

# 36<sup>th</sup> Board Meeting

## 2017 – 2019 Allocation: Sources and Uses of Funds

GF/B36/03

16 – 17 November 2016, Montreux, Switzerland

### **For Board Decision**

Purpose of the paper: This paper presents the Board with the recommendations of the Audit and Finance Committee (the “AFC”) and Strategy Committee (the “SC”) with respect to the following: (i) sources of funds for allocation for the 2017 – 2019 allocation period; (ii) sources of funds for catalytic investments; and (iii) sources of funds for country allocations.

## Part 1: Decision Point

### **Decision Point GF/B36/DP05: Sources and Uses of Funds for the 2017 – 2019 Allocation Period**

- 1. Based on the recommendation of the Audit and Finance Committee (the “AFC”), as presented in GF/B36/03, the Board decides the amount of sources of funds for allocation for the 2017 – 2019 allocation period is USD 11.1 billion and comprised of the following amounts:**
  - a. USD 10.0 billion, derived from the announced replenishment results of the Fifth Replenishment (2017 – 2019) net of certain adjustments and qualifying deductions, in accordance with the Amended and Restated Comprehensive Funding Policy set forth in Annex 1 to GF/B36/02 – Revision 1; and**
  - b. USD 1.1 billion, the forecasted unutilized funds from the 2014 – 2016 allocation period presented by the AFC and the Strategy Committee (the “SC”) for inclusion in the sources of funds for allocation for the 2017 – 2019 allocation period following deliberations at the committees’ October 2016 meetings.**
- 2. Based on the recommendation of the SC, as presented in GF/B36/03, the Board approves USD 0.8 billion for the 2017 – 2019 allocation period’s catalytic investments.**
- 3. Accordingly, the Board decides the amount of sources of funds for country allocations for the 2017 – 2019 allocation period is USD 10.3 billion, of which USD 0.8 billion is to ensure scale up, impact and paced reductions according to the allocation methodology approved by the Board in April 2016 under decision point GF/B35/DP10.**

**Budgetary implications not applicable**

## Part 2 - Relevant Past Decisions

<b>Relevant past Decision Point</b>	<b>Summary and Impact</b>
<b>GF/AFC02/DP02: Forecast of Unutilized Funds from the 2014 – 2016 Allocation Period (October 2016)</b>	Based on its review and discussion of the Secretariat’s forecast of sources and uses of funds, as presented in GF/AFC02/07 – Revision 1, the Audit and Finance Committee recognized and accepted the amount of

<b>Relevant past Decision Point</b>	<b>Summary and Impact</b>
	forecasted unutilized funds from the 2014 – 2016 allocation period estimated by the Secretariat. The AFC agreed to present the forecasted unutilized funds from the 2014 – 2016 allocation period to the Strategy Committee for its deliberations on potential uses for such amounts.
<b>GF/AFC02/DP04: Recommendation on Sources and Uses of Funds for the 2017 – 2019 Allocation Period (October 2016)</b>	The Audit and Finance Committee acknowledged and endorsed the Secretariat's presentation of the methodology for calculating the amount of sources of funds for allocation, as presented in GF/AFC02/07 – Revision 1, and agreed to recommend the amount of sources of funds for allocation, in aggregate and by component, as presented in this paper.
<b>GF/SC02/DP04: Recommendation on the Sources of Funds for Allocation for the 2017 – 2019 Allocation Period (October 2016)</b>	The Strategy Committee agreed to include the forecasted unutilized funds from the 2014 – 2016 allocation period, as recognized and accepted by the Audit and Finance Committee, in the sources of funds for allocation for the 2017 – 2019 allocation period that this paper presents to the Board for approval.
<b>GF/SC02/DP06: Recommendation on Catalytic Investments (October 2016)</b>	Based on the amount of sources of funds for allocation for the 2017 – 2019 allocation period, as recommended by the Audit and Finance Committee, the Strategy Committee agreed to recommend that the Board approve USD 800 million for catalytic investments for the 2017 – 2019 allocation period. The Strategy Committee agreed further on the priorities and associated costs for recommendation to the Board, which are presented separately to the Board in a GF/B36/04.
<b>GF/B35/DP10: Allocation Methodology 2017 – 2019 (April 2016)<sup>1</sup></b>	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. Under the refined allocation methodology, the Board delegated specific responsibilities to the Audit and Finance Committee and the Strategy Committee with respect to recommending the sources and uses of funds for the 2017 – 2019 allocation period. The current paper presents the

<sup>1</sup> <http://www.theglobalfund.org/Knowledge/Decisions/GF/B35/DP10/>

Relevant past Decision Point	Summary and Impact
	respective recommendations of the two committees for the Board to review and approve.
<b>GF/FOPC17/DP02: Validation of Available Funding for Portfolio Optimization (March 2016)</b>	Based on the most recent asset and liability management (the “ALM”) forecast of sources and uses of funds, the Finance and Operational Performance Committee (the “FOPC”) validated USD 700 million as available funding for portfolio optimization. This funding has been available to finance remaining priorities arising from the 2014 – 2016 allocation period, such as grants utilizing their 2014 – 2016 total allocation over a period ending prior to 31 December 2017 (the “Shortened Grants”) and those grants that were early applicants in the 2013 transition to the allocation based funding model that were designed with a full or partial 2017 funding need (the “Early Applicants”).
<b>GF/B31/DP05: Amended and Restated Comprehensive Funding Policy (March 2014)<sup>2</sup></b>	This decision by the Board approved the financial framework to support the full implementation of the allocation-based funding model. The CFP in its current form, and the proposed amended version presented in Annex 1 to GF/B36/02 – Revision 1, sets the parameters for calculating the sources of funds for allocation. The current paper presents the application of these parameters and methodologies to arrive at the sources of funds for allocation for the 2017 – 2019 allocation that are recommended for approval by the Board.

### Part 3 - Action Required by the Board

1. The Board is requested to approve the total amount of available sources of funds for allocation for the 2017 – 2019 allocation period (the “Sources of Funds for Allocation”), which is comprised of the following amounts:
  - a. The sources of funds derived from the announced replenishment results of the Fifth Replenishment (2017 – 2019) net of certain adjustments and qualifying deductions, according to the Amended and Restated Comprehensive Funding Policy presented in Annex 1 to GF/B36/02 – Revision 1 (the “Amended CFP”); and

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<sup>2</sup> <http://www.theglobalfund.org/Knowledge/Decisions/GF/B31/DP05/>

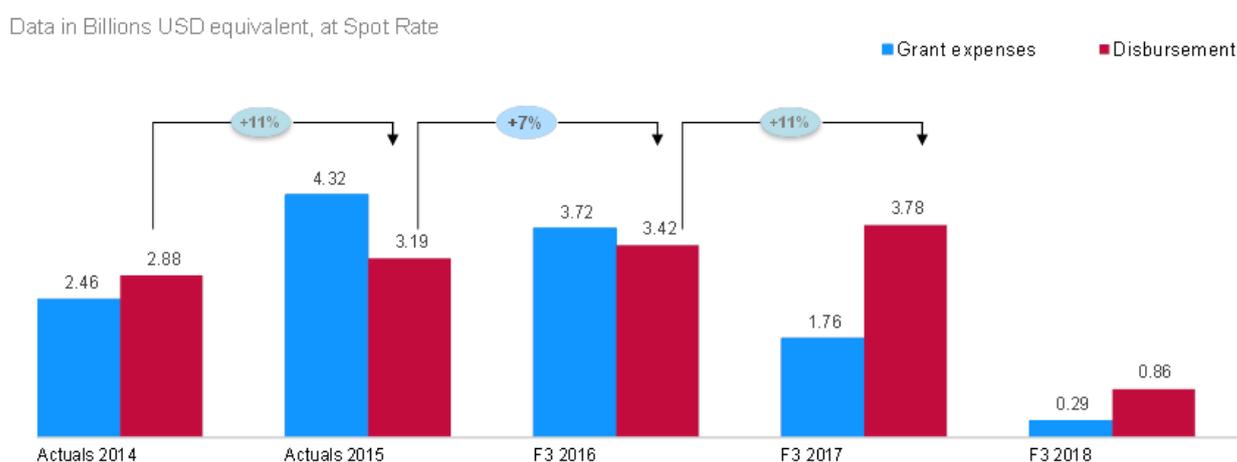
- b. The sources of funds forecasted to remain unutilized by the end of grants originating from the 2014 – 2016 allocation period (the “2014 – 2016 Available Funds”), as presented to the AFC in GF/AFC02/07 – Revision 1, that is included in the 2017 – 2019 sources of funds for allocation following the deliberations of the Audit and Finance Committee (the “AFC”) and Strategy Committee (the “SC”) at their October 2016 meetings.
2. Based on the amount of Sources of Funds for Allocation, the Board will approve the amount of Sources of Funds for Catalytic Investments. The Board will separately discuss and approve the priorities, and their associated costs, to be financed as catalytic investments within the overall amount for Catalytic Investments, as presented in Table 1 in GF/B36/04.
3. Having determined the amount for Catalytic Investments, the Board will approve the remaining available sources of funds for country allocations (the “Sources of Funds for Country Allocations”).

#### **Part 4 - Executive Summary**

4. In order to launch the 2017 – 2019 allocation period, the Board must approve the Sources of Funds for Allocation, from which the amount for Catalytic Investments and Sources of Funds for Country Allocations can be derived.
5. As such, this paper presents the Board with the following for approval at its November 2016 meeting:
  - a. Sources of Funds for Allocation, in the amount of USD 11.1 billion, based on the AFC’s recommendation;
  - b. Sources of Funds for Catalytic Investments, in the amount of USD 0.8 billion, based on the SC’s recommendation; and
  - c. Sources of Funds for Country Allocations, in the amount of USD 10.3 billion, based on the SC’s recommendation.
6. While the information presented in this paper presents a comprehensive overview of the cascade of financial figures and interdependent decisions, it should be read together with the following Board documents that provide additional detail and information on certain components of the overall sequence of decisions:
  - a. GF/B36/02 – Revision 1 presents the Amended CFP, which contains principles and methodologies that form the basis for the calculations presented in this paper, for approval by the Board based on the AFC’s recommendation; and
  - b. GF/B36/04 presents the proposed Catalytic Investment priorities and their associated costs, for approval by the Board based on the SC’s recommendation and the overall Sources of Funds for Allocation.

## Part 5 – Background

7. As a first step towards presenting the Board with a recommendation on the Sources of Funds for Allocation, the AFC reviewed and discussed the updated ALM forecast of sources and uses of funds for the 2014 – 2016 allocation period during its October 2016 meeting, as set forth in GF/AFC02/07 – Revision 1. The updated ALM forecast of sources and uses of funds was the third re-forecast of the year (the “F3”), conducted in August 2016.
8. The F3 resulted from bottom-up estimates for each program, with input provided by the Secretariat’s Country Teams, followed by management validation, before being aggregated at the global portfolio level. Across the portfolio, the implied rate of funds utilization, or absorption rate, for the F3 was 83-percent, except for the portfolio of grants permitted to utilize their 2014 – 2016 total allocation over a period that ended prior to 31 December 2017 (the “Shortened Grants”).<sup>3</sup> The Secretariat acknowledged, when compared to the historical average of 71-percent, the results of the F3 remain conservative in that they assume greater funds utilization than experienced in the past. In particular, embedded in the F3 is a forecasted 11-percent year-over-year increase in disbursements when comparing the F3 2016 and F3 2017 as depicted in Figure 1 below, which shows grant expenses and disbursements from the 2014 – 2016 allocation period.



*Figure 1: Grant expenses and disbursement for the 2014-2018 period (actuals and forecast at spot rate)*

9. Ten countries with the highest balance of forecasted unutilized funds from the 2014 – 2016 allocation period represent 73-percent of the overall forecasted unutilized funds from the 2014 – 2016 allocation period. Of this group, nine are part of the Implementation Through Partnership (the “ITP”) project launched in 2015 to accelerate

<sup>3</sup> This subset of the grant portfolio were permitted under GF/B31/Dp09 to utilize their 2014 – 2016 total allocation over a period that ended before 31 December 2017, the typical end date for the period over which allocations could be utilized given the exceptional, transitional measures of shifting from the rounds-based to the allocation-based funding model.

the effectiveness and efficiency of implementation in collaboration with partners, based on shared ownership and mutual accountability as well as linkage of programmatic and financial targets that could drive improved absorption. As such, the financial data has identified where the largest absorption challenges exist and proactive measures have been initiated to address these challenges as programs move into the 2017 – 2019 allocation period. Figure 2 below depicts the distribution of countries by the remaining balance of forecasted unutilized funds from the F3. It also shows how the forecast identifies parts of the portfolio where there may be greater funding needs as with Shortened Grants (left of the dashed line) and parts of the portfolio that may have a balance of forecasted unutilized funds (right of the dashed line), which inform portfolio optimization considerations.

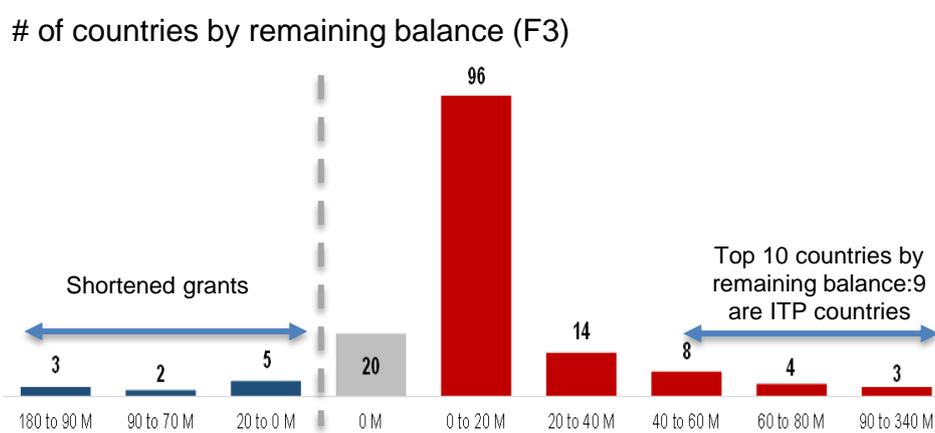


Figure 2: Forecasted unutilized funds: distribution of countries by remaining balance (# of countries by bracket, at F3)

10. Building on ITP as well as findings and recommendations from the Office of the Inspector General (the “OIG”) and Technical Evaluation Reference Group, the work in program quality seeks to improve quality and efficiency of Global Fund investments through country-centric partnerships, data used for action, measurable outcomes and impact, and value for money. As such, program quality is another area intended to drive actions to address the identified challenges that can hinder program implementation.
11. Furthermore, greater focus on supply chain matters comes in response to risk assessments, ITP, as well as OIG reports noting how supply chain concerns pose a systemic challenge to absorption and programmatic impact. Going forward, it represents another priority area to facilitate increased funds utilization and programmatic impact.
12. Having assessed the factors presented above, the AFC recognized and accepted the amount of 2014 – 2016 Available Funds estimated by the Secretariat.
13. The AFC also reviewed the amount of sources of funds that donors have pledged for the Fifth Replenishment Period (2017-2019). Based on its discussions, the AFC acknowledged and endorsed the Secretariat’s presentation on how sources of funds from

the Fifth Replenishment were derived from the announced replenishment results, factoring in the following:

- a. Any additional donor pledges since the replenishment conference on 16 – 17 September 2016.
  - b. Certain adjustments and qualifying deductions, as defined in the Amended CFP, which include:
    - i. Adjustments for foreign-exchange, donor withholdings for technical assistance and other donor-specified conditions; and
    - ii. Qualifying deductions for the Operating Expenses of the Global Fund for the 2017 – 2019 fiscal years.
14. The AFC then agreed on recommending this amount and presented it together with the 2014 – 2016 Available Funds to the SC for consideration of its inclusion in Sources of Funds for Allocation. Based on the SC’s agreement to recommend its inclusion, the Sources of Funds for Allocation recommended to the Board in this paper is comprised of the sources of funds derived from the Fifth Replenishment and the 2014 – 2016 Available Funds.
15. According to the allocation methodology adopted by the Board in April 2016,<sup>4</sup> 15-percent of the overall Sources of Funds for Allocation will be used according to the following parameters:
- a. No more than USD 800 million will be used for catalytic investments;
  - b. No more than USD 800 million will be included as part of the available sources of funds for country allocations to ensure scale up, impact and paced reductions in funding; and
  - c. Flexibility remains to move funds for catalytic investments to further ensure scale up, impact and paced reductions in funding through country allocations.
16. Accordingly, based on the Sources of Funds for Allocation recommended to the Board, the following additional recommendations to the Board were considered by the committees in accordance with their respective mandates:
- a. Sources of Funds for Catalytic Investments;
  - b. That no amount from the Sources of Funds for Catalytic Investments is required to provide further scale up, impact and paced reductions in funding through country allocations; and
  - c. Sources of Funds for Country Allocations, of which up to USD 800 million is to ensure scale up, impact and paced reductions as outlined in the allocation methodology.

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<sup>4</sup> As set forth in Annex 1 to GF/B35/05 – Revision 1 and approved by the Board under decision point GF/B35/DP10.

## Part 6 - Discussion

### Sources of Funds for Allocation

17. Under the current Amended and Restated Comprehensive Funding Policy, the ALM safeguard is 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 whereby potential adjustments due to positive and adverse impacts on sources and uses of funds (e.g., foreign exchange effects and funds utilization/absorption rates) could be factored into the overall net balance. With each re-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 through the end of grants from the 2014 – 2016 allocation period. This provided visibility with respect to the anticipated sources of funds that could remain unutilized by the end of relevant grant terms.
18. The most recent ALM forecast presented to the AFC in October 2016<sup>5</sup> showed a positive ALM balance of USD 1.1 billion having factored the foreign-exchange impact on sources and uses of funds, changes in the risk assessment of pledge conversions, and updated forecasts of absorption rates.
19. In particular, when balancing the positive impact of USD 0.1 billion (0.6 percent) due to changed contribution forecasts against the adverse foreign-exchange impact of USD 1.04 billion (6.0 percent), forecasted sources of funds experienced a net reduction of USD 0.9 billion (5.4 percent). The overall estimated USD 1.04 billion (6.0 percent) adverse impact on sources of funds due to foreign exchange movements constitutes a decrease of USD 0.2 billion since the previous re-forecast presented to the AFC in June 2016.
20. This was balanced against the overall reduction of USD 2.0 billion (11.5 percent) to forecasted uses of funds, comprised of a reduction of USD 0.6 billion (3.6 percent) due to the foreign-exchange impact on uses of funds and further reduction of USD 1.36 billion (7.9 percent) due to slower absorption than previously forecasted.
21. The reduction in uses of funds because of foreign exchange (0.6 billion) is comprised of USD 0.28 billion (1.6 percent) due to a positive foreign-exchange effect with respect to EUR grants and USD 0.35 billion (2.0 percent) due to a positive foreign-exchange effect with respect to local currencies.
22. As such, the net balance of sources and uses of funds was a positive USD 1.1 billion, as presented in Figure 3 below.

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<sup>5</sup> As set forth in GF/AFC02/07 – Revision 1.

Based on F3, in \$B, rounded, not to scale

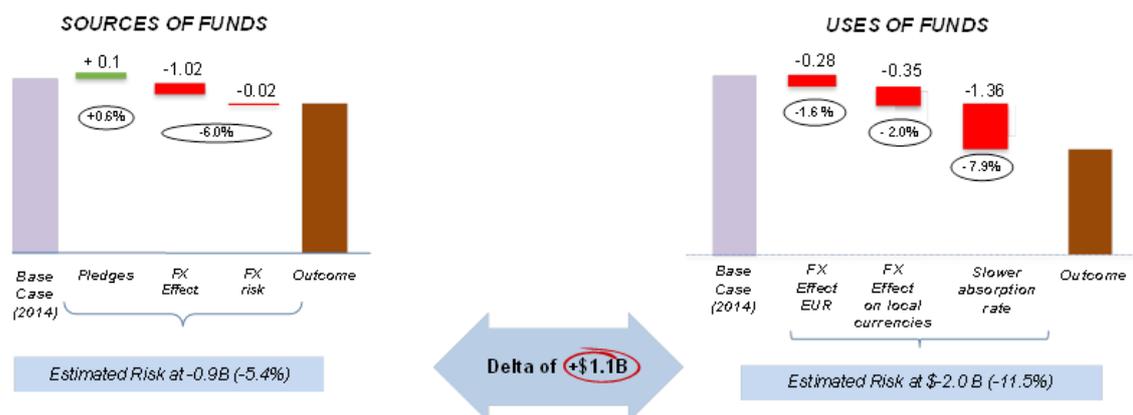


Figure 3: F3 Review of risks on sources and uses of funds and ALM balance (in USD billions)

23. Having regularly updated the forecast over the 2014 – 2016 allocation period, and recognizing the accuracy of the forecast is highest at this later stage of the allocation and replenishment period when the Board has approved 99-percent of country allocations, no further prudency adjustments were taken to reduce the amount of the net positive ALM balance. Accordingly, based on the updated ALM forecast from the F3, the AFC recognized and accepted USD 1.1 billion as the 2014 – 2016 Available Funds. In accordance with the Amended CFP, this amount may be utilized to optimize the portfolio, either by funding items that remain on the 2014 – 2016 allocation period’s unfunded quality demand (the “UQD”) register or to be included as part of Sources of Funds for Allocation for the 2017 – 2019 allocation period.
24. Given these options for the potential use of the 2014 – 2016 Available Funds, the Secretariat reviewed the continued relevance of the interventions on the UQD register as priorities evolved since the initial submission and review of concept notes. Prior to the October 2016 committee meetings, it discussed with the SC how items on the UQD register were prioritized and updated in accordance with the process adopted by the Strategy, Investment and Impact Committee in October 2013,<sup>6</sup> as set forth in GF/SC02/12. The Secretariat prioritized the items on the UQD register based on the review and recommendations of the TRP, and factored in the feasibility of utilizing additional funds in the remaining period of existing grants, considering the trajectory of scale-up and sustainability of funding levels for the country components with the highest priority UQD investments. This allowed for an evaluation of real opportunities where additional funds could have potential for disproportionate impact and comparison of the potential impact of using such funds during the remainder of grants from the 2014 – 2016 allocation period versus using the funds for the 2017 – 2019 allocation period. As many items initially registered as UQD have now been financed through grant-making efficiencies and optimization efforts have addressed other partial or full 2017 funding

<sup>6</sup> As approved by the SIIC under decision point GF/SIIC09/DPO2, under authority delegated by the Board in its November 2012 decision to evolve the funding model under decision point GF/B28/DPO4.

priorities,<sup>7</sup> the Secretariat recommended financing USD 36 million of the remaining registered UQD.<sup>8</sup>

25. However, of the USD 700 million validated by the FOPC in March 2016 as available funding for portfolio optimization, nearly USD 40 million remains available after covering all 2017 priorities with respect to Shortened Grants and Early Applicants. As such, the Secretariat informed the SC that there are sufficient funds remaining from the March 2016 FOPC authorization to cover the remaining, prioritized items on the UQD register. As such, no amount of the 2014 – 2016 Available Funds was recommended for financing items on the UQD register and the full amount of 2014 – 2016 Available Funds was presented to the SC for consideration of its inclusion in Sources of Funds for Allocation for the 2017 – 2019 allocation period.
26. The announced replenishment result of USD 12.9 billion on 17 September 2016 was derived by aggregating non-USD pledges into their USD equivalent based on a 5-year simple moving average, as the AFC was informed at its June 2016 meeting (GF/AFC01/18). The use of this rate allowed for greater comparability between replenishment results as it provides a stable way of reflecting the value of non-USD pledges over a longer term.
27. For purposes of determining sources of funds for allocation, foreign-exchange spot rates were used. This ensured alignment of the amount used for allocation purposes with the value of the foreign-exchange exposure on the reference date of 22 September 2016 that is the basis for hedging under the Global Foreign-Exchange Management Framework approved by the AFC in June 2016.<sup>9</sup> The Global Foreign-Exchange Management Framework aims to minimize the negative impact of foreign-exchange rate fluctuations over an allocation period by providing mechanisms for addressing the hedge-able economic and financial exposure to foreign-exchange risks.<sup>10</sup> Applying the spot rates of the reference date of 22 September 2016 resulted in a deduction of USD 0.89 billion from the announced replenishment results.
28. In accordance with the current Amended and Restated Comprehensive Funding Policy and similar to the methodology applied to obtain the 2014 – 2016 Initial Allocation,<sup>11</sup>

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<sup>7</sup> Partial or full 2017 funding priorities emerged upon the Secretariat's exercise of operational flexibilities provided under Board decision point GF/B31/DPO9. This resulted in a subset of the grant portfolio having grants funded by the 2014 – 2016 total allocation that ended before 31 December 2017, the typical end date for the period over which allocations could be utilized given the exceptional, transitional measures of shifting from the rounds-based to the allocation-based funding model. Additionally, prior to the 2014 – 2016 total allocation, certain grants were approved under the 2013 transition to the allocation-based funding model authorized under decision point GF/B28/DPO5 that were designed and approved to end prior to 31 December 2017 (the "Early Applicants").

<sup>8</sup> Funding recommendations associated with the UQD for such country components will be presented to the Board through the Secretariat's Grant Approvals Committee electronic report.

<sup>9</sup> As set forth in GF/ACF01/06 and approved by the AFC in June 2016 under decision point GF/AFC01/DPO2.

<sup>10</sup> Economic exposure exists from the time of a pledge to the time of signing a contribution agreement whereas the financial exposure exists from the time a contribution agreement is recorded in the financial accounts when signed until the encashment of contributions.

<sup>11</sup> As set forth in GF/B31/06 and approved by the Board in March 2014 under decision point GF/B31/DPO8.

downward adjustments amounting to USD 1.12 billion in aggregate were then taken for the following technical areas:

- a. USD 0.35 billion to account for certain donors withholding portions of their announced pledge amounts to finance technical assistance in countries where Global Fund grant program are implemented;
- b. USD 0.16 billion to account for Debt-to-Health pledges or other permitted earmarked pledges that cannot be considered for allocation purposes given the restricted, targeted nature of such pledges; and
- c. USD 0.61 billion to account for other donor-specified conditions, including any matching pledge amounts from certain donors, up to any predetermined amounts or according to any pre-announced ratios or performance conditions, as well as risk provisions based on historical and anticipated pledge performance across donors.

29. As such, after adjusting for foreign-exchange spot rates, donor withholdings for technical assistance and other donor-specified conditions, the amount of sources of funds is USD 10.9 billion. From this amount, USD 0.9 billion is deducted to account for operating expenses over the 2017 – 2019 three-year period to obtain sources of funds from the Fifth replenishment in the amount of USD 10.0 billion. Figure 4 below illustrates these steps in the calculation of Sources of Funds for Allocation.

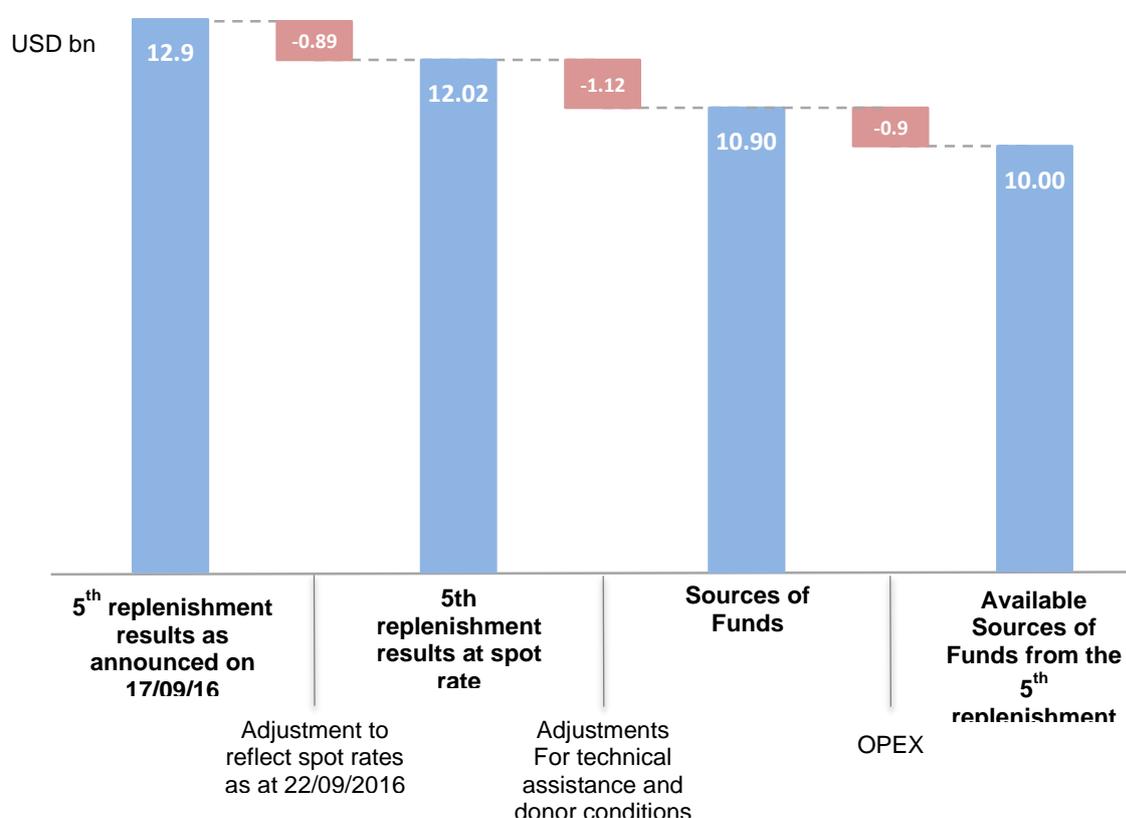


Figure 4: Sources of Funds for Allocation derived from Fifth Replenishment

30. Based on the discussion above, the SC agreed to include the USD 1.1 billion of 2014 – 2016 Available Funds in the 2017 – 2019 allocation. Accordingly, the recommended amount of Sources of Funds for Allocation is USD 11.1 billion, comprised of the USD 1.1 billion of 2014 – 2016 Available Funds and the USD 10.0 billion of sources of funds derived from the Fifth Replenishment, as illustrated in Figure 5 below.

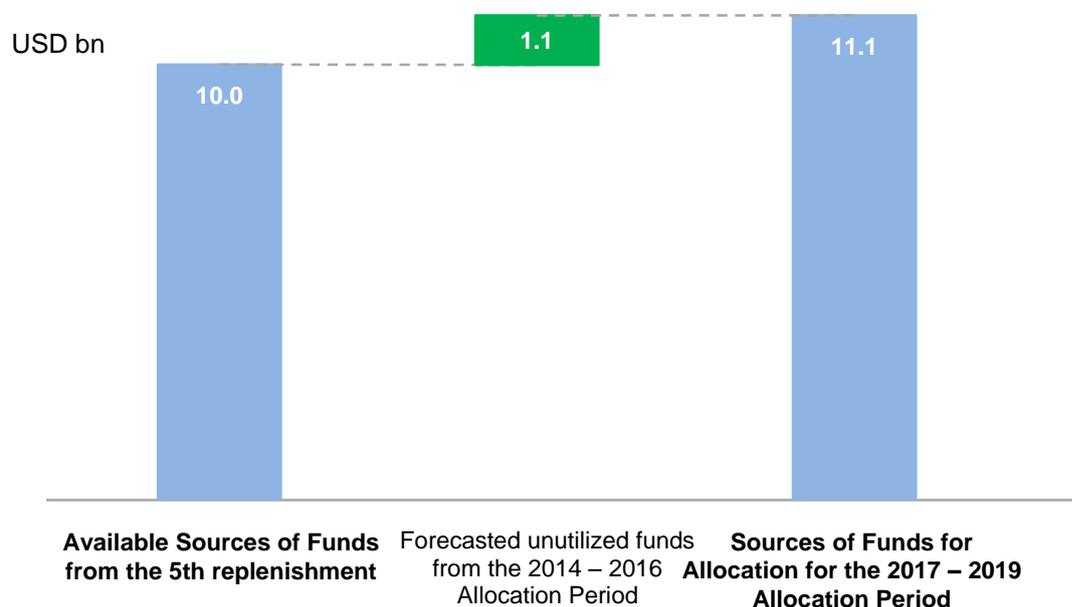


Figure 5: Sources of Funds for Allocation for 2017 – 2019 allocation period

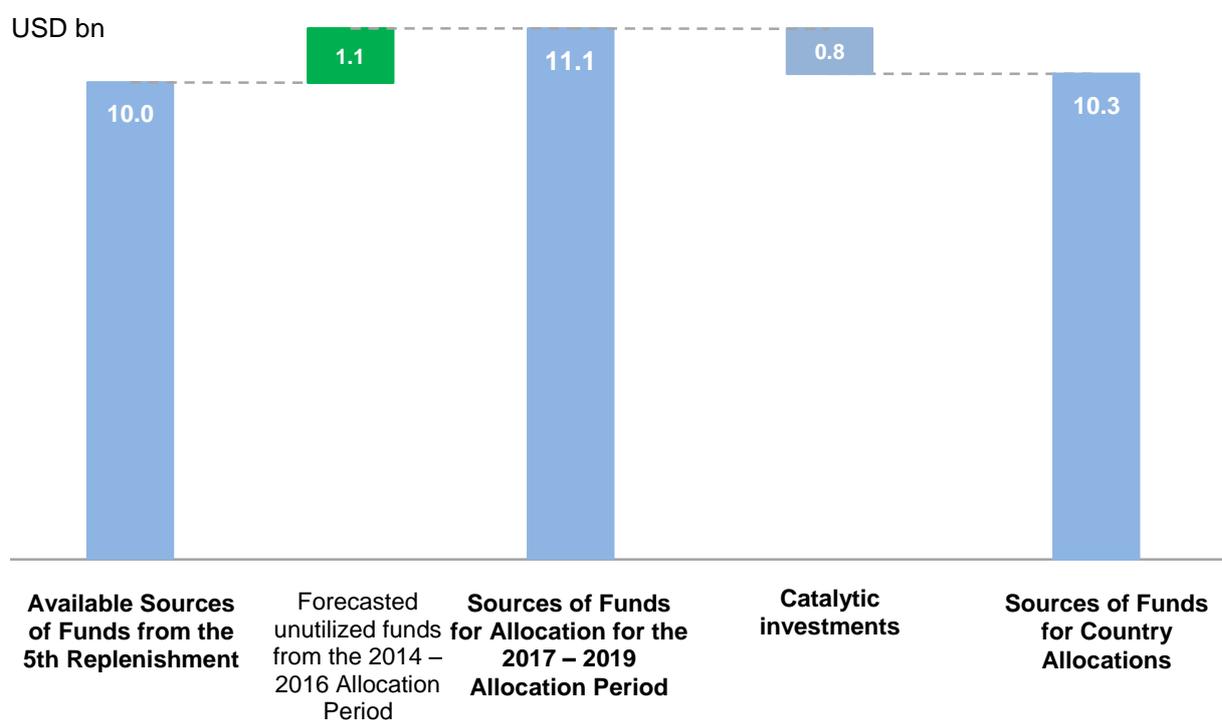
#### Catalytic Investments and Scale Up, Impact and Paced Reductions

31. Based on the amount of Sources of Funds for Allocation, the Secretariat confirmed to the AFC and SC that the maximum of USD 0.8 billion for Catalytic Investments and USD 0.8 billion to ensure scale up, impact and paced reductions through country allocations are available.
32. Both committees then received the proposed priorities, as well as associated costs, for use of the available USD 0.8 billion for Catalytic Investments. The SC then engaged in detailed discussions to formulate its recommendation with respect to priorities and associated costs within the overall amount for Catalytic Investments, as presented to the Board in Table 1 in GF/B36/04.
33. The allocation methodology provides for the flexibility to move amounts available for Catalytic Investments to further provide scale up, impact and paced reductions through country allocations. The amounts needed to support paced reductions from previous funding levels, beyond that achieved through the movement of USD 0.8 billion to balance scale-up, impact and paced reductions through the allocation formula itself, can be adequately addressed through the qualitative adjustment process approved by the SC in June 2016. Therefore, as described further in GF/B36/04, no such amounts were recommended by the SC to be drawn from Catalytic Investments.

34. Accordingly, the final amount for Catalytic Investments recommended by the SC after its October 2016 deliberations is USD 0.8 billion.

Sources of Funds for Country Allocations

35. Altogether, when USD 0.8 billion for Catalytic Investments is removed from USD 11.1 billion Sources of Funds for Allocation, the resultant amount of Sources of Funds for Country Allocations is USD 10.3 billion. Within this amount, the USD 0.8 billion to ensure scale up, impact and paced reductions is used in full through the allocation formula itself. Figure 6 below illustrates the full cascade of sources of funds recommended by the AFC and SC for Board approval.



*Figure 6: Sources of Funds for Allocation, Catalytic Investments and Country Allocations for the 2017 – 2019 allocation period*

36. The distributions of funding resulting from the use of these Sources of Funds for Country Allocations, as presented in Figure 7 below by region, income category and disease burden categories, are fully in line with those presented in April 2016 when the Board adopted the allocation methodology.

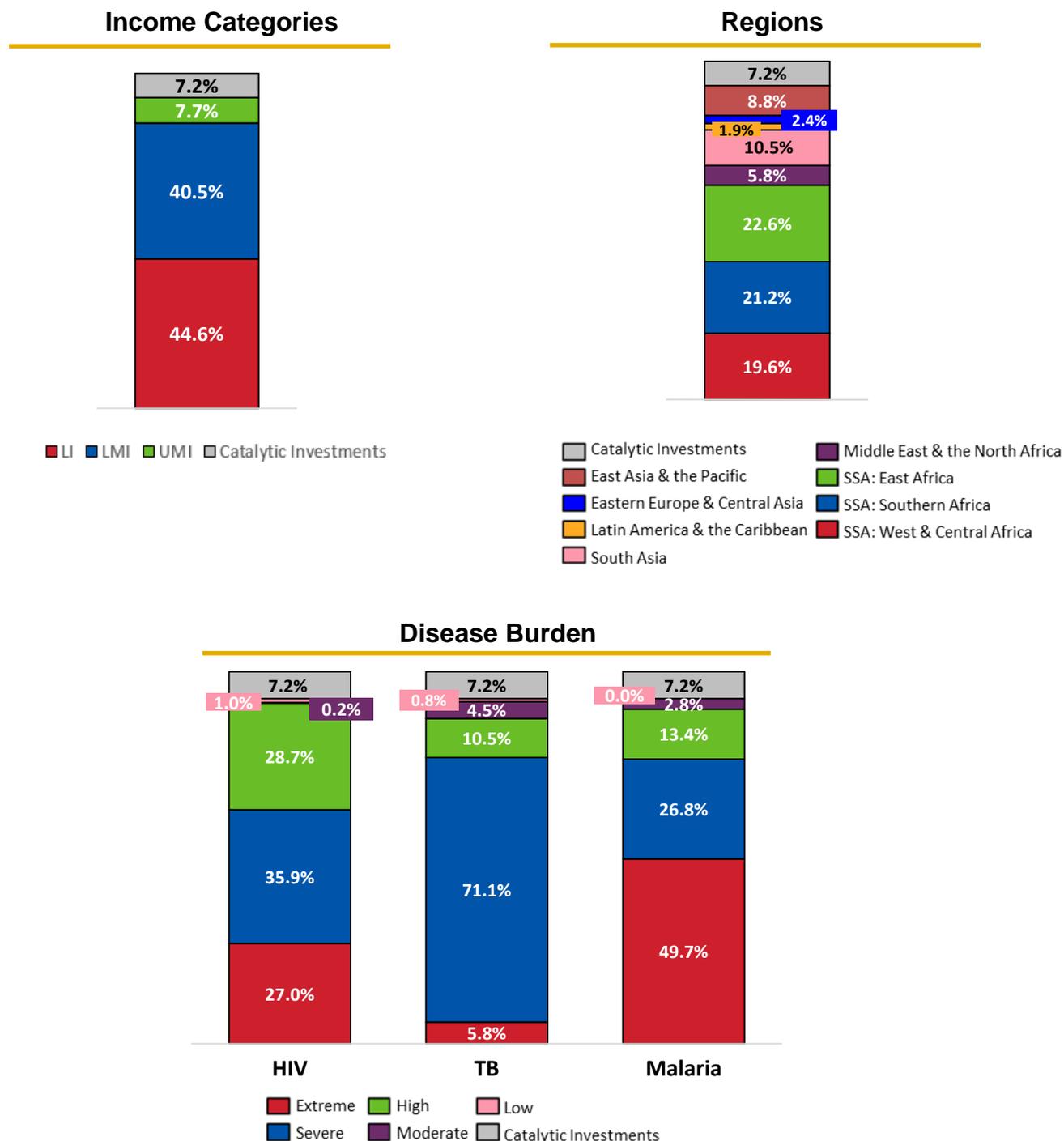


Figure 7: distribution of Sources of Funds for Country Allocation by region, income category and disease burden categories<sup>12</sup>

<sup>12</sup> Income categories reflect the 2014 World Bank income classifications and the disease burden categories reflect the burden categories to be set forth in the 2017 Global Fund Eligibility List (forthcoming).

### Summary of Interdependent Sources and Uses of Funds

37. The inclusion of 2014 – 2016 Available Funds in the Sources of Funds for Allocation required consideration of how these available resources might be used for greatest impact. This included assessing the priorities that may remain from the 2014 – 2016 allocation period, including UQD. It also required consideration of the impact of not adding 2014 – 2016 Available Funds to the Sources of Funds for Allocation for the 2017 – 2019 allocation period, particularly in terms of the amount that may be available for catalytic investments and country allocations.
38. Should the 2014-2016 Available Funds not be made available for Sources of Funds for Allocation, the lower level of funding available would mean that the total amount of funding available for Catalytic Investments would be reduced to USD 0.74 billion.<sup>13</sup> Likewise the portion of available Sources of Funds for Country Allocations to ensure scale up, impact and paced reductions in funding would be reduced to USD 0.74 billion.<sup>13</sup>
39. A lower level of Sources of Funds for Country Allocations results in a lower amount that is available to ensure scale up, impact and paced reductions through country allocations. Consequently, this scenario potentially triggers the need to draw an estimated USD 0.2 billion from the amount of funding available for Catalytic Investments to fill critical gaps in country allocations<sup>14</sup>. This would reduce the available funding for Catalytic Investments to USD approximately 0.54 billion, and accordingly the funding for the proposed priorities set out in GF/B36/04 would need to be significantly reduced to meet the lower funding level.

### **Part 8 - Recommendation**

40. Based on the discussion presented in this paper, the Board is requested to approve the respective recommendations of the AFC and SC, as outlined below:
  - a. AFC's recommendation on the Sources of Funds for Allocation for the 2017 – 2019 allocation period, in the amount of USD 11.1 billion, which includes 2014 – 2016 Available Funds in the amount of USD 1.1 billion based on the ALM forecast and the SC's recommendation on its use;
  - b. SC's recommendation on Catalytic Investments for the 2017 – 2019 allocation period, in the amount of USD 0.8 billion, as further detailed in GF/B36/04 – Revision 2; and
  - c. SC's recommendation on the Sources of Funds for Country Allocation for the 2017 – 2019 allocation period, in the amount of USD 10.3 billion, of which USD 0.8 billion is

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<sup>13</sup> Considering the 15-percent limitation of the overall Sources of Funds for Allocation available to be used for Catalytic Investments and sources of funds to ensure scale up, impact and paced reductions, as set forth in Annex 1 to GF/B35/05 – Revision 1 and approved by the Board under decision point GF/B35/DP10.

<sup>14</sup> Should the 2014-2016 Available Funds not be made available for Sources of Funds for Allocations, country allocations to high impact countries would be reduced by USD 0.74 billion, taking many of them below critical programming levels.

to ensure scale up, impact and paced reductions according to the allocation methodology.