Aidspan
Independent observer of the Global Fund

Board approves amended comprehensive funding policy to align with new funding model

DECISION POINT: GF/B31/DP05

The Global Fund Board approved an 'amended and restated' comprehensive funding policy (CFP) during its 31st Board meeting on 6-7 March in Jakarta. The decision was based on recommendations from the Finance and Operational Performance Committee (FOPC), which called the new CFP the "most important document" being voted on during the meeting.

The Fund's CFP sets financial principles for the management and allocation of donor resources to the grant-eligible countries as well as for operating expenses of the Secretariat. It also sets out the appropriate timing for the disbursement of resources in order to maximize their impact and ensure that there is always enough funding to carry out necessary activities. The CFP also provides a policy justification for financial safeguards that ensure the best possible stewardship of the money contributed by donors to the Global Fund.

The new CFP supersedes all previous documents and establishes a new financial framework going forward for the smooth implementation and maintenance of the new funding model (NFM). The need to amend and substantially reform the policy complements the transformation of the historical rounds-based approach to grant funding to the new funding model, the full roll-out of which is expected before the beginning of April.

The CFP establishes the Fund's policies in support of funding processes including access to funds, grant-making and payment to implementers, as well as fund-raising activities. The amended CFP aims to streamline all of these policies into a cohesive framework that would align replenishment, allocation and implementation periods.

This is important because under the previous rounds-based approach to grant-making, there was the potential for delays due to ‘insufficient asset definition’ or an ‘imbalance between assets and liabilities’ that could influence the disbursement schedule. There were also risks associated with the Fund’s approval of grants under the previous model for which there was only the potential for budget, not available assets on-hand. This built liabilities into the system that could have compromised programming. Now, cash commitments are made up-front based on available resources, which should assuage concerns about cash transfer delays while also ensuring continuity in programming.

The evolution of grant-making under the NFM drove the majority of the amendments to the CFP. Financial safeguards to ensure that the potential for risk is mitigated were also core reforms to the policy.

To implement the amended CFP, the Fund has approved three important financial safeguards as shown below, where ALM stands for asset and liability management:

These measures show a progressively ascending degree of financial control and oversight, designed to ensure financial controls are in place for both implementers and donors, and to protect the interests of all those being served by the Fund.

The three tiers of safeguards are:

i). Tier 1 Safeguard: Balanced forecast of Sources and Uses of Funds based on the notional asset/liability management approach, over a defined (fixed) three-year Allocation Period.

ii). Tier 2 Safeguard: Balanced one-year rolling and cumulative cash flow forecast based on eligible assets (e.g., cash on hand, promissory notes etc..) and eligible liabilities (e.g., formally approved annual funding or other financial decisions) with underlying cash flows one year periods.

iii). Tier 3 Safeguard: Day-to-day liquidity management supported by minimum liquidity reserve and back-up liquidity instruments.

Read the article in French. Lire l’article en français.

Read More