



Independent observer
of the Global Fund

Global Fund Finances

Background

The Audit and Finance Committee (AFC) had issued three papers to inform the Global Fund Board on financial matters and decisions to be taken. Those papers underwent many revisions as additional pledges for the Seventh Replenishment were confirmed; and the AFC, Strategy Committee (SC) and Secretariat worked very hard to finalise the updated papers – literally to the last moment – to deliver to the Board for its discussion on finances.

This article discusses the Board presentations and the outcome of the discussions. You will find the Decision Points at the end of the article.

Operating Expenses Budget

The first paper (GF/B48/02A 2023 Work Plan, Budget Narrative and Operating Expenses Budget) set out the 3-year forecast operating expenditure for the 2023-2025 period, the budget for 2023 and the key drivers of the 2023 budget. It was replaced by the AFC 2023 committee-approved work plan (GF/B48/02A Revision 1) that dealt only with the 2023 work plan, budget narrative and expenses budget and an additional paper (GF/B48/02B – Revision 1) headed Operating Expenses 2023 Budget.

This paper is a reproduction of a slide presentation and provides a lot of detail, including a breakdown of staff numbers; but you need to be familiar with the many acronyms. Concern is that, for understandable reasons, staff workload and inflation have not been fully addressed.

2023 Work Plan, Budget Narrative and Expenses Budget

The 2023 budget for Secretariat operating expenses represents a 6.1% increase over 2022 which includes increased resources for the Protection from Sexual Exploitation and Abuse and Sexual Harassment (PSEAH) function and the Independent Evaluation Panel (IEP). See the board decision at the end of this article for ease of reference.

Importantly, the paper notes that gaps still exist in the budget allocation when compared to needs and that the new economic environment and reality needs to be factored into future operating expenses budgets.

The key drivers of the 2023 work plan and budget are:

1. Priority 1: Drive impact on HIV, TB, malaria and COVID-19 in the current grant cycle.
2. Priority 2: Develop high quality grants aligned to the new strategy.
3. Priority 3: Enhance organizational ability to deliver on strategic priorities.
4. Priority 4: Foster a healthy organization and people.
5. Priority 5: Sustain resource mobilization momentum.

As regards (c), the priorities are not specifically listed but, from the narrative, we deduce that they are to:

- Drive effectiveness and efficiency of organisational processes, systems and structures.
- Strengthen data, monitoring and evaluation (M&E) to reinforce learning and decision-making, including the establishment of the new evaluation function (IEP) and the roll out the new M&E and key performance indicators frameworks.

Sources and Uses of Funds

The second paper (GF/B48/03A) sets out the methodology for deriving the 'base-case' of sources of funds that informed the recommendations on the allocation in the period 2023-2025 for: (i) catalytic investments and country allocations; and (ii) amounts for country allocation from forecast unutilized funds. This was replaced by a revised paper (GF/B48/03A – Revision 1), headed 2023-2025 Allocation Period: Sources and Uses of Funds, which begins with the Board decisions (see the Box at the end of this article) and another paper in slide presentation format (GF/B48A/03B Rev 1) also entitled 2023-2025 Allocation Period: Sources and Uses of Funds.

The application of the Board decisions is depicted in Chart A, which is reproduced from that shown at the Board meeting.

Chart A: Application of financial decision to best deliver the Strategy

The second paper then provides the context for the decisions and amounts in which it explains that the Seventh Replenishment took place in a highly volatile economic context for resource mobilization with several factors impacting the available sources of funds, namely tensions on technical assistance as an increasing proportion of pledges, donor conditions affecting recognition and use of funds, and the adverse foreign exchange (FX) impact of a stronger US dollar (US\$) on non-US\$ denominated pledges. It goes on to explain that the relative strength of the US\$ adversely impacted the replenishment outcome by \$0.58–0.86 billion when compared to FX rates applicable to the Sixth Replenishment pledges (October 2019) and the launch of the Investment Case (February 2022).

The paper explains how the amount of \$13.678 billion referred to in the first Board decision was derived. Amidst the volatile economic context surrounding the Seventh Replenishment, donors confirmed pledges of \$15.669 billion (including additional pledges and donor conditions confirmed since pledges of \$14.257 billion were announced during the Seventh Replenishment Pledging Conference).

From this amount of \$15.669 billion, \$1.991 billion of pledge adjustments was deducted, giving a net total of \$13.678 billion (referred to as 'adjusted pledges'). The pledge adjustments reflect:

1. Increased donor withholdings for technical assistance (compared to the Sixth Replenishment);
2. Other donor specified conditions, including matching requirements and pledges expected to be received as complementary restricted financial contributions;
3. Adjustments for risk of non-payment; and
4. Minor adjustments for FX risk management.

The amount of funds available for country allocation is what remains after considering \$0.400 billion for Catalytic Investments (CIs) for the 2023-2025 allocation period (see below for more discussion on CIs).

At the Board meeting a comparison was presented of the total of pledges hoped for and the actual totals announced. This is reproduced in Chart B and the sources of finance ratio was said to reaffirm the evolving context and challenges ahead.

Chart B: Evolution of Ambition v. Actual announced Pledges

Chart C, which summarizes the final replenishment outcome of \$13.128 billion available for the period, is reproduced below (all amounts in US\$ millions), representing a 3.3% increase over the allocation total for 2020-2022.

Chart C: Country Allocation Outcome of the Seventh Replenishment

The Secretariat explained that the amount available for country allocation is below what had been hoped for and it was noted that the global economic outlook is especially challenging with staggering reversals in development, resulting in an increase in extreme poverty and higher unemployment; and all this against a background of weak infrastructure, struggling health systems, and so on. Board members expressed their concern about the inadequacy of resources to fund disease programs.

Chart D is a reproduction of the chart presented to the Board to emphasise that, compared to a full replenishment, it is going to be a very hard task to meet all strategic objectives.

Chart D: Pressure on Strategic Objectives

Catalytic Investments

Catalytic Investments were the subject of much discussion at the Board meeting and there is a detailed discussion in the paper on the methodology adopted to determine the Secretariat’s funding recommendations.

As determined by the Board decision on Catalytic Investments for the 2023-2025 allocation period, \$0.200 billion was available for these. However, as explained at the Board meeting, maintaining this level would have jeopardized over \$70 million in earmarked private sector pledges. Hence, consistent with the methodology shared with the SC the Secretariat recommended an additional \$200 million investment in Catalytic Investments. Table 1 shows the priorities identified to secure private sector contributions and catalyze the impact of cross-cutting and cross regional investments.

Table 1: Priorities to Secure Private Sector Co-Investment & Catalyse Impact

Table 2 is a copy of the updated table presented to the Board to show the Board approved catalytic priorities and associated available funding amounts to be funded for the 2023-2025 allocation period. Note that, in addition to the updated catalytic resources of \$400 million, it shows that \$118 million in private sector co-investment had been leveraged to give a total of \$518 million.

Table 2: Updated Budget for Catalytic Investments for the 2023-2025 Allocation Period

The \$0.625 billion Over Allocation

In Chart C the ‘Over allocation’ represents 5% of the available sources of funds after allowing for the Catalytic Investments, being the Secretariat’s conservative estimate of anticipated unutilised funds from the 2023-2025 allocation period.

Set-Asides

Finally, it should be noted that Set-Asides (included in the pledge adjustments) constrain the sources of finance for country allocation. However, synergies in resourcing are possible but these will require active coordination and additional workload. The evolution of Set-Asides was presented to the Board in a chart reproduced below as Chart E and this shows the significant increase for the Seventh Replenishment pledges.

Chart E: Evolution of Set-asides

Board discussion

It is impossible to do justice to the breadth of the discussion on this very important topic so we have selected some comments.

It was noted that, since the base case had been presented to the AFC, based on these announced pledges over next three years adjustments have been made. Not all are negative. But the impact of inflationary increases was noted and bemoaned.

There was some discussion regarding topping up the Emergency Fund, depleted due to the need to support Ukraine and others this year. Stakeholders felt strongly that the Fund should continue be replenished as 2022 had clearly shown the need for such a fund and that the policy regarding it should be adjusted to give the Secretariat leeway to top up by more than 50% of this were deemed necessary.

All those Board members who spoke reiterated their huge gratitude to the donor community for its pledges, many noting that now implementers have the challenge of increasing domestic health resources. As one of them said, “Now it is our turn to bring money to the table”. How the Global Fund addresses counterpart financing, when there are less resources to incentivize countries regarding domestic financing for health, is important. Some reiterated the need to revisit the Co-financing Policy to reflect current realities.

Many recognized the importance of continuing support to malaria but were very concerned about drug resistant malaria in Africa (where 96% of global malaria cases occur). Insecticides should be reprioritized, some felt. There was therefore significant support for the CI regarding a malaria top-up but, even then, some still thought it would be insufficient to allow for a high enough volume of commodities for drug-resistant malaria to achieve price reduction.

This led into a discussion on the plans for growing the procurement channel and network. The Fund has been partnering with Unitaaid and others to develop its market shaping plans. There was some controversy, with several speakers stating that the budget for expanding NextGen Markey Sharping and wambo.org is wholly insufficient. Yet some stakeholders felt the Global Fund could play a real role in Africa in product development, for example, for malaria drugs to address resistance if the money were made available in the very near future. Some Board members stated that, If we do not invest now, we will see increased malaria in Africa: we are choosing the wrong things to invest in, said some.

Decision Points

Nonetheless, following the discussion, the two Decision Points were unanimously accepted.

Decision Point GF/B48/DP05: 2023 Work Plan and Budget Narrative and the 2023 Operating Expenses Budget. Based on the recommendation of the Audit and Finance Committee (AFC), and the recommendation of the Secretariat, to supplement the AFC’s recommendation, the Board approves the following:

- the 2023 Work Plan and Budget Narrative, as set forth in GF/B48/02A – Revision 1; and
- the 2023 Operating Expenses Budget in the amount of US\$ 340 million (comprising (i) PART A Secretariat Operating Expenses of US\$ 272 million, which includes US\$ 16.5 million for the Office of the Inspector General 2023 Operating Expenses; and (ii) PART B In-Country and Independent Bodies of US\$ 68 million), as set forth in GF/B48/02A – Revision 1.

Decision Point GF/B48/DP04: Sources and Uses of Funds for the 2023–2025 Allocation Period

1. Based on the recommendation of the Audit and Finance Committee (AFC), as presented in GF/B48/03A – Revision 1, the Board approves US\$ 12.903 billion as sources of funds for allocation for the 2023-2025 allocation period. The total amount of sources of funds for allocation comprises, in accordance with the Comprehensive Financial Policy set forth in Annex 1 to GF/B36/02 – Revision 1 and approved through decision point GF/B36/DP04:
 1. US\$ 13.678 billion, derived from the announced replenishment results for the Seventh Replenishment cycle and adjustments;
 2. US\$ 0.250 billion of forecasted unutilized funds from the 2020-2022 allocation period; and
 3. a deduction of US\$ 1.025 billion of forecasted aggregate operating expenses for the 2023-2025 allocation period.
2. Based on the recommendation of the Secretariat to supplement the recommendation of the Strategy Committee presented in GF/B48/03A – Revision 1, the Board approves the use of an additional US\$ 0.200 billion for catalytic investments for the 2023-2025 allocation period, bringing the total amount, from sources of funds for allocation, for catalytic investments for the 2023-2025 allocation period to US\$ 0.400 billion, to be made available for the investments and associated costs set forth in Annex 1 of GF/B48/03A- Revision 1, and based on the recommendation of the Secretariat, the Board approves updating the delegated authority to the Secretariat established in paragraph 1 of GF/B47/DP06 so that the Secretariat may increase the amount of funding available for the Emergency Fund to an additional US\$ 0.020 billion, using funding approved as available by the AFC for portfolio optimization.
3. Additionally, based on the recommendation of the AFC and to help ensure the maximum amount of impact of funds over the 2023-2025 allocation period, the Board requests that the Secretariat include an additional US\$ 0.625 billion in the amount used to determine country allocations pursuant to the allocation methodology for the 2023-2025 allocation period in accordance with decision point GF/B47/DP05 (Allocation Methodology).
4. Accordingly, the Board approves that the amount of sources of funds for country allocations for the 2023-2025 allocation period is US\$ 12.503 billion, to which US\$ 0.625 billion will be added prior to determining the country allocation, for a total of US\$ 13.128 billion, to be used in accordance with the Allocation Methodology and decision point GF/B47/DP05.

Board Documents GF/B48/02A Rev 1 2023 Work Plan, Budget Narrative and Operating Expenses Budget , GF/B48/02B Rev 1 Operating Expenses 2023 Budget, GF/B48/03A Rev 1 2023–2025 Allocation Period: Sources and Uses of Funds, GF/B48/03B Rev 1 2023–2025 Allocation Period: Sources and Uses of Funds , should be available shortly at <https://www.theglobalfund.org/en/board/meetings/48>

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