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The Global Fund opens consultations on innovative finance mechanisms

The Global Fund has been innovating in program design as well as financing since its inception. With financing initiatives like Product(RED), Debt2Health, and the India Health Fund, the organization has been a leader in developing novel approaches that help it to continue financing life-saving prevention and treatment programs aimed at ending the AIDS, tuberculosis, and malaria pandemics.

However, the emphasis in the Sustainable Development Goals on increasing domestic resource mobilization in implementing countries and continued pressure on donor budgets means that the financing architecture for health has changed significantly in the past few years. To respond to these changes and take stock of the opportunities they present, the Global Fund has embarked on a consultation to take a closer look at how innovative finance can be used to achieve greater impact in in Global Fund-supported programs.

“We’re not looking to fundamentally change the model,” said John Fairhurst, Head of Private Sector for the Global Fund. “We recognize that countries are innovating significantly around health financing and we think it’s right to ask the question about the role the Global Fund can play to support that innovation.”

Despite the success of many of the Global Fund’s financing initiatives over the years, each of those programs was treated as a one-off, with no real strategy around how to grow them and no set of criteria for evaluating potential opportunities for leveraging Global Fund resources presented by partners and other outsiders. The goal of the consultation process is to create a toolkit that countries, development partners, the private sector, and civil society can use to work with the Global Fund at the country level in ways that are consistent with the Global Fund’s business model.

“We need to make choices about what we do and we need to create a clearer set of priorities,” Fairhurst said. “Having a more comprehensive approach would allow us to be more strategic about the role we play in supporting domestic financing and in how we support partners.”

The Global Fund is being asked by partners to participate in financing schemes for which it neither has a clear policy nor a set of criteria by which to judge whether there is any benefit to the Global Fund or the programs it supports. For example, there was considerable discussion at the 37th Board Meeting about a Global Fund investment into a World Bank performance-based funding project. Although the Board approved the administrative agreement that was being sought, it had serious concerns at the time about the agreement setting a precedent for how it operates, and requested that the Secretariat develop a framework to guide future consideration of investments with development partners.

The toolkit will serve as a guide both to the Global Fund and to its partners to give clarity on how to approach the Global Fund about potential collaborations and what the Global Fund requires in terms of governance, oversight, and reporting. Having clear priorities and boundaries will enable stronger partnerships to develop and allow the Global Fund to play a more catalytic role in the health financing architecture that underpins most of the projects it supports.

The Two Sides of Innovative Financing: Direct and Indirect

To inform its thinking and discussions around the innovative finance agenda, the Global Fund has determined that there are two roles it can play when evaluating health financing opportunities: direct and indirect.

The direct role is where the Global Fund actually provides financial support. The indirect role is to work with others by coordinating and aligning around a more consistent agenda for health financing. Since everything the Global Fund does interacts with national strategies anyway, the goal in this case would be to support the partners around the table who are helping countries to bring their strategies to life. The Global Fund is, therefore, looking at innovative mechanisms to inform how it can mobilize resources for others, create mechanisms in the domestic financing space to mobilize funds for country governments, and create platforms that help countries transition away from Global Fund support and go on to grow and create opportunities and new solutions on their own.

“It could be that in some circumstances, if we can create the right mechanisms and incentives to those institutions, we can add a lot of value to our agenda,” Fairhurst said. “We need to make sure, though, that it’s consistent with our systems and how we work.”

As a result, the Global Fund is taking stock not only of all of the initiatives that it has created in the past, but of the different initiatives that it has either been asked by partners to participate in or those for which countries have shown a lot of interest in terms of increasing domestic financing for health.

In its presentation on innovative finance to the Board in May, the Global Fund organized its work in innovative financing into three categories:

- Initiatives aimed at increasing revenues. This category comprises programs aimed at channelling new revenue to the Global Fund and programs that are aligned with the organization’s mission. Examples include: Product(RED), pooled health funds, philanthropic investment platforms, pooled private sector-led platforms, charity lotteries, and debt swaps.
- Initiatives aimed at incentivizing investments, such as co-financing with development partners, blended financing with development partners, and programs such as the Affordable Medicines Facility-Malaria, also known as AMF-m, which work to reduce input prices.
- Initiatives aimed at improving delivery, such as results- or performance-based financing and

outcomes-based financing, including impact bonds.

Increasing Funding and Efficiency for Greater Impact

The Global Fund has experience in, or is currently exploring opportunities in, all of the areas listed above. Debt swaps is an example of one type of innovative financing program that has been a success for the Global Fund.

Launched in 2007 at the organization's second replenishment conference in Berlin, Debt2Health started with an agreement between the German and Indonesian governments to cancel €50 million of Indonesia's debt on the condition that Indonesia invest half of the freed-up money into national health programs through the Global Fund. Since then, Germany has signed three more agreements—with Cote d'Ivoire, Egypt, and Pakistan—and Australia and Spain have made Debt2Health deals with Cameroon, the Democratic Republic of Congo, Ethiopia, and Indonesia.

Under the initiative, creditors relinquish a part of their rights to repayment of loans on the condition that the beneficiary country invests the freed-up resources (what would have been a loan repayment) into programs approved by the Global Fund. It is a simple yet effective win-win proposition that combines reduction of debt with an increase in domestic funding for health. Fairhurst says it is a very important part of the toolkit and the Fund's hope is that it will grow over time. "We know that it works," he said. "It's converted almost €170 million of debt into additional funding to the Global Fund since 2007."

Another initiative that the Global Fund is considering including in its toolkit is "blended finance," including loan buy-downs. These refer to the strategic combination of grants with government-sourced loans, resulting in a highly concessional financing package. Like debt swaps, the money that is freed up from the buy-down of the loan would be used to cover an identified funding need or ensure the smooth transition from international to domestic funding of a country's health program.

Although the Global Fund is currently in the exploration phase to determine how loan buy-down transactions could work within its business model, some of its partner organizations have made this type of transaction an integral part of their work. In March 2017, for example, the Global Financing Facility in Support of Every Woman Every Child (GFF) announced that Guatemala would benefit from a performance-based World Bank loan buy-down from the GFF Trust Fund. In this case, grant funds from the GFF were linked to key results and enable Guatemala to receive more concessional terms than standard World Bank loan terms. The government has committed to match the resources that are freed up from debt payments with additional domestic resources and reinvest the combined amount into a conditional cash transfer program that aims to improve the health and nutrition status of families.

In the Global Fund's case, the goal of participating in an initiative like a buy-down would be to leverage its resources both to make it possible to support an increase in a country's domestic resource mobilization and to better coordinate and support health financing in the country by joining forces with development partners in an innovative financing initiative.

Editor's Note: Debt swaps and blended finance are only two of the types of initiatives that the Global Fund is reviewing as part of this consultation process. In the next article in this series of three, the Global Fund Observer will delve into outcomes-based financing and discuss the pros and cons of mechanisms such as impact bonds and social success notes.

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