BLENDED FINANCE: A FRESH BREATH OF INNOVATION FOR THE GLOBAL FUND

Since the approval of the Sustainability, Transition and Co-Financing (STC) Policy in 2016, the Global Fund has begun exploring innovative financing mechanisms as a way of increasing co-financing and program sustainability and, in the process, scaling up HIV, TB and malaria services in low- and middle-income countries. One such mechanism is blended finance, which the Fund is now exploring in more detail in partnership with development finance institutions (DFIs), including development banks such as the World Bank and the Inter-American Development Bank (IDB).

Up until now, the Global Fund has provided grants directly to the implementers of a particular country's program; blended finance would be a step away from this traditional model, potentially allowing the Global Fund to provide grants in more innovative ways.

What is blended financing and what does the Global Fund hope to achieve?

Blended financing is the mixture of grant funding and non-grant financing (equity or debt) to fund a particular project, intervention or disease program. Depending on the needs of the country, blended finance can be used to help improve the performance of a project or leverage additional resources with a small amount of grant funds. To give an example, in April 2003 the World Bank, in partnership with the Bill and Melinda Gates Foundation and the United Nations Foundation, established a $50 million pooled investment fund with the aim of eradicating polio in Pakistan and Nigeria, two countries that were facing limitations on their spending capacity for polio eradication programs. The goal of the fund was to leverage grants from development partners, such as Rotary International or the U.S. Centers for Disease Prevention, to buy down (i.e. pay a portion of) each country's respective debt repayments to the International Development Association (IDA) conditional on achieving polio-immunization targets. This is known as “buying down a loan.”

Thus, the grants were used to both incentivize countries to achieve specific healthcare outcomes, as well as to provide them with increased access to finance. Though no publicly available statistical study was performed to measure the actual impact of the fund in helping eradicate polio, positive healthcare outcomes were noted in both Nigeria and Pakistan, with Pakistan now almost polio-free.

In a similar fashion to the example outlined above, the Global Fund is exploring the possibility of engaging in comparable projects in the context of HIV, TB and malaria programming. A couple of potential agreements that the Global Fund is exploring are listed below:

Vietnam loan buy-down

Because of a change in the country’s income classification (from low-income to lower-middle-income status), when Vietnam is seeking a loan, it will now need to apply at the International Bank for Reconstruction and Development (IBRD), whose terms are set at interest rates higher than those that the country has traditionally been able to access. To incentivize Vietnam to continue financing projects and specific interventions in the health sector, the World Bank, the Global Fund and the country are discussing if the Global Fund may provide a grant (i.e. a loan-buy down) to reduce the burden of Vietnam’s future debt obligations and incentivize the government to make additional investments in specific health sector activities supporting the three diseases.

Financing for malaria elimination in Central America

To help accelerate the elimination of malaria in Central America, the IDB is setting up a blended finance facility (as part of the Regional Malaria Elimination Initiative – RMEI) to help strengthen technical assistance, harmonize donor and technical partner malaria elimination efforts, and provide countries in the region with greater access to concessional debt financing: i.e. loans that have more generous terms than standard market loans. The Global Fund is exploring the possibility of contributing $6 million in funding to the RMEI. The Bill and Melinda Gates Foundation is also a potential donor to this initiative.

These projects, along with other possible blended financing agreements, would allow the Global Fund to explore new ways of supporting national disease programs and health systems, and to test new financing methods in partnership with development finance institutions.

Agreements such as these would inject much needed financing to governments and projects that are under fiscal space constraints, with the aim of achieving improved outcomes in the health sector.

Addressing risks with the blended finance approach

While the Global Fund’s decision to explore new financing mechanisms to address health development issues is a step in the right direction, the diverse scope and complicated nature of the arrangements will bring a number of challenges and risks to the organization.

First, in certain blended finance agreements, it is possible that the Office of the Inspector General (OIG) may not have full access to the projects’ books and records, and so may not be able to provide assurance that the Global Fund’s investment is achieving its desired objective. Whether or not a particular blended finance arrangement affects the OIG’s mandate will depend on the specifics of the agreement with the development partner. The Secretariat told Aidspan that in its exploration of blended finance mechanisms, it is working to ensure there is strong overall Global Fund assurance, including access rights which will enable the OIG to fulfil its Board-approved mandate.

Second, given the Global Fund’s lack of historical knowledge and previous participation in these types of innovative financing mechanisms, the organization may be initially reliant on development partners to advise on the optimal structures and arrangements to achieve desired outcomes. However, to ensure that the Global Fund grants are allocated optimally across projects over the long run, the organization will need to begin hiring trusted experts to advise on new blended financing proposals, and, potentially, will need to create a dedicated team to evaluate and monitor the possible risks and benefits of future projects. The Secretariat told Aidspan that it is working to strengthen its capacity to develop and oversee investments in blended finance.

Third, up until now the Global Fund's blended financing arrangements have been explored mostly on an ad hoc basis. Given the fact the innovative financing initiative is still in the infancy stage, this should not be a cause for concern. However, if the Global Fund goes beyond exploration and starts to engage in blended finance projects, it will have to develop a well-structured framework assessing both the viability and impact of new projects, and the requirements that will need to be met for the organization to enter into any new agreement.

A step in the right direction

It is important to note that blended finance is not envisioned as something that will replace standard Global Fund grants. It is envisioned as an additional tool to be used in limited circumstances where there is a clear strategic rationale.

Nevertheless, blended financing arrangements, along with other types of innovative financing mechanisms, would be a step in the right direction for the Global Fund. These initiatives would allow the organization to address development challenges in innovative ways that may have not been possible with traditional grant contributions to the programmatic needs of a country. However, at the same time, given the risks involved with these new methods, the Global Fund will need to proceed with caution, and develop a comprehensive framework to guide any future blended financing arrangements.

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