



UPDATE FROM ROUND ONE AND LESSONS LEARNT

Outline: This note provides an account of the process from Board approval of the first round of proposals in April 2002 to the initial disbursement of funds to grant recipients and key lessons learnt by the Secretariat. Several of these lessons have been incorporated into the current disbursement process for Round 1 and served to speed up the signing of Grant Agreements. Lessons from Round 1 have also been incorporated in the procedures for Round 2. As a result, a significant reduction in the time between Board approval and disbursement of funds to grant recipients is anticipated. The Secretariat will continue to work to streamline the portfolio management cycle to ensure rapid and efficient disbursement procedures for subsequent rounds.

Part I. The April 2002 Board approval of Round 1 proposals

1. The Global Fund issued its first call for grant proposals on February 4, 2002. The response by the March 10 deadline was beyond all expectations: 322 proposals were received by the interim Secretariat, which at the time consisted of less than 20 individuals, mostly government seconded and a small team of consultants.
2. After an initial screening for eligibility by the Secretariat, 145 proposals were forwarded to the newly commissioned Technical Review Panel (TRP). The TRP divided the proposals into four categories, out of which the first three required different degrees of clarification before final approval. At its second meeting in the end of April, the Board decided to award funding to the first two categories of proposals, subject to applicants satisfactory addressing the clarifications requested by the TRP. In total, 58 proposals from 40 countries all over the world were approved or conditionally approved, representing commitments of USD 616 million over two years. Among approved proposals, budget requirements were split as follows between the three diseases: HIV/AIDS 67%, TB 23% and Malaria 10%. The bulk of committed funds, 60%, was for African countries. Most approved proposals had been submitted by Country Coordinating Mechanisms (CCMs), while seven were submitted by NGOs outside of the CCM process.

3. Key lessons learnt:

- Clarify and develop guidelines to ensure high-quality proposals (*Guidelines for Proposals improved for Round 2; further improvement needed for Round 3*)
- Some high-burden and resource poor countries need greater assistance when preparing proposals (*Improved support from technical partners for Round 2; further support required for Round 3 for consistently non-recommended proposals*)
- Strengthen TRP, by improving the skills mix as well as the number of reviewers (*Increased from 17 in Round 1 to 22 in Round 2. An increase to 25 for Round 3 is recommended to the Board, with a significant increase in the number of cross-cutting experts¹*)
- Define clear and robust needs-based eligibility criteria to ensure appropriate allocation of Fund resources (*Revised eligibility criteria are recommended to the Board²*)

Part II: Design of the disbursement process

¹ Report of the Portfolio Management and Procurement Committee (PMPC) to the Fourth Board Meeting GF/B4/7

² GF/B4/7

4. Following the April Board meeting, the Secretariat sent letters communicating the funding decisions to applicants, including the TRP's recommendations. Conditionally approved applicants were given a six week period to provide the requested clarifications.
5. A key challenge for the Secretariat before funds could be disbursed to approved proposals was to design fiduciary arrangements for accountability at country level. This included translating the basic guidelines provided in the *Framework Document*³ and from the April Board meeting into operational procedures and workable country-level arrangements with clear roles and responsibilities.
6. A first step was to define the roles and responsibilities of the key actors in the Fund's local fiduciary arrangements: *Principal Recipients (PRs)*, who would be the legal entities responsible for the grant proceeds and implementation results on behalf of the CCM, and *Local Fund Agents (LFAs)*, who would provide independent verifications of implementation progress and financial accountability.
7. To clarify fiduciary arrangements at country level, the Secretariat in early June sent a letter to all approved and conditionally approved Round 1 applicants requesting them to nominate one or more PRs to be responsible for financial management and implementation of the proposal, including receiving and disbursing funds to sub-recipients, overseeing and carrying out procurement and reporting on progress. The letter also asked CCMs to suggest LFA candidates, subject to a final decision by the Global Fund.
8. A Secretariat team with the collaboration of a financial management specialist from the World Bank and specialists on monitoring and evaluation (M&E) and procurement, respectively, developed a framework to assure that PRs would have the necessary minimum capacities to successfully assume their responsibilities.⁴ A guiding principle for the PR assessment was to as far as possible rely on existing available information to confirm the suitability of PRs, in order to avoid unnecessary burdensome procedures and duplications of efforts.
9. The *Framework Document* and the April Board meeting stipulated basic principles for the Global Fund's results-based approach to decide on allocation of resources. Based on this guidance, the Secretariat team during the summer/fall of 2002 developed a preliminary framework for monitoring and evaluation and PR reporting. Key objectives in this process was to as far as possible encourage the use of PRs' existing systems to

³ GF/B1/Doc 4

⁴ See the Report of the Monitoring and Evaluation, Finance and Audit Committee (MEFA) to the Fourth Board Meeting, GF/B4/8, Annex V, for additional information on the framework and guiding principles of the PR assessment.

minimize unnecessary new requirements, and to be aligned with donor harmonization efforts.⁵

10. Upon taking office in July, the Executive Director sent a letter to all approved and conditionally approved applicants to ask them to initiate certain activities in preparation for the grant negotiations. Specifically, the countries were asked to:

- Develop detailed work plans and associated budgets that were comprehensive and realistic
- Ensure that appropriate procurement, programmatic and financial management systems were in place
- Ensure that a system for monitoring and evaluation was in place including the specification of appropriate indicators and the arrangements for their measurement
- Compile information on the nominated PRs, including previous work with other donor organizations.

11. Towards mid-August, the Board had approved most CCM applicants based on the clarifications they had provided according to the TRP recommendations. The Secretariat had by then developed a Grant Agreement format and designed preliminary procedures to prepare for disbursements, including preliminary guidelines to assess PRs and a preliminary framework for results-based reporting and decision making. After considering a large number of different public and private sector LFA alternatives, with input from CCMs and through research and meetings, the Secretariat had also confirmed four entities as LFA candidates for Round 1: PricewaterhouseCooper (PWC), KPMG, UNOPS and Crown Agents.⁶

12. Key lessons learnt:

- Clarify implementation responsibilities up-front (*Guidelines for Proposals for Round 2 requests the nomination of PRs to be included as an integral part of the proposals*)
- To confirm the suitability of the nominated PRs, existing assessments should be used as far as possible. The focus should be on required minimal capacities to successfully implement the proposal (*Current guidelines for PR assessments*)
- Limit the role of the LFA to independent verifications of accountability and safeguard against conflicts of interest (*Current LFA contract and TOR*)

⁵ A draft version of this reporting framework is provided in GF/B4/8 annex V, and will be discussed at subsequent meetings of MEFA.

⁶ The confirmed LFA candidates, and their selection criteria, were communicated to all approved applicants in a letter from the Executive Director on September 3.

- Limit the total number of different LFAs for manageability (*Plans to initiate a competitive procedure to select a limited number of LFAs for future rounds*)
- Align reporting requirements to harmonization efforts and encourage the use of the PR's existing reporting systems to the extent possible (*Current draft PR reporting guidelines*⁷)

Part III: The “start-up” countries

13. To verify and fine-tune the preliminary Grant Agreement procedures for Round 1, the Secretariat in early September selected a first subset of countries for grant negotiations: Ghana (HIV/AIDS, TB), Haiti (HIV/AIDS), Sri Lanka (TB, Malaria) and Tanzania (Malaria) (the “start-up” countries). The Secretariat’s interim Portfolio Managers travelled to these countries to build consensus around the roles, responsibilities and commitment of all stakeholders and to prepare for the grant negotiations. In this work, the Secretariat staff was assisted by the local offices of selected LFAs.⁸ The process to arrive at Grant Agreements with these four countries consisted of four steps:

- Assess whether the nominated PRs have the systems and capacities to successfully implement the approved proposals⁹
- Determine potential capacity building requirements in relation to the implementation of the proposal
- Agree with the PRs on milestones and indicators to be used for results-based monitoring and disbursements for the two-year program
- Negotiate and sign the Grant Agreement.

14. Despite earlier efforts by the Secretariat to ensure that the four countries fully understood what was expected of them, and that they received appropriate assistance from development partners in-country, the level of readiness varied greatly between different countries. Some countries had progressed significantly in addressing the requests from the Fund, while others showed only limited progress beyond where they were at the time of grant approval in April. After the arrival of the Portfolio Managers in countries, the PRs and CCMs required significant time to complete their two-year work plans for implementation and to subsequently identify suitable periodic milestones to monitor implementation progress. It was apparent that the Fund’s approach to disburse funds based on achievement of results was new for many of the implementing partners.

⁷ See GF/B4/8, Annex V

⁸ PricewaterhouseCooper (PWC) in Ghana, Sri Lanka and Tanzania and KPMG in Haiti

⁹ According to four key dimensions for successful proposal implementation: Financial Management and Systems, Institutional and Programmatic, Procurement Systems and Management, and Monitoring and Evaluation.

15. The need for rigorous financial standards to select the right PR(s) from the beginning proved to be particularly critical. The existence of a comprehensive procurement plan was another crucial element to assure readiness for implementation. In all of the “start-up” countries, the assessment process led to a recommendation from the LFAs to confirm the CCM’s selection of PR(s), with a limited number of identified recommendations for capacity strengthening. However, the process also identified limitations to some of the PRs, especially those that were required to follow rigid governmental procedures without value-added to meeting the objectives of the grant disbursement.
16. The work with the “start-up” countries confirmed the ability of PricewaterhouseCooper (PWC) and KPMG to serve as LFAs. Their flexibility to fulfil the LFA role in a client- and service oriented way, both with respect to local stakeholders and the Secretariat, proved to be important, as did their core competency in financial services. Where the LFAs did not have the required skills in-house, notably procurement expertise, they were able to sub-contract with technical consultants.
17. Experiences with the CCMs in the “start-up” countries showed different levels of involvement of key national stakeholders. Progress proved to be the fastest where the CCM was a well functioning and inclusive partnership. Technical assistance from development partners in-country was also important for the successful completion of implementation plans. In one country, political issues between different levels of government delayed the Grant Agreement signing.
18. The first Grant Agreement was signed with Ghana on November 15. Tanzania followed on November 20, Haiti on December 2 and Sri Lanka on December 19. The total value of these grants, which constitute the Fund’s initial two-year commitment to approved programs, was USD 52 million. USD 850.000 was disbursed to Ghana on December 12. Initial disbursements to the other three “start-up” countries are due to follow as soon as agreed conditions precedent have been completed as stipulated in the Grant Agreement.

19. Key lessons learnt:

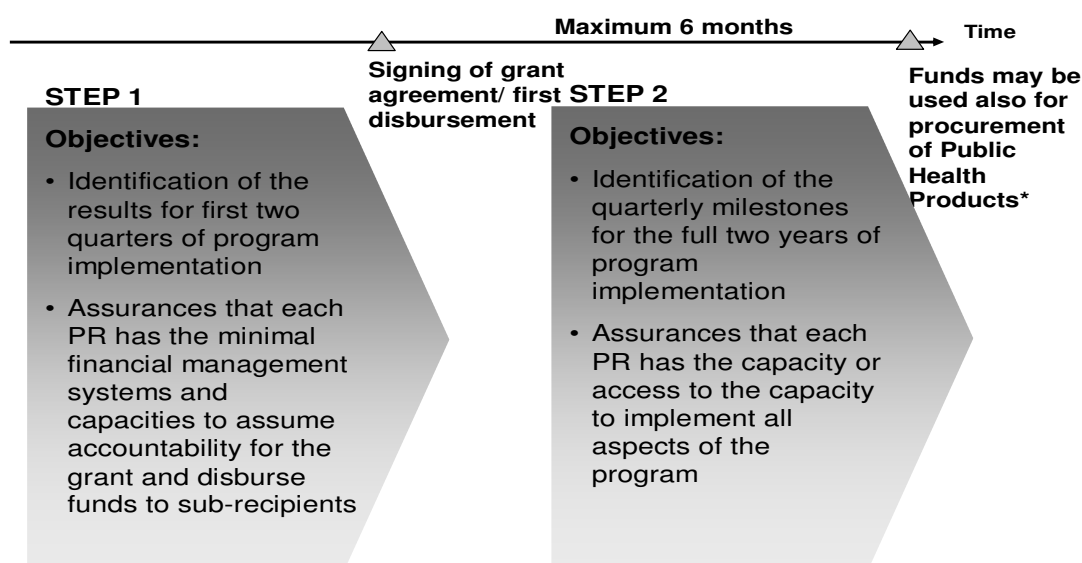
- For the PR role, it can be effective for CCMs to divide responsibilities between more than one stakeholder from different domains, depending on the specific country context (e.g., Haiti and Sri Lanka). Local stakeholders are normally expected to be PRs. In exceptional circumstances, the local office of a multilateral organization may be an alternative (e.g., UNDP in Haiti)
- The level of preparedness of PRs and CCMs varies, and will impact the time required to reach Grant Agreements
- A required core competency for LFAs is strong financial management expertise. Other competences can be effectively sub-contracted

- Portfolio Managers need an understanding of harmonization efforts and existing donor coordination processes in-country, including SWaps and PRSPs. PRs and other CCM members should be encouraged to ensure that all relevant viewpoints are taken into account in the efforts to tailor solutions to local realities and preferences.

Part IV: Roll-out of disbursement process to all Round 1 countries

20. Based on the lessons learnt from the “start-up” countries and following the guidance from the October Board meeting, the Secretariat revised the disbursement process to accelerate the pace to conclude Grant Agreements with all of the remaining approved Round 1 applicants. The main “bottle-neck” that had slowed progress in the “start-up” countries was the time required to identify periodic milestones for monitoring anticipated results, since this required the PRs to complete their work-plans for the entire two-year period. To be flexible and responsive to the level of preparation of PRs/CCMs, and at the same time allow for rapid initial disbursements to all approved applicants, a Two Step Process was designed to proceed with Round 1 disbursements.

The Two-Step Process to disburse funds for Round 1 grants



* Public Health Products include: drugs, condoms, diagnostics, Insecticide Treated Nets (ITNs), Sprays, Microscopes, Diagnostic Kits

21. The Executive Director sent a letter to Round 1 CCMs and members of the Board on November 14 describing this Two Step Process and requested information to speed up the Grant Agreement negotiations. With the process defined, the main objective of the Secretariat Portfolio Management team was now to as rapidly as possible conclude grant agreements for all approved Round 1 proposals and initiate disbursements of funds. To facilitate this process, Portfolio Managers spent most of December and January in the field to communicate the Fund’s policies,

procedures and expectations to PRs, CCMs and LFAs. These country visits proved to be crucial to speed up the preparations for grant negotiations.

22. A regional approach to explain the disbursement process and to complete the groundwork for the capacity assessments proved to be particularly effective. This was pioneered by the South-East Asia, East Asia and Oceania Portfolio Management Team, with the support of Board members, WHO and UNAIDS, through a joint regional meeting in Manila on December 5-6 with PRs, other CCM members and LFAs from five countries.
23. In parallel with the work in countries to ensure necessary preparations for the grant agreements, the Secretariat conducted additional due diligence to find suitable LFA solutions based on analyses of potential conflicts of interest, specific expertise available in-country, and cost proposals. After a consultative process, most CCMs agreed to one of the four LFA candidates proposed for Round 1. On an exceptional basis, an agreement was reached with the World Bank to take on LFA responsibilities for the Indian TB proposal, as it represented a scale-up of a larger program that was already supported by the Bank.
24. By mid-January 2003, a majority of Round 1 countries had been visited by Portfolio Managers, and support from local LFA offices had been arranged for most countries. It was clear by now that the disbursement process would move at different speeds depending on the specific country context, and the Two-Step Approach seemed well suited to provide flexibility and be responsive to the level of preparedness of PRs and CCMs.
25. With respect to the functioning of CCMs, experiences were mixed. In some of the countries, the CCMs had met regularly to formulate internal guiding principles as well as to coordinate efforts to submit subsequent proposals. In other countries, CCMs either had not met following the submission of the proposal, or meetings were not representative and instead dominated by a limited number of stakeholders.
26. Experiences with support from partners in-country were mostly very positive. In many cases, CCMs had received significant technical support to develop high-quality proposals. Technical support from development partners in-country also assisted many PRs to successfully complete their implementation plans. However, in other countries, PRs had not actively sought assistance from development partners, which could have improved attempts to address issues.
27. As a result of the successful efforts of PRs and CCMs, 23 additional Grant Agreements have been signed or are anticipated to be signed during the last two weeks of January with PRs in the following countries: Honduras, Malawi, Laos, Morocco, Panama, China, Argentina, Cambodia, India, Indonesia, Madagascar, Zimbabwe, Ukraine and Senegal. Additionally, the Grant Agreement with the Lutheran World Federation is expected to be

signed in Geneva. These soon-to-be-completed Grant Agreements represent commitments of about USD 270 million over two years; almost half of total Round 1 commitments. Preparations are far advanced also for most other Round 1 countries, with Grant Agreements for the remaining approved proposals expected to be signed during February and March.

28. Key lessons learnt:

- Before initiating disbursements, the Fund needs assurances that PRs have the minimal financial management systems and capacity to assume accountability for the grant. Before grant proceeds can be used to procure medical products, the Fund needs assurances of adequate arrangements for procurement and supply management. (*Two-Step Process for disbursements of Round 1 grants*)
- CCM partnerships are functioning better in some countries than others: need to define key principals and minimum standards, e.g., the value of multi-sectoral participation and continued involvement during implementation, and linkages to existing national coordination efforts such as National Aids Councils, PRSPs and MDGs
- Support from in-country partners functions better in some countries than others: need for partners in-country to systematically help identify areas where they can strengthen implementation efforts as part of the Global Fund's "Network"

Part V: From Round 1 disbursements to implementation

29. The four "start-up" countries have already initiated the implementation of their programs, and the Secretariat expects to receive their requests for additional disbursements based on the achievement of anticipated results during the first quarter of 2002. As the Secretariat gains more experiences with the on-going results-based disbursement decision process, current procedures will be continuously fine-tuned and improved upon.

Concluding remarks:

30. As a start-up entity, the Global Fund Secretariat, initially relying entirely on secondments, temporary staff and consultants, learnt-by-doing in the efforts to establish clear and robust procedures to disburse funds to proposals approved in Round 1. One year after the Fund's first Board meeting, the Secretariat now has the staff and basic procedures to allow for speedier and more efficient handling of proposals approved in Round 2. Through lessons learnt and on-going reviews of existing practices, the Secretariat aims to continuously streamline the portfolio management cycle. Putting the Fund's commitment to results-based funding into practice, and ensuring that the associated processes are "light" but accountable, will be among the Secretariat's greatest challenges in 2003.