



**The Global Fund to Fight AIDS, Tuberculosis and Malaria
Secretariat Discussion Paper
June 5, 2003**

**DISCUSSION DOCUMENT ON THE DEVELOPMENT OF A
COMPREHENSIVE POLICY FOR APPROVING AND FUNDING GRANT
OBLIGATIONS**

Outline: The Global Fund needs to establish a comprehensive policy on funding grant obligations. This policy should include:

Pledge levels required to approval proposals;

Asset requirements to sign grant agreements;

Reserve levels required to approve successful appeals;

The relative priority of funding the renewals of proposals and new applications

A methodology to approve proposals in a resource-constrained environment, addressing both possible changes in the application process and means to prioritize among TRP-recommended proposals

Part 1: Introduction

1. After gaining considerable experience from two Rounds of committing funds, approving proposals, and signing grants, the Board now needs to clarify and formally adopt a policy on funding grant obligations.
2. There is an urgent need to development such policies for the Third Round of Global Fund financing, and recommendations for such policies are provided in the document GF/B5/5 (as revised).
3. Policies for subsequent Rounds may differ considerably from those preferred for the Third Round, and this discussion document addresses some of the options for a comprehensive policy on funding grant obligations.
4. In Parts 2, 3, 4, and 5, this document addresses policies related to the approval of proposals and the signing of grant agreements, which are a prerequisite for any organization such as the Global Fund. In Parts 6 and 7, this paper discusses possible approaches to dealing with a resource-constrained environment. It is hoped that sufficient resources will be mobilized to make the contingency plans discussed in the latter two sections unnecessary, but given the current levels of contributions, it is prudent to develop plans for a resource-constrained environment.

Part 2: Policy for approving grant obligations

5. To date, proposals have been approved based on pledges paid or due to be paid until the end of the calendar year in which the financing decision is made (e.g., the total value of proposals approved in 2002 could not exceed the amount paid or due to be paid by the end of 2002).
6. This approach minimizes both the potential liability to the Global Fund and the reputational risk that would result from the Board committing to fund a proposal and then not having sufficient resources on hand to sign the resultant grant agreement.
7. There is considerable optimism that additional pledges will be received for funds to be paid in 2003. However, if no additional pledges for contributions to be made in 2003 are received prior to the October Board meeting, this approach used to date would mean that US\$319 million is available to finance Round Three (US\$1.82 billion in pledges less US\$1.45 billion in grant commitments and US\$51 million for operational expenses).
8. With the large majority of Round Three applications received and screened, a total of US\$2 billion are being requested in Round Three. Assuming 50% of these proposals are recommended by the TRP (adjusted slightly upwards from the historical TRP recommendation rate to reflect improved quality of proposals due to increased technical assistance

in proposal preparation), that would leave a funding shortfall of US\$681 million (US\$1 billion in TRP-recommended proposals less US\$319 million available).

9. However, based on experiences to date, it is unlikely that proposals approved at the October Board meeting will result in signed grant agreements before the end of 2003. Therefore, the Board could approve at the October Board meeting proposals up to the value of pledges due to be paid by the end of 2003, as well as a moderate percentage of pledges to be paid by the end of 2004.
10. Expanding the value of pledges to be included in the total of funds available could ensure fiscal prudence while not limiting proposal approval because of the timing of the Board meeting. For example, if a quarter of current 2004 pledges (which currently amount to approximately US\$600 million) were included in the calculation of funds available for the approval of Round Three proposals, then a total of US\$469 million (\$319 million from pledges due to be paid in CY2003 plus \$150 million from pledges from CY2004) would be immediately available for Third Round.
11. There are thus at least two possible approaches for a policy on approving proposals:
 - a) a policy which states that the Board shall approve proposals only up to the value of pledges paid or due to be paid during the calendar year in which proposal approval occurs, less the amount irrevocably committed;
 - b) a policy which states that the Board shall approve proposals only up to the value of pledges paid or due to be paid during the calendar year in which proposal approval occurs, less the amount irrevocably committed. In the event Board approval of proposals occurs in the final quarter of a given calendar year, the value of proposals approved should not exceed the total of pledges paid or due to be paid during the calendar year in which proposal approval occurs plus 25% of pledges for the subsequent calendar year, less the amount irrevocably committed.

Part 3: Policy for signing grant agreements

12. To date, grant agreements have only been signed when sufficient cash and/or liquid assets to cover the full two years of the proposal were either deposited with the Trustee or readily available (less the amount irrevocably committed).
13. This approach ensures that the Global Fund would never be in the position of lacking sufficient resources to disburse for a signed grant agreement. However, it is a conservative strategy, as it necessitates keeping considerable amounts of cash and other liquid assets on hand.

14. An alternative approach would be to use pledges rather than assets on hand as the basis against which grant agreements would be signed. Legal opinion was sought on this, which indicated that there are some liability concerns associated with this approach and, at least as significantly, there are considerable reputational risks.
15. Thus at the moment it is preferable to continue with the current approach of signing grant agreements only on the basis of the availability of sufficient funds deposited with the Trustee (or otherwise readily available).

Part 4: Policy for reserve levels required to approve successful appeals

16. With the introduction of the recourse mechanism, it is necessary to reserve sufficient funds to cover contingent liability related to successful appeals.
17. The appropriate levels of such a reserve are difficult to estimate currently, given the limited experience of the Global Fund and the lack of ready comparisons from other organizations.
18. It is necessary for more experience to be gained before an informed recommendation on the size of the reserve level can be made. It is anticipated that this will be possible following the TRP recommendations on the Third Round of proposals (which will enable an assessment of the maximum value of possible appeals).

Part 5: Policy for prioritizing between renewals and new proposals

19. Proposals typically extend for five years, with the initial commitment covering only the first two of these. To date, no funds have been reserved for the extension of successful programs which seek a renewal of grant commitments beyond the initial two years.
20. The comprehensive policy must decide whether or not renewals should receive priority over new applications.
21. There are thus at least two possible approaches for addressing relative precedence of the extension of successful proposals and of new proposals:
 - a) a policy for funding grant obligations which states that the financing of successful grants beyond the initial two-year commitment will take precedence over the approval of new proposals in subsequent Rounds;
 - b) a policy which states that the financing of successful grants beyond the initial two-year commitment will not take precedence over the approval of new proposals in subsequent Rounds.

Part 6: Policy for approving proposals in a resource-constrained environment

22. To date, the Board has approved all technically sound proposals submitted to the Global Fund. This approach reflects the Framework Document's emphasis on financing proposals that "focus on best practices by funding interventions that work and can be scaled up to reach people affected by HIV/AIDS, tuberculosis and malaria."
23. In the event of limited resources, it is unlikely that the Board will be able to approve all TRP-recommended proposals immediately. There are a number of possible approaches to addressing this problem, which can be grouped into either:
- a) changes in the process of applying for financing from the Global Fund; or
 - b) prioritization among TRP-recommended proposals.
24. As the former of these approaches cannot be retrospectively applied to Round Three, the approach to addressing the resource-constrained environment will differ between Round Three and subsequent Rounds.
25. For a comprehensive policy on funding grant obligations, possible changes in the application process to address resource-constraints could include:
- a) Further restricting the eligibility criteria for applications to the Global Fund to increase the focus on poor and needy countries;
 - b) Setting upper limits on the size of applications;
 - c) Announcing Calls for Proposals less frequently;
 - d) Increasing co-financing requirements;
 - e) Introducing stricter requirements for countries to demonstrate that they have sufficient absorptive capacity to successfully implement proposals.
26. A comprehensive policy would thus need to simultaneously address both possible changes to proposal submission and eligibility, and the process for prioritizing among TRP-recommended proposals (as discussed below).

Part 7: Policy for prioritizing TRP-recommended proposals

27. There are two distinct aspects to the process of prioritizing among TRP-recommended proposals: how to prioritize among such proposals, and how to handle proposals that are recommended by the TRP but for which insufficient funds are available for immediate approval.
28. At its May 2003 meeting, the Portfolio Management and Procurement Committee (PMPC) discussed the former of these. The PMPC reviewed a number of options for prioritizing among TRP-recommended proposals not

detailed herein (such as reducing Global Fund commitments from two years to one year, or postponing the announcement of Round Three approvals until such a point that sufficient funds have been pledged to cover all TRP-recommended proposals) before identifying and suggesting two approaches for Board consideration. These two approaches are discussed in Annex 1.

29. For those proposals deemed technically sound but not immediately approved due to insufficient funds, a comprehensive policy will need to address whether these proposals should be given final approval for funding when sufficient resources become available, i.e., placed in a “queue” that would be financed before new applications, or, alternatively, if the proposals would not be approved for funding but instead be encouraged to resubmit in the next Round.
30. There are thus at least two possible approaches for addressing TRP-recommended proposals that cannot be approved immediately due to insufficient funds:
 - a) a policy for funding grant obligations which states that TRP-recommended proposals that cannot be approved immediately due to insufficient funds will be placed in a queue, and proposals in this queue will be approved prior to any new applications being approved;
 - b) a policy for funding grant obligations which states that TRP-recommended proposals that cannot be approved immediately due to insufficient funds must resubmit in a subsequent Round.

Approaches to Prioritizing Proposals in Round Three

1. Two approaches are proposed for prioritizing proposals in Round Three, in the event that insufficient resources are available to fund all proposals recommended by the Technical Review Panel.
2. The first is an extension of the existing practice of approving proposals based on technical merit. The TRP currently groups all eligible proposals into four categories, two of which are recommended for funding, one of which is not recommended in its current form but encouraged to resubmit, and one of which is rejected.
3. The current split into two recommended categories is unlikely to assist with prioritizing proposals if resources are constrained: in both Rounds One and Two, a large majority of recommended proposals have been classified as Category 2.
4. However, if the TRP modified its approach to recommending proposals to the Board, it could be possible to use technical merit to prioritize proposals. For example, the TRP could introduce additional “recommended” categories, with the most technically sound proposals receiving priority approval. Alternatively, the TRP could rank each proposal, with approvals made based on resources available.
5. In keeping with the principle that the TRP acts as an independent assessor of technical merit, the TRP should decide its own preferred approach to modifying the structure of its recommendations to facilitate prioritization.
6. A purely illustrative example of this approach is included as Option 1 below.

Option 1: Technical merit only approach

purely illustrative example

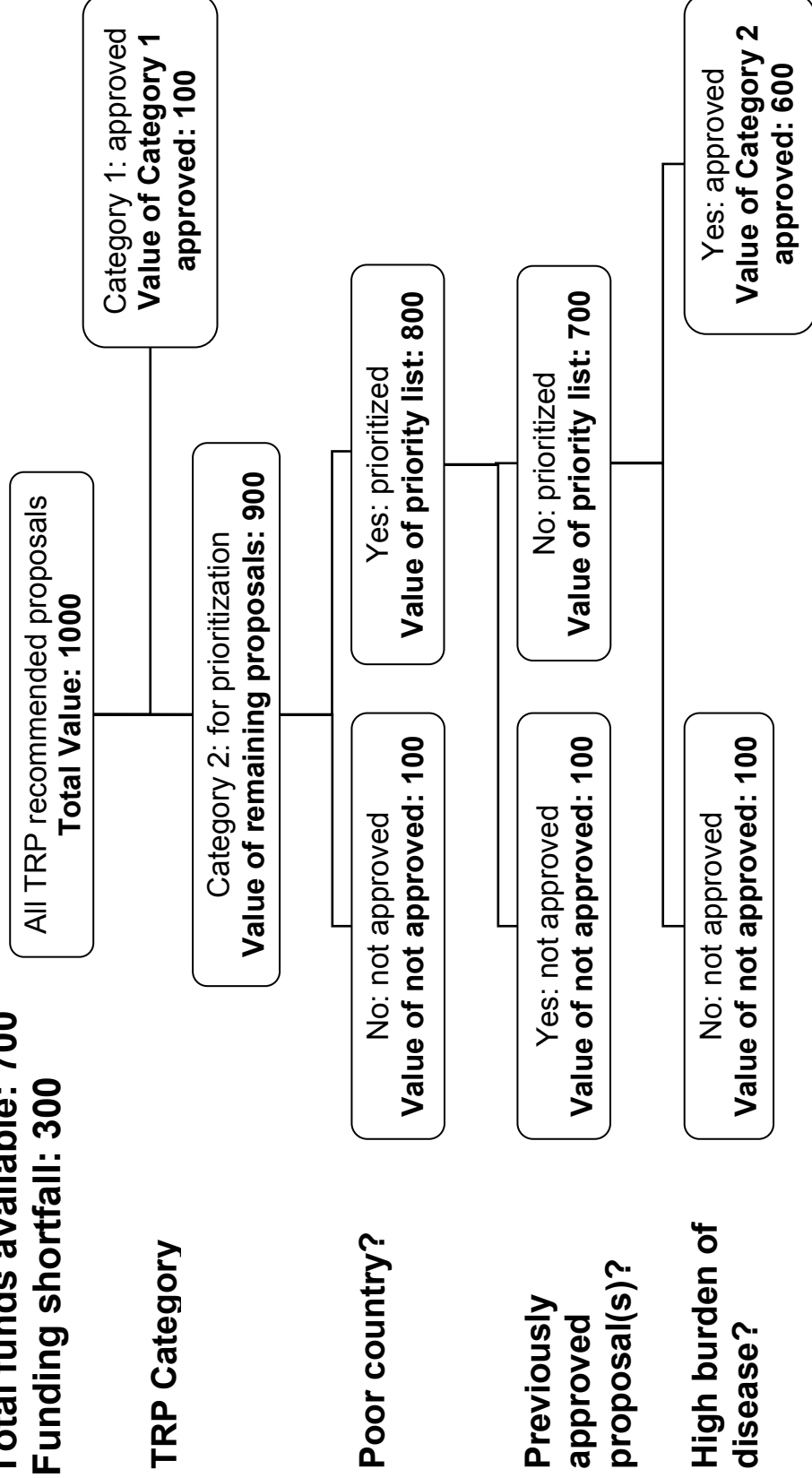
TRP category	Value of proposals		Category approved?			
	Category	Cumulative	Scenario 1: 400 available	Scenario 2: 300 available	Scenario 3: 200 available	Scenario 4: 100 available
Category 1	100	100	Yes	Yes	Yes	Yes
Category 2a	100	200	Yes	Yes	Yes	No
Category 2b	100	300	Yes	Yes	No	No
Category 2c	100	400	Yes	No	No	No
Category 3 (recommended for resubmission)	1000	1400	No	No	No	No
Category 4 (not recommended)	100	1500	No	No	No	No

7. The second approach would continue to emphasize the technical merit of proposals. However, it would introduce additional criteria to prioritize among proposals that the TRP recommends (either if the TRP recommendations remain in the current form of two recommended categories, or if the TRP decides to add additional recommended categories).
8. These criteria would be drawn from the Global Fund's principles as set out in the Framework Document. For example, priority could be given to proposals from countries with the greatest need (based on burden of disease and/or rapid growth of an epidemic, and with the least ability to mobilize financial resources to address the epidemics); proposals that demonstrate sustained political commitment to combating the three epidemics; proposals that exemplify partnership between public and private sectors; and proposals that provide strong evidence of additionality or co-financing.
9. Criteria could also be used to ensure other desirable outcomes (for example, that a large number of countries receive financing from the Global Fund).
10. This option would be best handled through a decision tree that uses yes/no answers to a series of objective questions to group countries into priority categories. Alternatively, a composite index that weighs and combines different criteria into a single "score" could be developed.
11. A purely illustrative example of this approach is included as Option 2 below.

Option 2: Technical merit with additional criteria

purely illustrative example

Total funds available: 700
Funding shortfall: 300



Total not approved: 300

Total approved: 700