GF/AFC05/06 Follow-up on loans buy-down

Vision on Blended Financing and Future of Global Fund

The Communities Delegation takes an open but cautionary approach to the Global Fund taking on blended financing as one of several innovative financing mechanism options to be explored. We would like to bring to attention that the definition that is used by the Secretariat in document GF/AFC05/06: "*blended financing refers to the combination of grant funds with loans to provide countries with concessional financing for health*" is seemingly loans-focused. Our Delegation defines blended financing as ***an approach that makes use of development finance sources, such as development assistance from donor governments and funds provided by philanthropic foundations, to mobilise untapped financial resources – primarily from private and commercial sources – in order to address common public good issues, such as the Sustainable Development Goals (SDGs)***.

We support the exploration of financing mechanism options that will help achieve the scale-up and sustaining of the delivery of needed HIV, TB, malaria and broader health interventions to communities in need. However, we advise the Global Fund to take caution on the following critical concerns, and call for ensuring they are adequately responded to in the Blended Financing Framework Paper, and mindfully considered and discussed in relevant policies and monitoring frameworks being implemented, developed, or approved:

1. There is **insufficient evidence that supports the successes of blended financing in the health sector**, particularly on diseases which include socially complex issues such as HIV and TB. Most documents on blended financing in the health sector showcase examples of how the mechanism operates, without including post-evaluation assessments nor demonstration of impact at the health outcomes level. While we do not conclude from this that blended financing for health does not work, this clearly indicates that this approach is relatively new in the health sector (though not a new approach in investments in the commercial and private sectors) and will require time for the development of an evidence pool.

2. There are **challenges in regulating and seeking accountability from private institutions**. Private corporations are primarily profit-focused, relying on private financing to achieve development or public goods outcomes need to be backed with strong accountability and regulation measures. The use of scarce Global Fund resources for private sector contracts and investments should be subjected to rigorous development effectiveness principles as well as communities, rights and gender principles. The Global Fund needs to judiciously plan the ceiling and monitor the amount of investments it chooses to devote towards blended financing, and guard against the diversion from its original mission of funding countries.

3. In the case of loans buy-down, regulation of banks and lending institutions are hugely determined by developed countries, with little voice, if any at all from developing countries, and virtually none from communities and civil society. **We need to guard**

against the Global Fund compromising its ability to assert its unique corporate ethos when entering into partnership agreements with development financial institutions (e.g. the institutional inclusion of voices of communities living with, and affected by the three diseases, and of implementing countries in the highest level of decision-making).

The Communities Delegation strongly feels that there are three primary principles that should guide the Global Fund in exploring the variety of blended financing models:

A. Blended Financing should supplement but never replace direct grant investments

While innovative financing methods such as blended financing are explored to attract additional, untapped resources from global donors and from within the country from the private and commercial sectors, it should not in any way replace direct grant investments from the Global Fund towards the countries. Direct grant investment ensures quality and coverage of programmes are at the level necessary to achieve impact. Direct grant investments provide stability and a predictable flow of financing, compared to some blended financing tools such as social impact bonds, etc. National regulations that might influence private sector engagement and in investing on social and health areas, varies between countries, and while it might be supportive for private sector engagement in some, it might not be in others.

Furthermore, programmes that are supported by blended financing should demonstrate cohesiveness with overall national disease responses both in terms of the impact it is trying to achieve, and in terms of programmatic governance. In keeping these principles consistent, for the future, the allocation to support blended financing should be part of catalytic investments rather than part of the country allocation for direct grant investment, or its Prioritised Above Allocation Request. The allocation for blended financing should be considered as catalytic investments so that the Global Fund can ensure additional untapped resources are available for country programming.

B. Focus blended financing mechanisms to support programs that address the need of key populations and vulnerable communities, particularly in the context of transition

The Global Fund have consistently identified that in countries that are transitioning, there are greater needs to focus on key population and vulnerable population programmes. In its eligibility policy, it requires Upper Middle-Income countries to focus 100% of their funding request on programmes that addresses the need of key populations. This should be consistent in framing blended financing for transitioning countries.

C. Promote Global Fund's core processes and values on blended financing mechanisms & framework

The Global Fund has the ethical responsibility to preserve its basic precepts as an institution; its values, principles, and mission should never be sacrificed in the name of financial efficiency or expediency. Since its inception, the Global Fund has set higher standards in the response towards the three diseases than any other global health institution. For example, the CCM model is an innovation that continues to increase the engagement of a variety of stakeholders in shaping and providing oversight on the implementation of programmes. Another example is the level of transparency and management of fiduciary risks through LFAs and the OIG. These core Global Fund standards and values should continue to be promoted through the supported innovations and programmes of the Global Fund, including blended financing mechanisms. The Global Fund should explore blended financing models where the CCM can continue to shape the programmes and provide oversight on implementation and where the OIG can provide risk assurances, including on human rights related risks.

D. Prioritize mobilising untapped resources such as commercial & private financing (instead of solely relying on government's debt sustainability)

The priority of the Global Fund should be to mobilise new pool of resources that are not deployed or allocated for development priorities, or in the Global Fund's context – for health and social improvement priorities. Governments commonly mandate to allocate their resources for development, regardless of the level of its allocative efficiency. In many countries, however, commercial and private sector resources are untapped development resources that have the potential to transform the disease response - not only in terms of financial resources, but also in skills, technology and capacity. The Global Fund could consider models to engage the private sector in blended financing either by figuring out methods to decrease or soften the investment risk profiles or by sharing the investment risk burden among a variety of stakeholders.

Communities Delegation Views on Loan Buy-Down Planned Pilots

As reflected in our previous position papers, the Communities Delegation have strong concerns over the pilots. While the Board repeatedly indicated interest in exploring further innovative financing models and requesting the Secretariat to provide the Board with lessons learned and recommendations, we did not anticipate pilots that focus only on one specific model of blended financing. Instead, we anticipated documents or example of models which can guide the Board discussions in coming up with a broader vision in terms of blended financing in the future work of the Global Fund. Therefore, **we view that the planned pilots are not within the mandate that the Board provided the Secretariat**.

Currently, the numbers of the pilots are relatively small, however as this is the type of investments that the Global Fund have yet to explore, and it involves investing significant amounts of money (in dollar terms) that may be otherwise used to fund other Global Fund priorities. We are concerned that the pilots have been carried out without a clear evaluation framework prepared before implementation. Furthermore, particularly for loans buy-down, there are less (if any) documented (post-project evaluation) evidence on its impact on disease outcomes for all three diseases. As we mentioned above, while the lack of evidence should not be an indication that it does not work, it requires a rigorous risk management strategy. Therefore, **we feel very strongly that a committee approved evaluation framework should have been developed before the pilots started**.

The Secretariat produced paper, GF/AFC05//06: *Updated Framework for Joint Investments in Blended Finance Mechanisms*, was a helpful document in understanding the vision of the

Secretariat towards loans buy-down. This document however should not be the response to the Board decision point at the 37th Board Meeting GF/B36/DP07:

> "However, the Board confirms that this decision does not set a precedent for future investments with development partners or for existing relationships with partners and requests the Secretariat develop a framework to guide future consideration of such investments for presentation to and review by the Audit and Finance Committee, in consultation with the Strategy Committee, for recommendation to the Board."

Furthermore, while the paper is supposed to cover blended financing mechanisms, it only focuses on loans buy-downs and can be perceived to have a narrower definition of blended financing than what we expected. The paper continues to define the operational plan on loans buy-down pilots that have been planned and in preparation, instead of providing options and explorations on how blended financing should fit into the overall Global Fund model. As noted by the German constituency, **we would welcome this framework and would like to understand the timeline for this framework to be submitted to the Board for discussion and approval**.