GLOBAL FUND WILL NEED TO RE-ALLOCATE $1.3 BILLION IN RESOURCES BY END-2017

The Global Fund will need to re-allocate an estimated $1.3 billion to ensure continuity of services through 2017, due to the decision to allow some countries to shorten the length of grants approved under the new funding model — assets that will likely be found from other countries' inability to absorb all of the funds they've been allocated.

This prediction was contained in a midterm assessment of the Fund's financial status prepared for the Board and delivered during the 32nd Board meeting concluded on 21 November in Montreux, Switzerland.

Revised figures show that disbursements for 2014 will equal some $3.1 billion: lower than forecast and due in large part to delays in the development and submission of concept notes by countries as they work to translate the new requirements of NFM proposals into robust and actionable concept notes. This lower disbursement will not result in any interruption to program continuity: on the contrary, it will allow for spending to keep pace with the roll-out of activities and sourcing of commodities for the three diseases.

Decreased spending in 2014 will likely be made up in early 2015 as more and more countries proceed to the grantmaking phase of the NFM. Estimated spending for 2015 is set to increase to $4.0 billion. By 2016, spending will increase to $4.1 billion, and in 2017, the remainder of the funds committed during the fourth replenishment in December 2013 — another $3.9 billion — will have been spent, according to the forecast presented by Chief Financial Officer Daniel Camus.

The financial forecasting represents the latest step in the transformation of the Fund's fiscal discipline and fidelity to a Comprehensive Funding Policy that mitigates the risk of over-commitment and borrowing against future donations that occurred in the Fund's early years. That over-commitment was, in large part, why the existing pipeline of committed funds going into the fourth replenishment and into the NFM was more than $9 billion.

Still, challenges remain, including the reliability of the forecasting and the evolution of the corporate and financial culture within the organization. For example, better forecasting of the foreign currency market is needed so as to ensure there are fewer losses to fluctuations in the forex markets. Camus estimated that some $140 million in donor commitments have been swallowed in 2014 by the shifts in European currencies against the US dollar. However, that $140 million in ‘loss’ can be balanced by an estimated $270 million that will be saved 2014-2016 in a tightening of procurement and sourcing procedures that focus on cost-control and market-shaping in the upstream supply chain.

Continued implementation of proper, professional best practice will mean even more savings, Camus emphasized, freeing up more resources to apply to those disease components eligible for incentive funding as well as to the register of unfunded quality demand.

Better best practices in finance management

Better cash management at the country level will also help improve the organization’s overall bottom line. This is why country teams are working to ensure that financial transactions are timely and efficient, rather than letting money sit in bank accounts and risk further depreciation due to currency fluctuations.

The Fund will also work with countries identified as politically difficult to find better ways to transact. There are several countries within the portfolio, Camus said, where international banks face legal obstacles to operating — leaving these vulnerable countries even more exposed to the risk of disbursement delays that can have an impact on programming.

“The world outside the Global Fund is there, so we need to equip ourselves with systems, teams and policies to respond to that,” he told Aidspan on the margins of the meeting. “We need a technical edge to come to grips [with the wider geopolitical context in which the Global Fund operates].”

To ensure adherence to the CFP, the Fund is also looking to free up cash assets currently being held by the World Bank of $4 billion. In the past, keeping cash reserves with the bank was a way to ensure some degree of financial safety in the system; now, however, with the Global Fund having some $17 billion over the next three years, it is time to put those funds to work, said Camus.

Countries in the sub-Saharan African region are those having the most trouble in putting their funds to work, based on the projections developed by Camus’ team. This is due to historical difficulties in actually spending the money they receive as well as delays in disbursements. This combined inability to spend what they have but also identify what they need has made it imperative for the Fund’s country teams to work more closely with their implementing counterparts — an imperative that has yet to be fully realized. Financial management capacity-building may, therefore, be incorporated into the technical assistance being provided at country level during the next phases of the NFM, once grant-making begins.

Shortened grants

Some countries were approved to shorten the grant period due to the amount of the allocations they received for individual disease components — an amount that would fall short of supporting existing programming for essential services. By shortening the grant period — from three to two years, for example — it would ensure their ability to ‘frontload’ their programming and pay for all of the services they would need to provide to the population.

But this then meant that there would be a gap in that third year — a gap that carries with it a moral imperative to ensure that services would continue. This moral and money gap is projected to be worth some $1.3 billion. So where will that money come from?

As Aidspan understands based on extensive (and often bewildering) conversations around the Secretariat and with representatives from various Board delegations, the funds will be drawn from a number of sources:

- cost savings and efficiencies within other grants, and within sourcing and procurement;
- funds committed early under the fifth replenishment, set for mid-2016;
- some $600 million that is likely to come in from high net worth individuals in 2016; and
- money that will be left on the table by other countries that will be able to absorb their entire allocation during the allotted time period.

“Based on what we know now, when we look through 2017 at all countries and grants and predict what they will spend based on capacity, we think that there is $1.3 billion they won’t be able to spend,” Camus said. “So we felt that it was a good idea to give approval for shortened grants for that 1.3 billion, and really, they’re necessary because of the formula: there are critical gaps in-country and we cannot afford to leave them there. We don’t want money sitting there, unused.”

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