Aidspan
Independent observer
of the Global Fund

Global Fund’s Co-Financing Policy: A primer

There appears to be some confusion among in-country stakeholders regarding the co-financing portion of the Global Fund’s Sustainability, Transition and Co-Financing (STC) Policy. So, in this article, we provide a detailed explanation.

The STC Policy was adopted by the Board in April 2016. The co-financing portion of the policy (hereinafter the “Co-Financing Policy”) replaced the Global Fund’s policies on willingness to pay and counterpart financing.

In the context of the Global Fund, co-financing refers to domestic public resources and domestic private contributions that finance the health sector and the national response against HIV, TB and malaria. The sources of co-financing include: government revenues; government borrowings; social health insurance; debt relief proceeds, including Debt2Health arrangements with the Global Fund; and private sector contributions from domestic corporations that finance national strategic plans. All other forms of international assistance, even when channeled through government budgets, are not considered to be co-financing.

All country components must comply with the Co-Financing Policy. Multi-country (including what used to be called “regional”) and non-CCM applicants are exempt. (In instances where some or all of the funding for a multi-country grant comes from country allocations, as opposed to the catalytic funding stream, the applicant does have to comply with the Co-Financing Policy. However, so far, this circumstance has arisen only very occasionally.)

This article covers the following topics:

- the core prerequisites of the Co-Financing Policy;

- the co-financing incentive;
- the co-financing requirements;
- compliance with the co-financing requirements; and
- implementation of the Co-Financing Policy.

Core prerequisites

The Co-Financing Policy contains two core prerequisites:

- Prerequisite No. 1 — Government expenditures on health to meet national universal health coverage (UHC) goals must progressively increase from one allocation period to the next; and
- Prerequisite No. 2 — The proportion of Global Fund–supported programs covered by domestic resources must progressively increase from one allocation period to the next (in other words, national governments or other domestic sources must fund an ever-increasing share of the cost of national disease programs).

How is the Co-Financing Policy being applied in your country? Please see the request for feedback at the end of this article.

Although the policy refers to allocation periods, in practice the co-financing prerequisites are applied to the implementation periods of the grants that are financed from the allocations.

With respect to Prerequisite No. 1, progressive government expenditures on health, the Global Fund states that governments should increase their health expenditure in accordance with recognized international declarations and national strategies. The Global Fund says that:

- for countries where government spending on health is less than 8%, this share should increase over the implementation period of the grants;
- for countries where government spending on health is equal to or greater than 8%, health expenditure should increase in line with government expenditures such that the current share is at least maintained during the implementation period of grants; and
- for countries that have high, severe or extreme disease burdens for two or more disease components, and that have a low prioritization of government spending on health or low capacity for domestic revenue capture, they should commit to developing a robust health financing strategy and incorporating its provisions in national development frameworks (such as medium-term expenditure frameworks) before the end of 2020.

Regarding Prerequisite No. 2, increasing co-financing of Global Fund–supported programs, the Fund states that during the implementation period of the grants, applicants should demonstrate increasing co-financing to progressively absorb costs of key program components such as human resources; procurement of essential drugs and commodities; programs that address human rights–related and gender-related barriers; and programs for key and vulnerable populations.

The Global Fund considers that these two prerequisites will reduce dependence on external resources and will pave the way towards long-term sustainability.

The co-financing incentive

In order to induce each country to meet its co-financing requirements, the Co-Financing Policy includes a co-financing incentive amounting to not less than 15% of the Global Fund allocation for each disease component. This is probably the part of the policy that causes the most confusion. The way it works is as follows:

- the Global Fund "freezes" (or withholds) the amount of the co-financing incentive; and
- the country must both commit to, and then realize, sufficient additional investments, compared to the previous implementation period, in order for the co-financing incentive to be unfrozen (or released).

For many people, calling the co-financing incentive an "incentive" seems a little odd. But the co-financing incentive does constitute an inducement for the country to meet its co-financing requirements. If the country does not meet the requirements, and does not receive an exemption, it faces the prospect of losing a significant portion of its allocation (up to 15% and sometimes higher).

An important provision of the Co-Financing Policy states that the co-financing incentive is "not less than 15%," which means that it can be more than 15%. This applies to all countries regardless of their income level. The exact portion is at the discretion of the Secretariat, and is communicated to countries in their allocation letters.

According to the Global Fund's Operational Policy Note (OPN) on Co-Financing, contained in the Fund's Operational Policy Manual), the co-financing incentive may be set at greater than 15% based on one or more of the following factors:

- there is evidence that government spending on health is less than 8% of its total spending;
- there is a need to proactively strengthen transition planning for countries categorized as upper-middle-income (UMIC), regardless of disease burden; and for countries categorized as lower-middle-income (LMIC) with at least one component that has a low or moderate disease burden; and
- there are other country-specific contextual factors — such as how the country compares with peers of the same income categorization and region; macro-economic and fiscal trends; programmatic performance and impact against the three diseases; the overall funding landscape for the three diseases; and previous co-financing commitments.

The size of the co-financing incentives ranges from 15% to 30% across the Global Fund portfolio. For grants emanating from the 2017–2019 allocation cycle, approximately 35% of the portfolio has a co-financing incentive above 15%.

Co-financing requirements

So, how are each country's co-financing requirements determined?

The co-financing requirements are differentiated based on income level and disease burden. The additional domestic investments must be more than the domestic investments made in the previous implementation period, by at least:

- 50% of the co-financing incentive for low-income countries (LICs); an

- 100% of the co-financing incentive for LMICs and UMICs.

Here are two examples (the country names are fictitious):

EXAMPLE 1 –– LIC

Ruritania, an LIC, received an allocation of $234.6 million for 2017–2019.

Ruritania's co-financing incentive is $234.6 million x 15% = $35.2 million.

Ruritania's minimum additional co-financing requirement is $35.2 million x 50% = $17.6 million.

EXAMPLE 2 – LMIC or UMIC

Matamboa, an LMIC, received an allocation of $139.8 million for 2017–2019.

Matamboa's co-financing incentive is $139.8 million x 15% = $20.1 million

Matamboa's minimum additional co-financing requirement is $20.1 million x 100% = $20.1 million.

NOTE: Both examples above assume that the co-financing incentive was 15% of the allocation. In the majority of cases, this is what happens. However, as mentioned above, about a third of the countries have co-financing incentives for grants emanating from the 2017–2019 allocations that are above 15%.

The Global Fund stresses that the above requirements constitute a minimum. The Fund actively encourages countries to make additional commitments in line with overall health needs, national strategic plan targets, and fiscal capacity of the country. Many countries do commit more than the minimum.

The Co-Financing Policy spells out conditions concerning the focus of the additional co-financing investments. Specifically:

- For LICs, the additional co-financing investments should be in line with the country's priority areas within the disease program or RSSH. One hundred percent of the additional investments can be applied to RSSH activities.
- For lower-LMICs, the additional co-financing investments should be in line with the country's priority areas within the disease program or RSSH, with at least 50% of additional investments going to disease program interventions.
- For components in upper-LMICs with a disease burden classified as high, severe or extreme, the co-financing investments should be in line with the country's priority areas within the disease program or RSSH, with at least 75% of the additional contributions going to disease program interventions.
- For components in upper-LMICs with a disease burden classified as low or moderate, the additional co-financing investments should be focused on addressing systemic bottlenecks for transition and sustainability, with at least 75% going to priority areas within the disease programs. The policy states that these bottlenecks should be identified by the country through a transition readiness assessment (TRA), a transition work plan, national strategic plans or other relevant assessments.
- For UMICs, regardless of disease burden, 100% of the additional co-financing investments should focus on activities in disease components or RSSH activities that specifically address roadblocks to transition. At least 50% of the investments should go towards specific activities that support key and vulnerable populations.

The Global Fund states that country teams may agree to a different distribution of the focus of additional investments under certain conditions (see the OPN on Co-Financing for details).

The Secretariat must verify and “approve” the co-financing commitments proposed by each country.

The Global Fund states that the co-financing commitments must be evidenced through allocations to specific budget lines or through other agreed assurance mechanisms.

The Secretariat applies a differentiated approach to approval (and monitoring) of the co-financing commitments, based on risk. Examples of risk are macroeconomic constraints, political instability and a poor track record of meeting co-financing commitments. If the Secretariat judges that there is a material risk of non-realization of co-financing commitments, appropriate measures, such as endorsement of co-financing commitments from the Ministry of Finance or other relevant bodies, are required. Mitigation measures, including incorporation of specific grant requirements in grant agreements, are often used to address co-financing risks. See the figure below for an illustration of this risk-based approach.

Figure: Risk-based approach for approval and monitoring of co-financing commitments

Source: OPN on Co-Financing

The Secretariat has the authority to waive a country’s co-financing requirement, or a portion thereof, in exceptional circumstances. If a country is not in a position to demonstrate progressive government expenditure on health or provide the necessary additional commitments to meet its full co-financing requirements due to extenuating circumstances, an applicant may request a full or partial waiver during country dialogue, at the time of the funding request, during grant-making, or during grant implementation. The Co-Financing Policy states that any waiver of co-financing requirements will require strong justification. It also says that a request for a waiver has to be accompanied by a plan for addressing funding shortfalls. Waivers have been granted in recent years regarding the Willingness-To-Pay requirements for 2014–2016 for South Sudan (all diseases) and the Central African Republic (all diseases).

Compliance with the co-financing requirements

What happens if a country fails to meet its co-financing requirements?

Unless the requirements are waived by the Secretariat, failure to meet the requirements may result in the reduction of a country’s current or future allocation. If the reduction is applied to current grants, the Secretariat may withhold a share of Global Fund disbursements proportional to the amount of co-financing requirement that the country has not met, or may reduce the size of the annual disbursement amounts when they are determined. (The Global Fund recently applied this remedy to grants in Nigeria; see GFO article.)

How does the Global Fund verify that a country has demonstrated that it will meet its co-financing requirements?

According to the Secretariat, co-financing commitments are assessed based on a variety of factors, including approved national strategic plans, medium-term expenditure frameworks, program budgets, costed transition plans, and commitments from Ministries of Finance or Health or other relevant governmental authorities.

The differentiated approach taken by the Secretariat for approval of the co-financing commitments (described above) also applies to monitoring the realization of the commitments. In addition, the Co-

Financing Policy states that the Secretariat will establish mechanisms to enable it to monitor specific co-financing commitments.

Finally, the policy states that in order to ensure a reliable basis for tracking government commitments and spending, countries may request funding, as part of their funding requests, for initiatives to improve the reliability of their country's health and disease expenditure data. Countries can also request that existing grant funds be re-programmed for this purpose. The Global Fund collaborates with its technical partners regarding the provision of technical assistance to support such requests.

Implementation of the policy

The Global Fund says that country context is a key factor for moving towards sustainability and transition, and increased co-financing, and that a single policy will not be able to account for all situations. Therefore, it says, the Secretariat will consider any exceptions to the Co-Financing Policy on an individual basis, taking into account country context and fiscal space considerations, as well as other relevant factors.

The Co-Financing Policy states that countries categorized as "challenging operating environments" may, on a case-by-case basis, be granted flexibilities with respect to the application of the policy. However, the policy states, the classification of a country as "COE" does not automatically guarantee that flexibilities will be applied.

Information for this article comes from the Co-Financing Policy itself (as contained in the STC Policy); the OPN on Co-Financing (part of the Global Fund's Operational Policy Manual); and the staff of the Global Fund Secretariat.

REQUEST FOR FEEDBACK

The Secretariat has a lot of discretion regarding how the Co-Financing Policy is applied, so it may be being applied differently in different countries. We'd like to hear from you. How is the Co-Financing Policy being applied in your country? Please send your feedback to David Garmaise, Editor of GFO at:

editorGFO@aidspan.org

Your responses will guide additional research on this issue. If we receive sufficient responses, we will prepare a follow-up article.

Read More