Updated Global Fund Approach to Blended Financing

Introduction and Decision Point

The Secretariat submitted a paper on blended finance for Global Fund Board at its meeting held on 15 November 2023. The Updated Global Fund Approach to Blended Finance describes the standard operational processes proposed for developing, reviewing, approving and implementing blended finance transactions, including expectations for partners, with the framework set out in Annex 1. The paper proposes a due-diligence check that would be applied by the Secretariat for the accreditation and pre-qualification of new blended finance partners, beyond those with whom the Global Fund already has an active relationship. It also describes the role of the Office of Inspector General (OIG) as part of this updated blended finance approach; and it describes the materiality of Global Fund investments that will fall under this approach.

In the context of blended finance transactions, it is important to take into account the purpose and role sought by the Global Fund in the funding it provides. In a blended finance investment, the essence of the funding is not to directly support an implementer's activities or to gain confidence on proper use of such funds to achieve expected results. Rather, it is to participate in a broader transaction in order to influence its design and/or leverage other investments as part of a pool, to incentivise impact in a way not available to the Global Fund through traditional grants.

The Board discussed and approved the Decision Point:

Decision Point: GF/B50/DPXX: Framework to Guide the Development, Review, Approval and Implementatio
Blended Finance Transactions

Based on the recommendation of the Audit and Finance Committee, the Board approves the blended finance
set forth in Annex 1 to GF/B50/04: Framework to Guide the Development, Review, Approval and Implementa
Blended Finance Transactions.

Budgetary implications (included in, or additional to, OPEX budget)

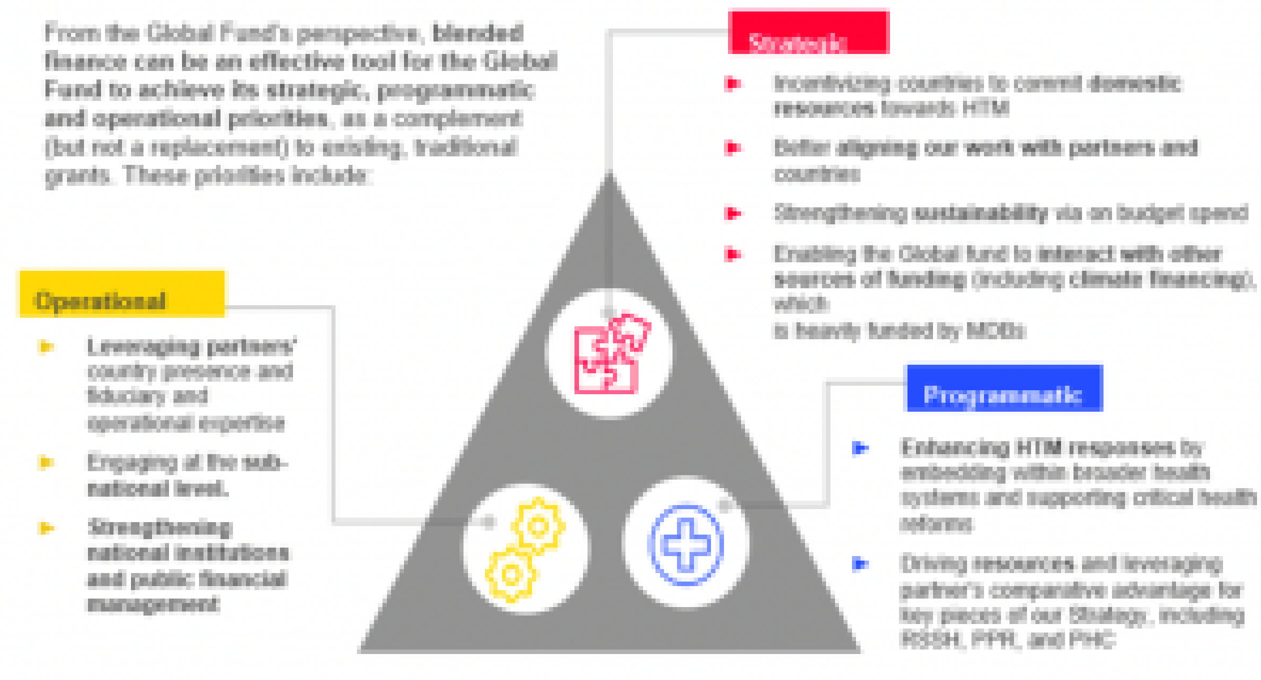
- There are no immediate, material budgetary implications for this approval. The only potential budgetary implications could be associated with the due diligence process described in the paper should the Glob seek to strengthen its capacity to conduct those due diligence efforts. If necessary, these are expected relatively minimal. Outside of this, existing Global Fund resources are sufficient to implement the new a
- This said, as highlighted in GF/AFC22/05, the Secretariat does expect that limited resources to seed bl finance transactions will continue to represent a challenge, particularly given constrained GC7 Strategic (SI) resources and increased reliance on country allocations to finance both Blended Finance transacti associated fees.

The need for an updated Global Fund Approach to Blended Finance

Blended finance and joint investments (referred to as “blended finance” throughout the paper) refer to efforts to combine Global Fund grants with other sources of funding, primarily loans from development finance institutions, including multi-lateral development banks. These complement, but do not replace, traditional Global Fund grant investments and could play an important role in enhancing national sustainable financing for health and the delivery of the Global Fund’s Strategy objectives.

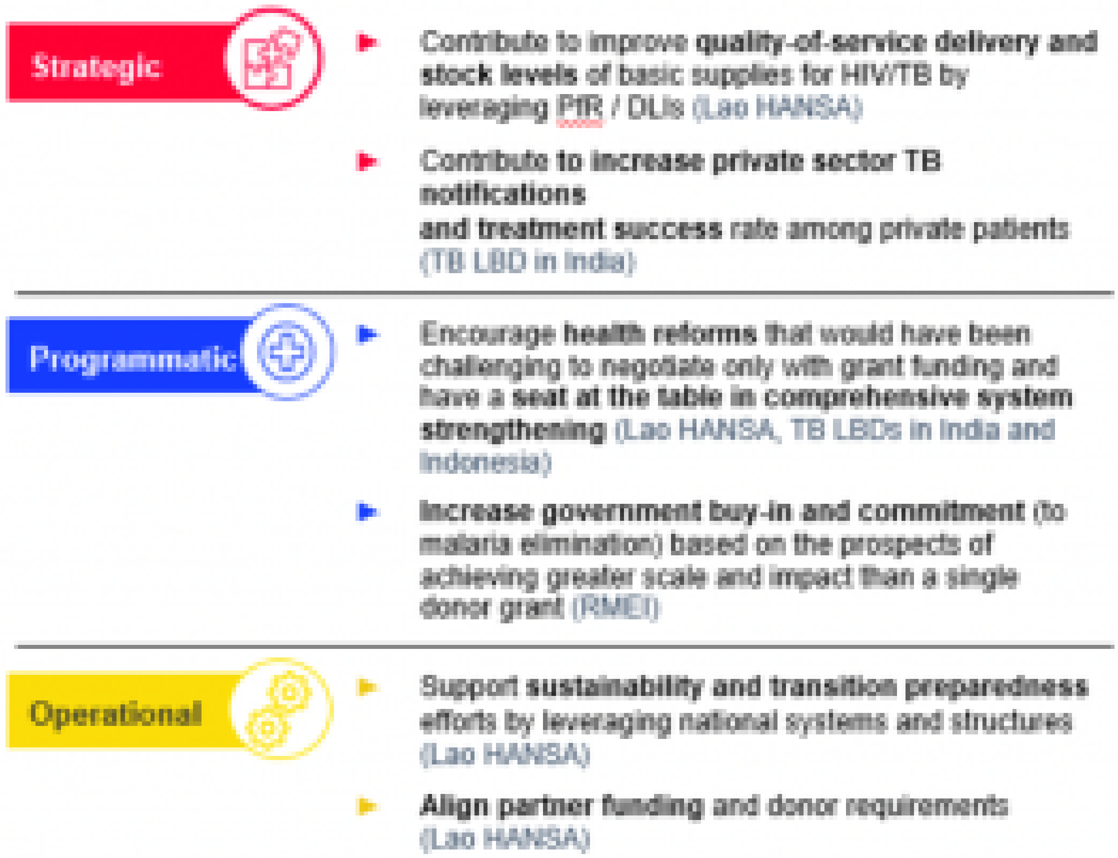
As outlined in Figure 1, there are a variety of strategic, programmatic and operational reasons to pursue blended finance. In addition, blended finance may play a role in helping the Global Fund navigate current global trends in development finance, in particular the growing climate finance and pandemic preparedness.

Figure 1. Strategic, operational and programmatic added-value of blended financial transactions



Early work on blended finance has revealed important lessons learned on how these mechanisms contribute to impact – see Figure 2. These include incentivizing additional resources for health and the three diseases, better aligning development financing with partners, improving on-budget spend, strengthening sustainability, supporting health reforms, leveraging partner investments to integrate and address HIV, TB, malaria and resilient and sustainable systems for health (RSSH) priorities, among others.

Figure 2. Early learning from transactions(non-exhaustive)



The Secretariat has observed an increased interest from countries and partners in pursuing blended finance in Grant Cycle 7 (GC7). However, there are challenges, including the need for clear and differentiated operational processes, the need for a more fit for purpose approach to assurance (including reducing duplication with partner assurance mechanisms), and high transaction costs. These challenges have often created uncertainties for countries, partners, and the Secretariat (including country teams) on whether or not the Global Fund can pursue individual blended finance transactions and have limited the Global Fund's ability to fully leverage these mechanisms. To address these challenges, the Secretariat – with Audit and Finance Committee (AFC) support – developed a fit for purpose approach for blended finance transactions which maintains the Global Fund's commitment to the assurance of its investments but addresses key challenges and recognizes the fundamentally different nature of blended finance investments and the value-proposition they bring to the Global Fund.

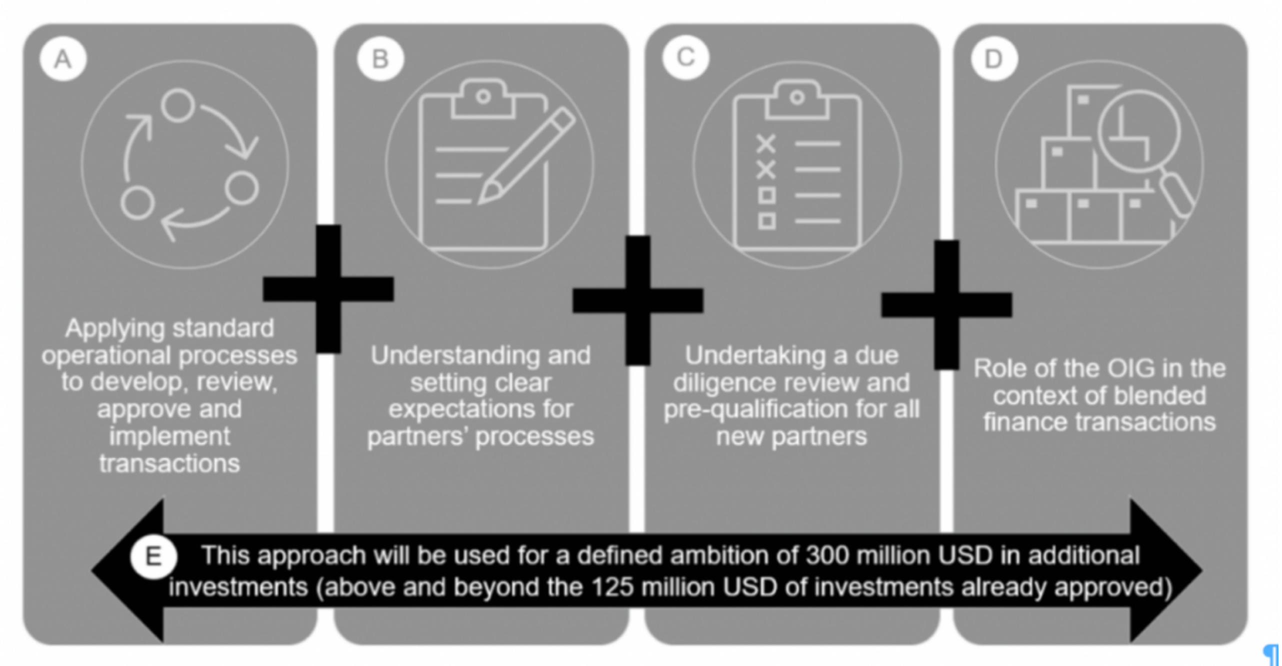
The Updated Approach to Blended Finance

The update approach to blended finance has five elements (combined in Figure 3):

1. Applying standard operational processes to develop, review, approve, and implement blended finance transactions, leveraging the new processes the Secretariat has developed. This operational process – developed in 2022-2023 – will be formalised in a forthcoming Operational Policy Note and is designed to be a more rigorous and standardised operational approach to enable the Secretariat to carefully consider the risks and risk trade-offs of each individual blended finance transaction.

2. Understanding and setting clear expectations for partners (on whom the Global Fund relies significantly when undertaking blended finance).
3. Undertaking a due diligence assessment for all new partners with whom the Global Fund will engage in blended finance transactions, beyond the World Bank. This will leverage the current understanding of the World Bank's approach as a reference point for engagement with future partners.
4. Clarifying the role of the OIG in the context of blended finance transactions. The assurance to be provided by the OIG on blended finance transactions will focus on the Secretariat activities, and the Secretariat will rely on assurance provided by the development finance institutions receiving the funding for downstream assurance. The OIG will seek closer collaboration with the World Bank specifically at this stage to facilitate sharing of information to support work of each party.
5. Defining the materiality and expected ambition under which the new blended finance approach will be used.

Figure 3. Updated Global Fund Approach to Blended Finance



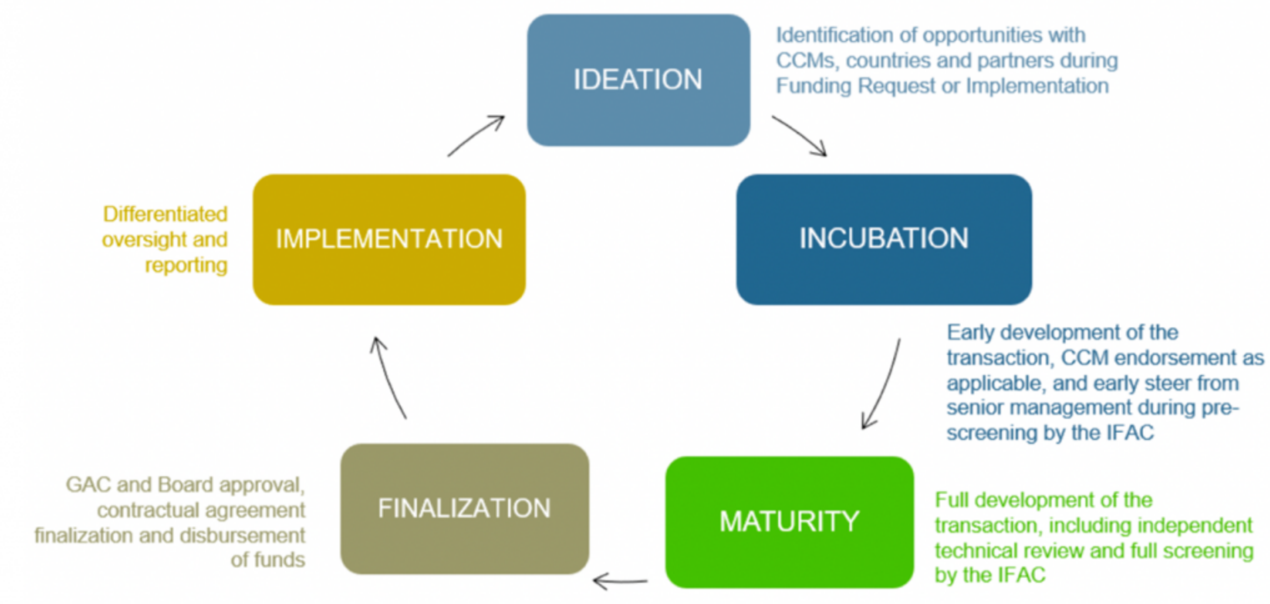
The revised operational policies include enhancements designed to provide the appropriate level of due diligence and oversight for blended finance, including:

- the addition of a process for early steer from the Secretariat's senior management, to ensure the Secretariat focuses on those blended finance transactions that are highest impact and most feasible;
- the formalization of an Innovative Finance Approval Committee (IFAC) and its responsibilities vis-a?-vis the Grant Approvals Committee, including the rigorous review through the IFAC of blended finance transactions (including structure, rationale for the investment, assurance considerations, risks and risk trade-off analysis, the assurance processes of the partner, and approval of any exceptions/deviations to standard Global Fund operational processes required for blended finance investments);
- the standardization of flexibilities for blended finance transactions to reduce duplication with partner processes;
- clarifications of the process for independent technical review of these transactions; and

- the definition of key technical considerations related to blended finance investments that must be reviewed for each transaction.

The paper provides – see Figure 4 – a diagrammatic summary of blended finance operational processes.

Figure 4. Summary of Blended Finance operational processes



Expectations and understanding of partner processes

In blended investments the Secretariat relies more strongly on the processes and policies (including related to assurance) of partner organisations and often, by extension, on national systems used by those partners. While to a large extent these partner processes and policies align with the assurance approaches and principles prioritised by the Global Fund (particularly related to financial and programmatic assurance), the increased reliance on partners in blended finance transactions is a key difference between traditional grants and blended investments. With this clear, additional reliance on partners in blended finance transactions, there is a need for an enhanced focus on reviewing these transactions to ensure that the Secretariat clearly weighs the risks associated with them with the added value of making the investment. This means that the Secretariat must both understand the processes and approaches of partners with whom it engages in blended finance, as well as having clear expectations for how those partners processes/approaches will help assure the programmatic and financial aspects of blended investments.

The majority (approximately 88%) of historical blended finance transactions have been conducted with the World Bank. The Secretariat, which has reviewed the World Bank processes and assurance approaches and presented these to the AFC, has a high degree of confidence in the management and oversight used by the World Bank.

Based on the sufficiency of the assurance policies and approach of the World Bank, the Secretariat has established a reference point for its expectations for partner processes for blended finance. While specificities may differ depending on the partner, the World Bank approach covers five critical thematic areas: (1) fraud and corruption; (2) financial management and procurement; (3) social and environmental considerations; (4) strategic, programmatic and operational soundness; and (5) risk assessment. The understanding of the World Bank approach will be used as a reference point for the due diligence process applied to additional partners with whom the Secretariat may undertake blended finance investments.

Due diligence review and pre-qualification of additional partners

In the case of partners other than the World Bank, the Secretariat will undertake a due diligence and vetting process to better understand the regulatory framework, internal controls, and assurance mechanisms used by potential additional partners including (but not limited to): (a) policies to prevent, detect, and respond to incidents and allegations of prohibited practices and independent mechanisms to investigate those as well as sanction parties involved; (b) policies to assess the country's fiduciary capacity and monitor the country's progress to diligently execute the program and maintain suitable fiduciary systems and governance arrangements; (c) the partner's ability to develop the program with sufficient technical standards and review processes, as well as set up independent mechanisms for the verification of programmatic and fiduciary results; and (d) the partner's approach to implementation oversight, including: (i) management of ongoing risks identified as part of the program; (ii) oversight of any conditions, actions, or commitments of the country required to effectively implement the program; and (iii) sufficient capacity of the partner to oversee the program on an ongoing basis.

The IFAP, the formal body involved in the review of all blended finance transactions as per the operational policy outlined above, will review the due diligence assessment and approve the pre-qualification of additional partners prior to finalising any transactions with new partners.

Role of the Office of the Inspector General

In the context of blended finance, the OIG's assurance work will focus on incorporating blended finance into its overall assurance/oversight of the Secretariat and its operations. The OIG would not be expected to have direct access either to the development finance institutions' books and records or staff, as those institutions require exclusive reliance on their internal oversight and assurance processes, or to implementers and ultimate recipients of funding as there would be no direct link between the funding provided by the Global Fund and the monies disbursed by the development finance institution to these entities.

Under the new blended finance approach the OIG would not provide assurance opinion covering the management of funds by development finance institutions, or respond to allegations of fraud and abuse which may arise within entities to which the development financial institution disburses monies or within those institutions themselves. This does not mean, however, that the role of the OIG would be completely removed from oversight of blended finance processes. The OIG would maintain a role that will primarily focus on the Secretariat's internal process and not activities or transactions undertaken by partners or participating countries. Specifically, OIG's role will:

1. incorporate blended finance processes at Secretariat level in its audit universe. This includes auditing or investigating the Secretariat's internal processes and controls for oversight and monitoring of blended finance deals;
2. provide inputs and advice on transactions as needed through IFAC processes; and
3. Work to develop stronger relationships with the Group Internal Audit Presidency and Integrity Vice Presidency of the World Bank with focus on sharing information to facilitate respective mandates.

Materiality considerations

Since 2017 the Global Fund has completed eight blended finance transactions, investing a total of $125 million (not including smaller investments focused on technical assistance), a small fraction of the total amount of resources invested by the Global Fund across its portfolio. While there are uncertainties related to future blended finance investments, the Secretariat has seen an increased interest from countries in pursuing blended finance during the end of GC6 and in GC7, with one additional investment expected during GC6 implementation and approximately four to five blended finance transactions expected in GC7 Windows 1-3. As these preliminary data show, despite the growing interest for pursuing blended finance transactions (with potentially seven total transactions to be approved between July 2022 and December 2023), blended finance will remain a complement to – but not replace – regular grants for GC7.

Taking the right risks to achieve more programmatic and strategic impact should be a key consideration as the Global Fund evolves and expands its approach to blended finance, while also carefully balancing ambition. However, given risks – especially the risks of inaction given the wide variety of strategic, operational, and programmatic reasons – associated with pursuing blended finance transactions, it is essential to clarify the ambition of total Global Fund investments that may fall under this approach.

Based on the historic efforts in blended finance as well as the need to maintain an ambitious approach under the new Strategy, the expected ambition under which the Secretariat will use this new approach is $300 million in total Global Fund investments in blended finance transactions, above and beyond the $125 million invested since 2017. While this would likely be hard to reach given current resource constraints and still represents only approximately 2.3% of the total allocation for the GC7 period, it would represent more than double the level of historic Global Fund investments, balancing the need for ambition with a prudent approach to mitigating risks associated with the new approach.

The defined ambition of $300 million is at the portfolio level, and not the transaction level. There would be no defined materiality for total Global Fund investment per transaction; but materiality considerations related to individual transactions will be considered during the development of blended finance transactions and the detailed review of IFAC .

In addition to reporting to reporting to the AFC on the evolution of blended finance efforts, all such transactions will continue to be approved via established processes, including Grant Approvals Committee and Board approval (when and as required), ensuring that the Board maintains visibility and approval authority on individual transactions.

Risks and mitigation

Given the fundamentally different nature of these investments, there are inherent risks that will have to be considered as the Global Fund increases its blended finance efforts. The updated approach to blended finance seeks to mitigate the risks associated with such transactions by: using the operational processes outlined above (to increase the rigour and diligence of the Secretariat’s review); ensuring that the Secretariat reviews and pre-qualifies new partners to ensure strong understanding of partner approaches and reduce reputational risks; and setting a materiality that balances ambition with prudence.

Stakeholder feedback

Stakeholders overwhelmingly welcomed the proposed update and its approval by the Board, especially the requirements to progress the approved proposal that will ensure the engagement of countries, communities and partners to develop a strong pipeline of potential transactions. Stakeholders felt that the approach would contribute to the creation of an enabling operational environment for joint and blended finance. However, some expressed concern that the pre-assessment work might place another burden on recipient countries, many of whom are already finding it difficult to comply with the Global Fund, World Bank and other donors’ requirements.

In the wake of the Summit for a New Global Financial Compact, stakeholders welcomed the adoption of processes to improve the framework for blended financing. Innovative financing tools that fully respect the values and principles of the Global Fund will indeed be essential to mobilise long-term funding for better and more sustainable health systems in a context of limited resources.

Many constituencies are cognizant of funding gaps and welcome innovative measures and policies to attract additional resources for health. The collaborative effort between the World Bank and Global Fund offers countries an opportunity to utilize their country systems, aligning with the World Bank's standard operating procedures country system as the default.

People were optimistic that this marks a step towards harmonization and alignment among donors at the country level. They supported and appreciated the Global Fund's position to streamline and align its management/operational systems to partner agencies as a way to improve the uptake and feasibility of the blended finance approach. However, the Update did not reference the advantages of aligning with World Bank systems in terms of the actual alignment with country PFM systems as well. This is an important move forward with respect to reducing fragmentation associated with Global Fund grants. More information is needed in terms of funding flows and operational coordination given the reported limitations of the current approach to blended finance. People hoped the same due diligence and approach is taken in terms of using government PFM systems for Global Fund grant allocation and disbursement.

People concurred with the need for more 'fit for purpose' and streamlined internal processes for examining and approving investments that employ standard Global Fund approval phases while incorporating bespoke scheduling, touchpoints, expert help, and internal review focus. New framework agreements with Multilateral Development Banks are required to sustainably increase the volume of transactions while reducing the administrative complexity of single transactions. This would also necessitate, at the country level, strong technical leadership, and sufficient resources to effectively integrate joint and blended financing activities into the Global Fund's basic processes and operations, taking into consideration the context of each country and in close consultation with technical partners.

Others asked if the new approach could be part of the process for countries transitioning from Global Fund support.

Some noted that there had been limited engagement of communities and civil society seen in the current blended finance transactions and that the update gives no assurance that communities and civil society will be involved in implementation, monitoring and governance of future intervention supported by blended finance.

Finally, people urged the Secretariat to keep the Board informed and indicate potential solutions when the limited resourcing to seed blended finance transactions proves to be overly constraining or obstructs attracting resources to HTM and RSSH.

******

Board paper GF/B50/04 Updated Global Fund Approach to Blended Finance will soon be available on the Global Fund website.

Read More