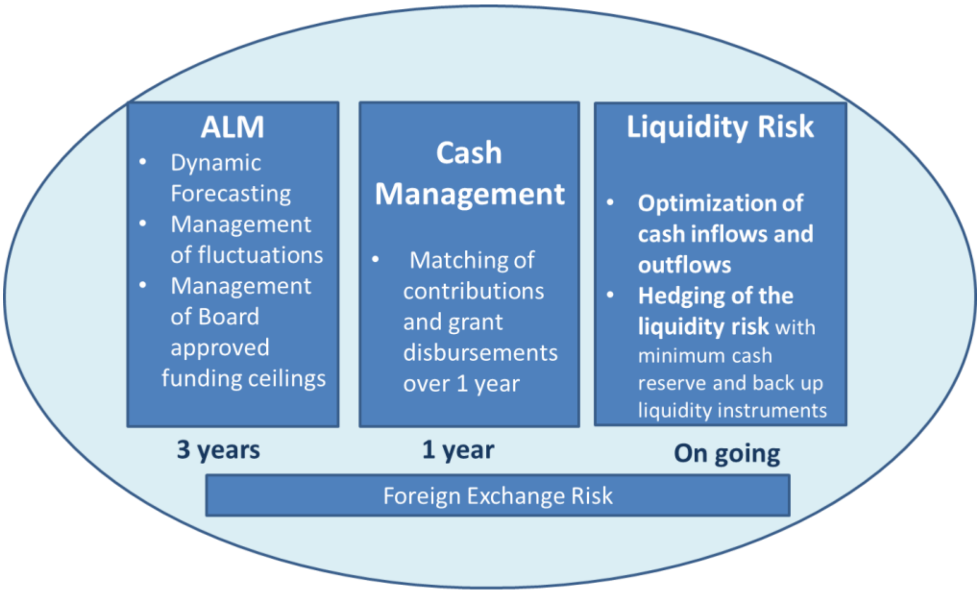

Figure 1: Financial Framework and the Current CFP

7. These measures, showing a progressively ascending degree of financial control and oversight, were designed to ensure appropriate financial controls:

   a. **Tier 1 Safeguard**: Balanced forecast of sources and uses of funds based on the notional asset/liability management approach, over a defined (fixed) three-year allocation period.

   b. **Tier 2 Safeguard**: Balanced one-year rolling and cumulative cash flow forecast based on eligible assets (e.g., cash on hand, promissory notes and unconditional portions of multi-year contribution agreements) and eligible liabilities (e.g., formally approved annual funding or other financial decisions) with underlying cash movements (i.e., inflows and outflows) taking place within up to one year.

   c. **Tier 3 Safeguard**: Day-to-day liquidity management supported by a minimum liquidity reserve and back-up liquidity instruments.

8. In its first allocation period of operationalization, a series of exceptional, transitional measures had to be applied to accommodate the shift from the rounds-based system to the allocation-based funding model that coincided with the transition from the third (2011 – 2013) to the fourth (2014 – 2016) replenishment periods.[4] Through this application, the Secretariat has identified areas in the CFP for clarification and modification without changing the fundamental principles already embedded when the Board adopted the CFP in March 2014, particularly with respect to the measures described above, while also updating the CFP based on the allocation methodology adopted by the Board in April 2016.

9. As such, the AFC recommends incorporating the following in the CFP:

[4] http://www.theglobalfund.org/Knowledge/Decisions/GF/B31/DP09/

a. Aligned terminology and concepts with the allocation methodology adopted by the Board in April 2016.

b. The mechanism for portfolio optimization,[5] including clarification that during an allocation period, the availability of funds to re-optimize the portfolio may arise due to:

    i. Additional pledges and contributions by donors;

    ii. Actual unutilized funds remaining at the end of grants from a previous allocation period; or

    iii. Forecasted unutilized funds of grants arising from the current allocation period.

c. Clarified roles and responsibilities between the Secretariat and AFC with respect to the methodology for deriving announced replenishment results, and including foreign-exchange among the existing adjustments that may be necessary to derive sources of funds for an allocation period.

d. One of the underlining principles of the CFP was to "allow for universal applicability of the CFP across replenishment periods, while providing for any transitional provisions of a recurring nature".[6] As such, clarification to the methodology for determining sources of funds for allocation have been introduced, in particular when moving from one allocation period to the next to correspond with portfolio optimization principles under the ALM.

Part 6 - Discussion

Alignment with Allocation Methodology

10. With the Board's adoption of a refined allocation methodology in April 2016, previous terminology such as indicative funding or the classification of certain aspects beyond the allocation formula such as regional programs and special initiatives need to be edited or replaced entirely. Article D of the CFP has been edited accordingly, as set forth in Annex 1 to this paper, to remove terms and to combine or otherwise reorganize in accordance with relevant aspects of the refined allocation methodology. Other minor edits to the terms, definitions and their cross-references throughout the CFP aim to ensure clarity and consistency.

Integrating portfolio optimization mechanism based on 2014 – 2016 experience

11. The Secretariat began to introduce its operational mechanism for optimizing the portfolio following the September 2014 meeting of the FOPC. From then, reporting on the potential funding needs in 2017 due to the subset of the grant portfolio that were permitted to utilize their

[5] As described in GF/FOPC17/03, which accompanied the recommendation on the available funds for portfolio optimization (GF/FOPC17/10) that the FOPC validated in March 2016 under GF/FOPC17/DP02, and in previous Board and FOPC reports (i.e., GF/FOPC16/22, GF/FOPC15/14, GF/B33/24, GF/FOPC15/19, GF/B32/29, GF/FOPC13/18, GF/FOPC12/16 – Revision 1).
[6] Paragraph 2.3 of GF/B31/04 – Amended and Restated Comprehensive Funding Policy

2014 – 2016 total allocation over a period that ended prior to 31 December 2017 (the "Shortened Grants") continued for each FOPC and Board meeting.[7] Shortened Grants resulted from the Secretariat's exercise of operational flexibilities provided by the Board when it adopted the transitional measures for the 2014 – 2016 total allocation.[8]

12. The intent of the ALM safeguard of the CFP was to be a mechanism to monitor and maintain a balanced forecast of sources and uses of funds throughout the allocation period on an aggregated portfolio basis. During the 2014 – 2016 allocation period, the combination of improved financial systems and progressive learning from applying the ALM led to the development and implementation of enhanced financial forecasting. With each quarterly forecast, the analysis of actual commitment and disbursement data established a baseline by which the Secretariat could increasingly estimate the rate by which grant funds would be utilized across the portfolio. This provided visibility with respect to the anticipated sources of funds that could remain unutilized by the end of relevant grant terms.

13. The allocation methodology approved and implemented for the 2014 – 2016 allocation period provided for the possibility of investing additional resources beyond those initially allocated at the start of the allocation period, upon FOPC validation, to unfunded quality demand. Financial forecasts and the ALM were the basis in which the Secretariat would present the committee with the potential availability of additional funds that could be invested towards these identified priorities. As another priority area of investment arose with Shortened Grants, these forecasting principles were extended to the amounts of unutilized funds estimated to remain at the end of existing grants (i.e., within the amounts initially allocated), to identify another pool of resources that could be available to re-optimize the portfolio during the allocation period. At the same time, as previous grants ended, actual unutilized amounts identified during the allocation period as sources of funds also became available for further optimization of the portfolio.

14. Accordingly, additional pledges and contributions from donors, actual unutilized funds remaining from prior grants, and forecasted unutilized funds from current grants can all be a source of available funds for portfolio optimization. The revisions to the CFP clarify that during an allocation period, the availability of funds for investing or re-investing across the portfolio may derive from:

    a. Additional pledges and contributions by donors;

    b. Actual unutilized funds remaining at the end of grants from a previous allocation period; or

    c. Forecasted unutilized funds of grants arising from the current allocation period.

15. These proposed changes build on the core foundation of the CFP and its ALM measure by incorporating lessons and experiences from implementing the CFP over its first effective allocation period. They also consolidate the various Board or FOPC reports that have captured the development of the portfolio optimization mechanism and integrate it into the CFP. In doing so, this mechanism for utilizing the ALM is enshrined in a policy that will be applicable across

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[7] Early applicants that were part of the 2013 transition to the allocation-based funding model authorized under Board decision point GF/B28/DP05, which were structured to have grants end prior to 31 December 2017, were also included in such reporting and addressed through the portfolio optimization mechanism.
[8] As adopted by the Board under decision point GF/B31/DP09.

replenishment periods and not tied singularly to the exceptional, transitional measures adopted to accommodate the 2014 – 2016 total allocation.

16. Furthermore, through each ALM forecast, it became apparent that the determination of the ALM position needed to factor not only sources of funds, but also uses of funds, and what the net position would be. This is consistent with the CFP's intent that both forecasted sources and uses of funds would be the basis for evaluating the financial position throughout the allocation period. As such, revisions to the CFP also include these lessons from the 2014 – 2016 allocation period.

17. The provisions described above relate to the basis by which the Secretariat may present a risk-adjusted forecast to the AFC for approval of the available funds for portfolio optimization, which maintains and clarifies current parameters in the CFP. It does not determine where such funding may be invested in terms of a prioritization for how such available funds may be used, which like in the 2014 – 2016 allocation period is a matter for the Strategy Committee to determine. This aligns with the parameters and delegations of authority set forth in the allocation methodology adopted by the Board in April 2016, and is part of the updates to the CFP.

Update methodology for calculating sources of funds for allocation

18. The process to calculate sources of funds for allocation begins with the announced replenishment results. As such, the updates to the CFP clarify the respective roles and responsibilities of the Secretariat and the AFC with respect to any methodology used to determine the announced replenishment results. The components of such methodology (e.g., any reference foreign-exchange rates applied) are not prescribed or limited given the relevance of certain considerations can vary from one replenishment to another. The updates to the CFP provide that the Secretariat decides on an appropriate methodology, which is shared with the AFC for approval prior to its application by the Secretariat, to ensure there is clarity and common understanding in advance.

19. The experiences during the 2014 – 2016 allocation period of managing foreign-exchange fluctuations, as well as the AFC's June 2016 adoption of the Global Foreign-Exchange Management Framework to mitigate foreign-exchange risks going forward, have also informed the amendments to the CFP. In particular, the amendments clarify that adjustments for foreign-exchange considerations are part of the process to calculate sources of funds for allocation, which under the CFP approved in 2014 already includes adjustments to account for alignment of donor and Global Fund fiscal years, technical assistance and other donor-specified conditions.

20. As referenced above, the principle of remaining relevant and responsive over time from one allocation period to the next was a guiding principle for the development of the CFP in 2014. As such, the CFP already includes provisions to address moving from one allocation period to the next, such as the ability to factor unutilized sources of funds from a prior allocation period into the calculation of the sources of funds for a subsequent allocation period. However, as with the need to clarify that actual and forecasted unutilized sources of funds could become available for portfolio optimization, proposed updates to the CFP also clarify that actual and forecasted unutilized sources of funds from a prior allocation period may be included in the determination of sources of funds for allocation in the immediately following allocation period.

21. As the 2014 – 2016 allocation period represented the first time of implementing the allocation-based model under the CFP, it also coincided with upgraded financial systems and forecasting approaches. These systems and approaches, which include taking aggregated, portfolio-level decisions as well as risk-based adjustments mitigate the potential risks of using a forecast—which remains an estimate based on probability analysis of funds-utilization rates—combined with other measures in the CFP. These measures—namely cash and liquidity-risk management—manage the

actual liabilities incurred by the Global Fund, and ensure that any allocation and commitment decisions remain in alignment with the net overall balance of the ALM and cash management requirements, respectively.

22. For example, the forecasted amounts that would be presented to the AFC for endorsement before inclusion in the figures to be approved by the Board prior to the start of the allocation period would undergo appropriate risk-based adjustments, including margins in the event that actual funds utilization rates exceed the rates assumed for forecasting purposes. Furthermore, such amounts would also serve as a parameter to factor into commitment and disbursement decisions for existing grants, so that funding approvals for the grants arising from the ensuing allocation period exclude such amounts that may be part of remaining annual funding decisions for existing grants arising from the previous allocation period.

23. As such, amendments to the CFP include clarification that actual and forecasted unutilized sources of funds from a prior allocation period may be included in the sources of funds for allocation for a subsequent allocation period.

Part 8 - Recommendation

24. Based on the discussion presented in this paper, the AFC presents the Amended and Restated Comprehensive Funding Policy, as set forth in Annex 1 to this paper, to the Board for approval at its November 2016 meeting.

Annex 1. Amended and Restated Comprehensive Funding Policy

AMENDED AND RESTATED
COMPREHENSIVE FUNDING POLICY

16 November 2016[1]

[1] Amended, restated and adopted under Board Decision Point GF/B36/DP04.

A. Purpose

1. To set the key financial framework and principles for the management and apportionment of resources provided by donors.
2. To maximize the amount, optimize the timing and increase the certainty of resources for recipients with a sufficient degree of advance visibility.
3. To ensure responsible financial stewardship of resources provided by donors for the achievement of programmatic results in implementing countries.

B. Scope

1. Management of Sources and Uses of Funds among the Global Fund, its Trustee, and donors as appropriate.

C. Areas of Focus

1. Asset and Liability Management (ALM). The mechanism for matching notional Sources and Uses of Funds on an aggregated portfolio basis for an Allocation Period.

2. Cash Management. The mechanism for matching actual and expected cash inflows and outflows, based on Eligible Assets and Eligible Liabilities, on an aggregated portfolio basis over a rolling forward-looking 12-month period.

3. Liquidity Risk Management. The approach of establishing a minimum liquidity reserve and the potential to utilize back-up liquidity instruments to further address short-term cash requirements.

4. Foreign Exchange Risk Management. A standalone framework that establishes measures to minimize the risks linked to fluctuations in foreign exchange rates, while ensuring that required amounts are available at the right time and in the required currency.[2]

5. Investment Framework. A standalone framework that establishes investment strategies to preserve asset value and maximize investment returns in accordance with an agreed risk profile and over a pre-determined timeframe, which supports the implementation of the CFP, particularly liquidity management.

D. Definitions

1. Replenishment Period: means each defined (fixed) three-year period unless otherwise defined in the relevant policy or Board authorization, over which donors pledge resources to the Global Fund.
2. Allocation Period: means the defined (fixed) three-year period, unless otherwise defined in the relevant policy or Board authorization, in which Sources of Funds are notionally

[2] GF/AFC01/DP02.

allocated to Uses of Funds to finance funding initiatives authorized by the Board. Applicants must submit a funding request and receive Board authorization within this period to access their allocation of Sources of Funds for such period.

3. Replenishment Conference: means the periodic meeting in which donors convene to pledge resources to the Global Fund for a defined Replenishment Period.
4. Announced Replenishment Results: means the amount of donor pledges publicly announced, in the aggregate and on a per-donor basis, during or subsequent to a Replenishment Conference and related to the Replenishment Period derived from a methodology, which may include reference foreign exchange rates applied, that the Secretariat decides is appropriate and shares in advance with the AFC for approval prior to its application by the Secretariat.
5. Sources of Funds: The adjusted amount of Announced Replenishment Results and other authorized sources, on hand or expected to be received, that may be allocated to finance Uses of Funds during the Allocation Period. Sources of Funds shall be denominated in a freely convertible currency.
6. Uses of Funds: notional, unfunded liabilities, approved or to-be-approved by the Board and attributable to funding initiatives or categories authorized by the Board over an Allocation Period (e.g., Operating Expenses, Grants and other authorized activities). For ALM purposes, Uses of Funds exclude amounts on the register of Unfunded Quality Demand (*also see Unfunded Quality Demand definition*).
7. Operating Expenses: means the budget for day-to-day operational expenditures of the Global Fund, which is approved by the Board.
8. Sources of Funds for Allocation: Amount of Sources of Funds, net of Global Fund Operating Expenses, which is available for allocation at the start of the Allocation Period according to the Allocation Methodology adopted by the Board.[3]
9. Catalytic Investments: Amount of Sources of Funds that has been set aside by the Board at the start of the Allocation Period to fund identified priority Uses of Funds, which are not allocated through the Allocation Methodology's formula.[4]
10. Sources of Funds for Country Allocations: Amount of Sources of Funds for Allocation, net of Catalytic Investments, which is available at the start of the Allocation Period for country allocations according to the Allocation Methodology adopted by the Board.[5]
11. Unfunded Quality Demand: means prioritized and costed needs requested by applicants that remain on a register for a period of up to three years after an assessment and recommendation by the Technical Review Panel until additional Sources of Funds become available to finance such needs according to a prioritization approved by the SC.[6]
12. Allocation Methodology: means the Board-approved method of allocating Sources of Funds for Allocation to provide:
    a. A standard period of Grant financing through an allocation model that includes a formula with technical parameters, and other adjustments, flexibility or factors, approved by the SC or applied by the Secretariat;[7] and
    b. Catalytic Investments.[8]

[3] GF/B35/DP10.
[4] GF/B35/DP10 and GF/B36/DP06.
[5] GF/B35/DP10.
[6] GF/B35/DP10 and GF/SCXX/DPXX.
[7] GF/B35/DP10, GF/SIIC17/DP05 and GF/SC01/DP01.
[8] GF/B35/DP10 and GF/B36/DP06.

13. Global Disease Split: means the distribution of the Sources of Funds for Country Allocations across HIV/AIDS, tuberculosis and malaria at the global, aggregated portfolio level, as decided upon by the Board.[9] For the 2017 – 2019 Allocation Period, this distribution shall be 50% for HIV/AIDS, 32% for malaria and 18% for tuberculosis.
14. Eligible Assets: means available Sources of Funds in the form of unrestricted and unconditional cash and cash equivalents on hand as well as unconditional portions of short-term and long-term financial instruments, (e.g., promissory notes and contribution agreements) that are written and executed by duly authorized representatives of the parties, have a defined amount denominated in a freely convertible currency, and have a related encashment occurring within a defined rolling one-year period without loss of value.
15. Eligible Liabilities: means Uses of Funds resulting from duly approved financial decisions with a related cash outflow occurring during a defined rolling one-year period.
16. Grants: Uses of Funds under initiatives authorized by the Board that fund programs as implemented by funding recipients in accordance with a grant agreement with the Global Fund.
17. Implementation Period: means the term of an approved Grant, as determined by the start and end dates reflected in the grant agreement, which when aggregated with any Extension period from a preceding Grant must have a standard length of three years unless otherwise specified in relevant policy or Board authorization.
18. Extension: means permitting at least a minimum level of program implementation to continue for existing Grants in accordance with the relevant Board-approved policy and operational framework established by the Secretariat.[10] An extension may or may not require an approval by the Board.
19. Annual Funding Decision (AFD): represents a funding decision by the Secretariat, in accordance with a grant agreement, which creates an accounting liability with related cash outflows over the period covered by such decision.
20. Minimum Liquidity Reserve: means the minimum amount of unrestricted and unconditional cash and cash equivalents on hand and representing a predetermined level of the Global Fund's estimated grant and operating cash transfers over a defined period. The reserve must be maintained and if at any time it is not maintained, it must be replenished to its minimum level as soon as practically possible. The reserve is to be used in case of unexpected changes in forecasted cash inflows and outflows, which may otherwise result in temporary cash shortfalls.
21. Back-up Liquidity Instrument: means a short-term financial facility that provides the Global Fund with an option to withdraw cash as needed and in accordance with the terms of the facility to meet short-term or temporary cash requirements. The resulting cash inflow cannot increase the Global Fund's ability to assume additional Uses of Funds under the ALM approach nor can these instruments be utilized to maintain the Minimum Liquidity Reserve. The facility must be repaid in accordance with its terms. Any costs associated with the operation of such a facility must be of limited amount and be met out of Operating Expenses.
22. AFC: means the Audit and Finance Committee.
23. SC: means the Strategy Committee.

[9] GF/B35/DP10.
[10] GF/B31/DP12.

E. Asset and Liability Management Framework

General Guidelines

1. Donors shall convene at least once every three years at a Replenishment Conference to replenish the Global Fund's resources for the subsequent Replenishment Period, and may provide additional pledges throughout such Replenishment Period.
2. Announced Replenishment Results, subject to certain adjustments to account for alignment of donor and Global Fund fiscal years and foreign-exchange risk management, deductions for technical assistance and other donor-specified conditions, along with any other authorized sources, upon the endorsement of the AFC, shall form the basis for establishing the Sources of Funds for a given Allocation Period.
3. Over the Allocation Period, the Board, based on the recommendations of the AFC and SC, shall notionally apportion Sources of Funds to approved Uses of Funds and defined funding categories within such Uses of Funds as described in this policy and in accordance with any other Board-approved policy for such Uses of Funds.
4. When recommending the Sources of Funds for Allocation to the Board, the AFC shall endorse the qualifying deductions of Operating Expenses and any other initiatives authorized by the Board, as determined on an approved and/or forecasted basis over the Allocation Period.
5. The SC shall use the Sources of Funds for Allocation recommended by the AFC to formulate the composition of and the allocation to Catalytic Investments, as well as to recommend the Sources of Funds for Country Allocations, in accordance with the Allocation Methodology, for the Board to approve.
6. An eligible country component can access Sources of Funds, which are attributable to a given Allocation Period and which comprise its initial allocation, only once and only within the prescribed timeframe as approved by the Board. Sources of Funds that have not been accessed during a given Allocation Period and by a prescribed deadline or remain un-utilized at the end of the Implementation Period may be made available to fund other initiatives as approved by the Board. Where such Sources of Funds are forecasted on an aggregated portfolio basis to remain un-utilized by the end of the relevant Implementation Periods, such amounts, following risk-based adjustments by the Secretariat and upon approval by the AFC, may be made available to fund other initiatives approved by the Board.
7. The AFC shall ensure that forecasted Uses of Funds shall not exceed forecasted Sources of Funds on an aggregated portfolio basis over the Allocation Period.
8. Restricted or earmarked donor pledges shall be excluded from the Sources of Funds and shall be managed on a separate basis in accordance with the relevant policy on restricted contributions.

Operational Financial Management

9. During the Allocation Period and on an aggregated portfolio basis, the Secretariat shall maintain a balanced ALM forecast and report to the AFC on additional adjustments as required to ensure prudency of estimates and equivalency in risk profiles when matching forecasted Sources with forecasted Uses of Funds over the Allocation Period. The forecast shall be managed on a dynamic and regular basis to demonstrate to the AFC

that forecasted Uses of Funds do not exceed the Sources of Funds over the Allocation Period subject to provisions in paragraph E13.

10. At least twice a year, the AFC shall present to the Board an ALM forecast for the Allocation Period accompanied by an updated one-year rolling cash forecast as defined in paragraph F2.
11. The Secretariat shall utilize the most recent ALM Forecast as the basis for the Global Fund to:
    a. Calculate the net ALM position over the Allocation Period factoring in actual and forecasted Sources and Uses of Funds;
    b. Determine, on an aggregated portfolio basis, actual and forecasted Sources of Funds that remain or are estimated to remain un-utilized at the end of relevant Implementation Periods, which following the application of appropriate adjustment factors by the Secretariat, can be presented to the AFC for approval for optimizing the Grants portfolio of the relevant Allocation Period; and
    c. Enter into a contractual agreement, to ensure the total value of the Uses of Funds comprised of already signed and to-be-signed grant agreements for the Allocation Period, when combined with all other Uses of Funds for the same Allocation Period, do not exceed, in the aggregate on a portfolio basis, the Sources of Funds for the same Allocation Period.
12. Upon AFC review and approval, in case Sources of Funds are forecasted to exceed Uses of Funds over the Allocation Period (e.g., Paragraph E11(b)), the available Sources of Funds may be allocated to optimize the Grants portfolio according to the prioritization process adopted by the SC.[11]
13. In evaluating the net ALM balance, where Sources of Funds are forecasted to fall below Uses of Funds over the Allocation Period, the following shall apply:
    a. Total shortfall of less than 5%: the Secretariat shall continue its active management of the portfolio of Uses of Funds to preserve initial funding allocations to country disease components and report accordingly to the Board through the AFC on measures taken to manage such forecasted shortfalls;
    b. Total shortfall of 5% or more: the Secretariat shall continue its active management of the portfolio of Uses of Funds and may seek, with AFC endorsement, Board authorization to manage the shortfall through additional measures as appropriate, along the principle and sequence of the allocation process; and
    c. Upon AFC review and approval, in case of failure to agree and/or implement in a timely manner the measures in E13(a) and E13(b), an automatic pro-rated reduction in the proportion of the forecasted shortfall shall be applied to all Uses of Funds for the Allocation Period.

[11] GF/B35/DP10 and GF/SCXX/DPXX.

F. Cash Management Framework

General Guidelines

1. A forecast of cumulative cash inflows and outflows, emanating from the ALM forecast, over a rolling one-year time horizon shall be the basis for assessing the overall liquidity position at a given point in time.
2. Over a rolling one-year horizon, the following should be fully matched with respect to timing and amount in the aggregate on a portfolio and cumulative basis:
    a. Eligible Liabilities, representing the total forecasted cumulative cash outflows for Grants and other operating needs over such horizon; and
    b. Eligible Assets, representing the total cash on hand (net of the Minimum Liquidity Reserve amount as set out in paragraph F6) and forecasted cumulative cash inflows over such horizon.
3. The Secretariat shall not create, assume or enter into any Eligible Liabilities unless the resultant and relevant cash outflow amounts can be fully matched, in the aggregate on a portfolio and cumulative basis, with Eligible Assets over a rolling one-year period as described in F2 above.
4. In case of the issuance of a guarantee to a third party or a similar instrument, subject to Board approval, the Secretariat shall account for the associated forecasted cash outflows, adjusted for probability of occurrence, in its matching of Eligible Assets with Eligible Liabilities.

Operational Financial Management

5. The Secretariat shall balance actual and forecasted cumulative cash inflows and actual and forecasted cumulative cash outflows over a one-year rolling time horizon on a routine basis by employing financial management tools as defined in this policy.
6. At all times, the Secretariat shall maintain an actual Minimum Liquidity Reserve representing three months' worth of estimated cumulative cash transfers under forecasted Uses of Funds.
7. In the case of an actual shortfall in cash inflows versus cash outflows, the shortfall shall be funded first from the Minimum Liquidity Reserve and secondly by employing Back-up Liquidity Instruments, if necessary, as endorsed in advance by the AFC. The diminished actual liquidity reserve on hand shall be replenished as soon as practically possible to reach the minimum established level as defined in this policy.
8. The Secretariat shall include in its one-year rolling cash outflow forecast estimated cash requirements for making advance payments to third-parties on behalf of its grantees, provided that such amounts are not already part of the estimated cash outflows stemming from Eligible Liabilities over a one-year rolling time horizon.
9. Back-up Liquidity Instruments and related encashments cannot increase the amount of Sources of Funds and/or Eligible Assets, unless otherwise agreed in writing by the counterpart providing the instrument of liquidity in question.
10. Sources of Funds specifically restricted or earmarked by donors, upon AFC approval, shall be managed separately and shall not be included in the portfolio cash management and the Minimum Liquidity Reserve requirements as defined in this policy.
11. The AFC shall monitor compliance with the above provisions of the Cash Management Framework as part of its regular financial management oversight responsibilities.

G. Funding Ceilings

1. In the aggregate on a portfolio basis, the Secretariat shall manage towards and shall not exceed the following Board-approved funding ceiling amounts, as amended by the Board from time to time:

    a. Sources of Funds for Allocation;
    b. Available funds as approved by the Board or AFC during a given Allocation Period;
    c. Catalytic Investments;
    d. Sources of Funds for Country Allocations;
    e. Operating Expenses; and
    f. Any other initiatives authorized by the Board.

2. A periodically updated ALM forecast, as reviewed and endorsed by the AFC, will be the basis for monitoring compliance with the overall Board-approved ceilings.

H. Foreign Exchange Management

Please refer to the Global Foreign Exchange Management Framework approved by the AFC.[12]

I. Transitional provisions

1. The Secretariat shall manage the transition of Sources of Funds and Uses of Funds from one Allocation Period to the next on a notional, ALM basis, as specified in this policy unless otherwise authorized by the Board.
2. All transitional provisions, including changes thereof, and their financial implications shall be reviewed and approved by the AFC and the Board as appropriate.
3. All provisions and definitions of this policy, specifically those related to Asset and Liability Management (Section E) and Cash Management (Section F), shall apply to transitional arrangements as stated unless modified herein.
4. When transitioning from a previous Allocation Period to the subsequent Allocation Period:

    a. Sources of Funds for the subsequent Allocation Period shall be derived from:

        i. The Announced Replenishment Results for the Replenishment Period to which the subsequent Allocation Period is attributed, net of certain adjustments;
        ii. Sources of Funds attributable to any prior Allocation Period that have not been utilized or are forecasted to remain un-utilized; and
        iii. Sources of Funds that have not been pledged but have been received during the subsequent Allocation Period.

[12] GF/AFC01/DP02.

b. Uses of Funds shall be attributed to the Allocation Period in which Board-approval for such Uses of Funds originated, subject to the following:

   i. Unfunded Quality Demand will be attributed to the Allocation Period in which initial placement on the register for Unfunded Quality Demand took place;
   ii. Notwithstanding paragraph I.4(b)(i) the remaining amounts on the register of Unfunded Quality Demand originating from the previous Allocation Period shall remain on the register in the subsequent Allocation Period under the terms of its initial placement on the register that remain applicable in accordance with the prioritization approved by the SC; and
   iii. Where there is an Extension, funding available or utilized during such extension period will be part of, and not in addition to, the amount which is to be allocated to such Grant for the subsequent Allocation Period.

J. Investment Framework

Please refer to the Global Fund's Investment Framework.

K. Responsibilities

1. The Secretariat retains the responsibility to operationalize the matching requirement of the ALM and cash management provisions of this policy under AFC oversight.
2. To exercise its Board-mandated oversight responsibilities, the AFC shall monitor compliance with this policy.
3. The AFC shall ensure the Board is appropriately informed about compliance with and implementation of this policy so that the Board may intervene as specifically described in this policy or as otherwise required.

L. Effective date

1. This policy becomes effective upon approval by the Board.

M. Implementation

1. The Secretariat shall implement the present policy, including related procedures and processes, with appropriate oversight by the Audit and Finance Committee of the Global Fund Board.
2. The Secretariat shall develop a liquidity policy, strongly linked to its investment policy, for approval by the AFC, where the level of target liquidity level may exceed the minimum level stated herewith to account for simulated liquidity shocks and other factors, as updated from time to time. The liquidity policy shall ensure that the multi-

tiered approach to financial safeguards as already included in this policy is adequately implemented.

N. Final Provisions

1. This policy replaces the previous Comprehensive Funding Policy as adopted by the Board at its Sixth Meeting and as subsequently amended, including other relevant Board and Board committee decisions. If any prior versions of the Comprehensive Funding Policy or decisions of the Board and its standing Committees conflict with this amended and restated Comprehensive Funding Policy (Amended CFP), the provisions of the Amended CFP shall prevail.