



**TO: TERESA GAMBARO MP, CHAIR**

**JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE**

#### **CASH ON DELIVERY**

The changing donor landscape in the Pacific region has lead the Global Fund to finding innovative solutions to grant making processes that are most suitable for resource constrained environment that it faces in the region. Based on the burning need for maximizing the use of available funds for actual service delivery in the specific Solomon Islands context, much simplification was required and the Global Fund has designed a novel grant management approach for Solomon Islands called Cash on Delivery (CoD). Central to the concept of CoD in Solomon Islands is pre-financing of all local activities by the recipient country, which creates unprecedented opportunities for flexibility in our grant management processes by removing the exposure of Global Fund grants to any financial risk. Key benefits to Solomon Islands and the Global Fund include:

- **Paying for results:** The grant greatly focuses the government's attention on impact by incentivizing achievement of impact against the diseases and removing any reporting burden that may distract the implementers from actual service delivery.
- **Programmatic efficiency and innovation:** Flexibility that is provided to the government in their achievement of impact allows it innovate in real time and incentivizes the government to gain efficiencies through improved internal processes.
- **Transactional efficiency:** The CoD modality allows the country to avoid establishing a parallel Principal Recipient, which for Solomon Islands settings would normally be an international organization. Instead, the government is allowed to use its existing structures and mechanisms, further strengthening their capacity as time goes by. The CoD modality also reduces the time and resources needed for many of the standard processes that are not required under this modality, such as development and management of detailed workplan/budget, monitoring multiple indicators, fulfilling a large number of other reporting requirements.
- **Resource efficiency:** As the country would be able to allocate and/or reallocate resources to different priority areas on a real-time basis, instead of going through reprogramming processes that sometimes can be lengthy, resource distribution is expected to be optimized. Spending would be driven more by need or requirement, than by an amount previously budgeted.

Moreover, savings may immediately be reinvested in the national response, incentivizing greater value for money.

- **Aid effectiveness principles:** Country ownership, alignment with and use of national systems, harmonization and mutual accountability are fundamental principles of CoD in Solomon Islands. The grants will be intimately aligned with the key regional partner and largest donor in Solomon Islands, Australia's Department of Foreign Affairs and Trade, through combined assurance and financial control mechanisms, and joint programmatic assessments and planning.

There will be only two indicators for tuberculosis and one indicator malaria set as metrics to evaluate the progress, which will be discussed and agreed by the Global Fund and Solomon Islands government. The targets for these indicators will be drawn from the National Strategic Plans and widely discussed with the technical partners in the region. Based on an annual report from the Solomon Islands government, an independent verification in the form of 'Annual Data Quality and Programmatic Assessment' will be conducted in second quarter of the subsequent year to confirm the level of achievement against set targets for the selected indicators. The verified results will be used for determining the amount of rewards funds.

Rather than the upfront disbursement of grant funds as with the traditional Global Fund model, "reward" funds will be paid to the principle recipient based on findings of this independent verification. The reward payment will be tied to the performance against targets of selected indicators. However, for both grants in Year 1, the focus will be placed on ensuring completeness and accuracy of reporting and the Year 1 results will become the new baselines. With the exception of unethical or illegal purposes, the Global Fund reward funds can be spent on any government expenditure that supports achievement of impact towards control and elimination of HIV/AIDS, tuberculosis and malaria. For CoD grants in Solomon Islands, procurement of health products and payment for technical assistance (TA) will remain outside of the CoD arrangements and the Global Fund would make those funds available at the onset of the program, on an annual basis. The proportion of budget for health products and TA is approximately 60% for the TB grant and 80% for the malaria grant. The NFM grants requested by the Solomon Islands amount to US\$ 2.7 million for TB and US\$ 5.5 million for malaria.

### **DEVELOPMENT IMPACT BOND**

Impact bonds are another pay for performance model, which represent an opportunity to mobilize resources from private sector, stimulate greater efficiency and generate higher value for money by rigorously focusing on impact and outcomes. The Global Fund worked on designing and structuring a Development Impact Bond (DIB) for malaria intervention programs to be piloted in a limited geographic area in a country as a "proof of concept" during 2013 to 2014.

In a DIB for malaria, all stakeholders agree on a common goal and the way to measure success. Private investors provide the upfront capital to fund a malaria intervention program that is designed to achieve specific measurable outcomes, and a service provider carries out the program. The upfront investors are repaid by outcome funders, only if independently verified evidence shows that the program has been successful. If the results were above the pre-defined set of outcome and impact indicators, the upfront investors would be remunerated with an interest additional to the repayment of the principal by the outcome funders. However, upfront investors

would receive neither repayment of principal nor an interest, if the results did not meet the target indicator.

The key difference between a Social Impact Bond (SIB) and a DIB is the outcome funder. SIB is funded by domestic governments, whereas DIBs are funded externally. The Global Fund envisioned that the DIB's outcome funders could be a consortium of various types of partners, such as global health funders like the Global Fund, private sector companies (i.e., mining companies with operations in the country), bilateral aid agencies, and the recipient government. They would be attracted to the role of an outcome funder as it provides an opportunity to increase potential impact whilst transferring the risk of program failure to the upfront investors and delaying intervention payments.

Five critical factors were identified as essential for the success of a DIB pilot: i) mobilize additional new resources for malaria by attracting private sector companies to participate as outcome funders along with the Global Fund; ii) strengthen the malaria information system through coordination and harmonization with partners to ensure accurate and reliable data are available; iii) achieve greater efficiencies in the program implementation by fostering accountability of the service provider with the power of incentive; iv) limit the cost of the structure; and v) design and structure the mechanism to allow for a risk-adjusted return that is in line with market and the Global Fund expectations.

While impact bonds represent an opportunity to unlock new sources of private capital, there are a number of programmatic complexities and issues within the context of Global Fund's principles and operation. In a country, there are multiple organizations carrying out malaria intervention programs, ranging from the Ministry of Health, Global Fund's principle recipient and multiple sub-recipients, and other donors-funded implementers. Arranging a pilot in a limited geographic area raises questions of equity (only a limited population would benefit from the DIB funded program), distortion (monetary incentives to health community workers under the DIB could distort their motivations in the long term), and country ownership (where does Country Coordinating Mechanism (CCM) fit into the planning of the DIB), all of which are challenging to resolve. The Global Fund is actively exploring a number of innovative financing mechanisms, which like the DIB, can generate new sources of financing for health.

## **HEALTH FUNDS**

The Global Fund is currently working on a number of Health Fund initiatives in the Asia Pacific region, as well as in several countries in Africa. Health Funds are financial vehicles that may represent a sustainable source of additional funding for countries in transition. There are also potential to drive value for money/results in public sector, create a pool of effective advocates for increased domestic financing, and secure continued external finance/support for the Global Fund (i.e., via matching schemes). The Global Fund is also supporting the development of an AIDS Trust Fund for Southeast Asia region through discussions with the Asian Development Bank (ADB) and UNAIDS. Expectedly, the fund would support countries that are transitioning from external funding for health.

## **NEW SOURCES OF FINANCING**



Last year, the Global Fund received generous contributions from high net worth individuals in Indonesia. There are several other campaigns underway in the Asia-Pacific region, aiming to mobilize further funding for health from philanthropists. The Global Fund is encouraged by the commitment of high net worth individuals and business leaders to contribute to the health and well-being in their countries of origin, and their confidence in the Global Fund as a vehicle of choice. Philanthropic contributions and other types of innovative financing mechanisms, such as remittances schemes, health bonds, levies, etc. have the potential to form the backbone of health funds in the region.

### **INNOVATION HUB**

In 2014, the Global Fund launched the Innovation Hub, which a global multi sector partnership platform. It is founded on a firm belief that the best results are achievable when existing mechanisms are enriched with new actors, complementary resources, innovative models and a sense of urgency to collaborate on improving the quality of health programs and solving complex health and development issues. The Innovation Hub has the following objectives:

- Identification of innovative solutions, practices and partnerships to overcome recurrent challenges and support the achievement of priority health outcomes.
- Piloting and testing promising innovations to confirm their effectiveness, scalability and adaptability.
- Promoting the adoption of innovations, the dissemination of best practices, and demonstrating the impact that the Global Fund partnership can achieve.

The Innovation Hub will operate through three workstreams:

- **Procurement and Supply Chain Management (PSM).** Main focus: Address supply chain management inefficiencies to prevent treatment disruptions and improve the quality of health products.
- **Financial and Risk Management (FRM).** Main focus: Improve financial planning and risk management practices of local implementers and the Global Fund.
- **Program Quality.** Main focus: Identify and disseminate good practices to improve program quality.