Communities Delegation Statement on Updated Framework for Joint Investment in Blended Finance Mechanisms

[GF/AFC05/06]

The Communities Delegation appreciates the work of the Secretariat in developing this paper for further discussions by the Strategy Committee and Audit and Finance Committee, which has addressed some of the questions that we have raised from GF/AFC04/04. We would like to thank the AFC for the constructive discussions on this particular topic, which is necessary to realise potentials of this initiative.

Based on the last two papers and our discussions with various members of the AFC, the Global Fund Board and Secretariat, the Communities Delegation would like to raise caution on the loan buy-down initiative, and requests that for the relevant Committee to provide oversight on the design, implementation, and evaluation of the pilots.

The Communities Delegation is supportive of using Global Fund grants to leverage larger amounts of financing for the response towards the three diseases, as long as safeguards to the principles of achieving intended impact, country ownership, and debt sustainability are ensured. Even so, one of the primary reasons the Communities Delegation feels strongly about the piloting of this initiative is because loan buy-downs are a significant departure from any traditional grant investment by the Global Fund which could have a direct impact towards a countries’ debt sustainability and macroeconomic stability.

Another main concern that we have is that there are no publicly available post-evaluation studies on loan buy-down initiatives. This would mean that the Global Fund is piloting an intervention that is popular amongst global financing institutions, but have no strong scientific evidence to support it. While innovative financing also calls for certain risks to innovate, we strongly feel it is absolutely necessary to practice a higher level of caution at the governance level – especially when impact to broader national health and economic areas are on the horizon.

Furthermore, loan buy-downs require the Global Fund to compromise upon or even bypass certain processes – such as the role of the OIG, CCMs, country dialogues, LFA, and other processes that are established structures and processes of the Global Fund. These are not minor processes, and are processes and components that are designed by, and fully approved by the Global Fund Board. Considering all these factors, we feel that the initiative should be driven by the board and by implementing countries themselves, instead of the Secretariat. Therefore, Board approval only at the late stage of pilot cases are insufficient.

Therefore, to ensure the successes of the efforts in investing for sustainable national health responses in achieving the Global Fund Strategy and to its end – Sustainable Development Goals – we call for:

- The AFC to monitor loan buy-down procedures, quality assurance processes, and negotiation with the lending agencies.
- The Strategy Committee to look at services and programmes that will be supported by loan buy-down initiatives, along with its relevance to Sustainability, Transitioning and Co-financing.
- Both the Strategy and AFC to provide joint approval on the design of the pilots, the evaluation framework and to report to the Board at a regular basis.

In addition, we remain concerned about (1) oversight of the pilots and the long-term plan for Committee and Board approval; and (2) the technical implementation of the pilots.

1. Oversight of the pilots and the long-term plan for Committee and Board approval
We request for more clarity in terms of how the piloting of the initiatives will be monitored and reported to the Board, and how approvals and evaluations are planned. More specifically, we have the following concerns:

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1 GF/AFC03/05 and GF/AFC04/04
a. We wish to understand the basis of the approval for the roll-out of the pilots. The Board Decision GF/B35/DP08 requested for “the Secretariat to update the Audit and Finance Committee and the Board on progress, lessons learned and recommendations from utilising innovative financing mechanisms to encourage increased co-financing and program sustainability”. However, after discussion with members of the AFC and some members of the Board, we could not ascertain that there was a direct request by the Board for the Secretariat to start exploratory projects by approaching countries to include loan buy-downs in their grant request. Considering that loan buy-downs is a significantly different type of grant investment, and does not have a policy or framework for regulation and implementation, we seek clarification of the basis of the piloting of this initiative to better understand the roll-out from the perspective of governance.

b. There is lack of clarity on which Global Fund governance committee will be responsible for the oversight of this initiative and in evaluating the success of the pilot. We understood that the approval of the pilots will be done through regular grant approval mechanisms (note concern 1.c. below) and the Secretariat wishes to “develop, review, and approve these investments as per its normal grant-making processes” (para 10). However, it is unclear how the evaluation framework will be designed, the criteria of evaluation, who would approve the framework, and carry out the evaluation.

c. From the paper (para 50), we understand the intention for pilot cases to be submitted to the Board through regular grant approval mechanisms. Furthermore, in para 10, the paper mentions that the Secretariat will submit “all individually recommended investments to the Board”. Does this mean that the Secretariat will submit these pilots separate from the usual batch of grant approvals? Will the approvals focus only on the loan buy-down component, or will the approval be for the entire country grant? If it is the latter, we would like the flag the risk of suspending the entire country grant and therefore recommend a Board approval process that focuses only on the loan buy-down components. This also means that we expect that the activities of the loan buy-down to be additional to the country grant request, rather than only to support essential services and health commodities. While the Blended Financing policy is yet to be approved by the Board, and there are no clear check and balance mechanisms as of yet to the implementation of such policies, approval of the entirety of some country grants should not be held hostage by questions or lack of clarity of the Board with regards the loans buy down components, if they include such components. This is particularly relevant in cases where we know that the rest of the components of a country’s grant have undergone the needed country or regional dialogue and CCM consultations and approvals, but the loan buy-down components have not.

d. Para 50 mentions “blended finance committee”, we seek clarification what this committee is and the role.

e. We would like to understand better the role of the OIG in providing oversight on the pilots and in evaluating successes/lessons learned from its implementation.

f. We strongly recommend that the Board (rather than through Committees) to be directly and closely engaged in the pilot, discuss lessons learned from the pilot, and in determining the future model to be integrated within the Global Fund portfolio. While the Secretariat reports on implementation until there is a clear Board approved stand-alone policy on Blended Financing that should be developed based on the lessons learned of these pilots.

g. We request that the framework document includes proposals for Committee discussion on the maximum cap percentage in country or regional grants that are to be approved for allocation towards blended financing investments.

h. We note that the paper highlights a lot of potential benefits of loan buy-downs, and requests that the paper also details potential risks, not only for the Global Fund Board, but also to the countries that will undergo the Global Fund loan buy-down initiative to balance perspectives related to any upcoming or future decision-making on or related to this policy framework.
2. Technical implementation of the pilots
   a. Programme Sustainability and Financial Sustainability: We strongly encourage the Secretariat to separate the use of the terms programme sustainability and financial sustainability. While financial sustainability is a crucial component that would help to ensure programmatic sustainability, we note that programmatic sustainability includes other critical components including political commitments, structure of services, etc.

   b. Debt Sustainability: We continue to raise the same concern as expressed in the previous Delegation statement shared with the AFC at its 4th Meeting, which is that the debt sustainability framework used primarily by the IMF and World Bank measures the ability of a country to repay the debt only by considering basic macroeconomic assumptions. This gives a false impression that countries may/will have the financial resources to repay their debts, while in reality, they will have to continue or scale-up spending to attain their SDG targets.

   Furthermore, both Honduras and Nicaragua have been flagged by IMF as having moderate risk of debt distress. However, both countries are included in the Facility for malaria elimination in Central America and Caribbean loan buy-down pilot. What were the considerations of including these countries, especially as their maximum loan amount are the highest total loan amount after Guatemala?

   c. Country Ownership: We would like to understand the role of the CCM in loan buy-down pilot countries. As this will essentially be a government funded programme (as the governments are responsible for repaying the loan), we wish to understand how the CCM will work with the Ministry of Finance and Health in driving, monitoring, and evaluating the programmes implementing loan buy-downs. We note that the CCM membership consists of non-governmental members, and is therefore not a full government entity where there may be power imbalances in the relationships between CCM and relevant ministries.

   We also want to further understand how the CCM will work with the lending agency (or through the relevant ministries) and how much governance responsibility will the CCM have over programmes supported by loan buy downs.

   In addition, we would like clarity on whether the issue of loan buy-downs is discussed in the country dialogue leading up to the proposal writing and submission of country grants.

   d. Global Fund Assurance and OIG Access and Audit Rights: We encourage the OIG to be engaged in negotiating minimum conditions of certain rights of access to information from the lending agency and to provide the Board with assurance on whether the OIG will still be able to fulfil its mandate. We strongly believe that it is important for the OIG to be comfortable with the arrangement, and for the Board to have confidence in this initiative.

   Furthermore, we request for the Secretariat to ensure that the assurance processes of the lending agency include process on ensuring programmes supported by loan buy-downs respect, promote, and protect human rights and gender equality as reflected in the Global Fund Strategy.

   e. Communities and Key Population Engagement: One of the major risks in a loan buy-down is that it will essentially be a government-led programme, and will have a lack of engagement of communities and key populations in designing, implementing, and evaluating the programmes supported by loan buy-downs. These inherent risks exist particularly for services provided for key population communities that are often politically sensitive or controversial for the country. We would like clarity on the strategy to ensure that programmes supported by loan buy-downs will not exclude, but also prioritise services and interventions for those communities that are left behind.

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2. World Bank Guide on How to do a Debt Sustainability Analysis for Low-Income Countries
3. IMF List of LIC DSAs for PRGT-Eligible Countries