



COMPREHENSIVE POLICY FOR APPROVING AND FUNDING GRANT OBLIGATIONS

Outline: This paper presents a series of recommendations on a comprehensive policy for approving and funding grant obligations. It covers resource-mobilization modalities; policies for approving proposals and signing grant agreements; and the process of selecting proposals in a resource-constrained environment. It also identifies areas requiring further work. An Annex addresses special considerations relevant for the Third Round of Global Fund proposals.

Summary of Decision Points:

1. Resource-mobilization modalities (see page 4)
2. Guiding principle for approving proposals (see page 5)
3. Principles for proposal approval and grant signing (see pages 6)
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Introduction

1. At its Fifth meeting, in June 2003, the Board of the Global Fund requested the Secretariat to work in consultation with the World Bank, other partners, the Portfolio Management and Procurement Committee (PMPC) and the Monitoring, Evaluation, Finance and Audit Committee to develop a comprehensive policy for funding grant obligations for presentation at the Sixth Board Meeting, in October.
2. The Board also asked the Secretariat, in consultation with PMPC, to develop options for prioritizing among proposals recommended by the Technical Review Panel in the third Round of Global Fund financing. The Board also requested that options be developed for how to handle lower-prioritized proposals. Both of these were also to be presented to the Board in August for approval at its October meeting.
3. Finally, the Board asked the Secretariat to work with the MEFA Committee to define reserve levels for the financing of successful appeals, also for discussion at the Sixth Board Meeting.
4. As requested, the Secretariat has consulted widely with the World Bank, the two Committees, and other partners such as the Technical Review Panel in the preparation of these materials. Secretariat held an initial meeting on the topic with the World Bank in Washington, D.C., in June, while there was a joint PMPC-MEFA meeting in July (which the World Bank participated in as a member of both Committees, and which the TRP also attended).
5. The Secretariat prepared two earlier documents to inform the discussion: an issues paper that delineated the key topics for the comprehensive policy, and an options paper that detailed the possible approaches to addressing the issues. The options paper formed the basis of the joint PMPC-MEFA meeting in July and is included as Annex 2 for contextual information.
6. In the process of these consultations, it was generally agreed that the comprehensive policy would be the focus of work – rather than letting the exceptional context of Round Three drive the discussion – and that it would include the issue of reserve levels to fund successful appeals. Accordingly, this paper describes a comprehensive policy for the medium-term but contains an annex on special considerations for Round Three (Annex 1).
7. The paper is divided into three sections. The first, resource-mobilization modalities, examines the overarching approach to fund-raising for the Global Fund. This has two fundamental aspects: first, whether contributions are entirely voluntary or if they should be determined by a burden-shared formula, and second, whether the timing of contributions should be entirely at the discretion of the donor or whether there should be

a regular replenishment forum for announcing contributions (the size of which would be either voluntary or burden-shared).

8. The second section addresses the policies for approving proposals and signing grant agreements. This includes the duration of commitment, the basis of commitment (i.e., pledges or assets), and factors influencing the pool of funds available for commitment (including whether or not funds are set aside to finance successful appeals).
9. The next section covers how to select proposals if resources are constrained. This could occur by further restricting applications to the Global Fund and/or not approving the full range or amount of proposals recommended by the Technical Review Panel (either by prioritizing among TRP-recommended proposals or by partially approving proposals).
10. Each of these sections contains the recommendations from the joint PMPC-MEFA meeting, upon which the Board is requested to act at the Sixth Board Meeting. The final section presents a series of unanswered questions and proposes steps to addressing them.

Part 1: Resource-mobilization modalities

1. In the span of less than two years, the Global Fund has grown explosively, with more than US\$4.7 billion pledged to it. Although this speed is entirely unprecedented, it is also insufficient: UNAIDS has recently estimated that an additional US\$5 billion is needed globally for HIV/AIDS for the year 2005 alone. Increased resource-mobilization is thus an imperative for the Global Fund if it is to fulfill its mandate as an organization capable of financing a considerable expansion of the global response to AIDS, tuberculosis, and malaria.
2. There is also clearly a need for increased predictability in contributions to the Global Fund, to provide greater certainty to recipients that financing will be available for the programs they commence with Global Fund financing. For donors as well, increased predictability of Global Fund financing will support harmonization efforts and will facilitate joint planning.
3. Simultaneously, it is important that any approach to fund-raising for the Global Fund be flexible enough to allow rapid growth in response both to the needs identified in technically-sound proposals and to increased donor confidence as a track record develops demonstrating evidence of the value of the Global Fund's approach. An approach that locked donors into fixed multi-year commitments might not be able to respond rapidly enough to increased need.
4. Currently, the size and duration of commitments to the Global Fund are entirely voluntary. The timing of contributions is also at the discretion of the donor. The prime advantages of such a *voluntary, ad hoc* modality are that it allows donors to see the added-value of the Global Fund's approach

before contributing, that it is flexible enough to allow rapid expansions in funding in response to increased demand, and that it facilitates the participation of the private sector.

5. PMPC and MEFA Committee members were near unanimous in their support for the continuation of this approach to resource mobilization.
6. A minority of PMPC and MEFA Committee members felt that contributions to the Global Fund should occur on a periodic basis, their size to be determined either voluntarily or through a burden-shared formula (which could, for example, link minimum contributions to the size of national economies). These members cited the prime benefits of such a replenishment approach as increased predictability. They agreed that contributions from the private sector (and some governments) would remain voluntary and ad hoc.
7. For additional details on options for approaches to resource mobilization, see pages 4-6 of Annex 2.
8. All members felt that donors should be encouraged to make multiple year pledges to increase predictability and reliability.

Decision 1: Resource-mobilization modalities

Near consensus recommendation:

A voluntary, ad hoc approach should be used for resource-mobilization.

[Alternate:

Resource-mobilization should use a periodic replenishment model on a voluntary basis for public donors, complemented by additional ad hoc contributions for other donors, including new public donors, the private sector, and individuals.]

[Alternate:

Resource-mobilization should use a periodic replenishment model on a burden-shared basis for public donors, complemented by additional ad hoc contributions for other donors, including new public donors, the private sector, and individuals.]

Part 2: Policies for approving proposals and signing grant agreements

1. This section begins with a discussion of the principle that guides the Board's approval of proposals, before addressing the specific commitments attached to proposal approval and grant signing. It also covers the definition of what is considered as an "asset" of the Global Fund, and the reserve requirements for funding successful appeals.

2. To date, sufficient resources have been available to allow all proposals recommended by the TRP to be approved by the Board. This has made it possible for two principles to co-exist: a) that proposals are approved up to the total of resources currently available, and b) that all TRP-recommended proposals are approved.
3. If resources are limited, it is necessary to prioritize among these two principles. PMPC and MEFA Committee members supported the first of these, recommending that TRP-recommended proposals should be approved up to the total of resources available.
4. This recommendation is based primarily on the practical implications of choosing to approve all TRP-recommended proposals. If insufficient funds are contributed to fully finance all technically-sound proposals immediately, then option b) above would necessitate the creation of a “queue” of proposals waiting to be funded. If resources available continued to fall short of what is required, this queue could eventually grow so long as to restrict the financing of new proposals.
5. This topic is covered on page 7 of Annex 2.

Decision 2: Guiding principle for approving proposals:

TRP-recommended proposals should be approved up to the total of resources available.

6. Applications to the Global Fund typically cover a five-year period. However, in approving proposals in Rounds One and Two the Board has looked only at two-year budgets, giving rise to some confusion about whether the entire five-year proposal is approved initially, or if only the first two years are approved. If the latter, this raises the question of whether the extension for subsequent years must compete with new proposals in the event of limited resources.
7. The question of the duration of commitment involves a trade-off between providing certainty to recipients, and approving new proposals. An immediate five-year commitment might enable recipients to make longer-term plans. However, this increased reliability would severely restrict the ability to approve new proposals (unless, of course, considerable new resources were mobilized rapidly).
8. At the moment, insufficient resources have been pledged through the end of 2003 to fund the five-year value of all TRP-recommended proposals even for Rounds One and Two. If the five-year value of TRP-recommended Round Three proposals is included in the calculation, there are insufficient resources even if all pledges ever made to the Global Fund (i.e., up to 2008) are included.

9. PMPC and MEFA Committee members felt that it was important to balance between these two competing priorities. They therefore recommended that an initial financial commitment be limited to two years, but that in the event of limited resources, the renewal of these proposals after the initial two years would be prioritized over the approval of new proposals.
10. The Committee members recommended continuing with the existing criteria for signing grant agreements, namely that assets to cover the full two-year value of the grant must be available with the Trustee prior to grant signing.
11. The options for this issue are discussed on pages 8-12 of Annex 2.
12. In the event that the TRP makes an error in its review of a proposal, an applicant can appeal to have the TRP's recommendation set aside. Although this process may result in some successful appeals, PMPC and MEFA Committee members recommend against setting aside a pool of funds specifically for the purposes of funding these. Such a reserve was considered unnecessarily conservative, as it would tie up funds that could otherwise immediately be put to use in approving additional proposals.
13. In the event that a successful appeal could not be immediately approved because of insufficient resources, the appeal would be approved as soon as funding became available.
14. Reserve requirements are addressed on page 13 of Annex 2.

Decision 3: Principles for proposal approval and grant signing:

Proposals are approved for the entire term of the proposal (up to five years) with a financial commitment for the initial two years with the possibility of renewal for up to an additional three years, with the following conditions:

- a. **The Board may approve proposals and commit funds for two years up to the cumulative uncommitted amount pledged through the calendar year of the Board decision;**
- b. **A sufficient amount of assets to meet the full cost of two years of implementation of approved grants must be deposited with the Trustee or readily available on demand prior to the Secretariat signing a grant agreement;**
- c. **Based on successful implementation of a grant, funding beyond its first 2 years receives priority over the funding of new proposals.**
- d. **No funds for appeals should be reserved. Appeals should be funded immediately if resources are available or as soon as new resources become available.**

15. A policy of requiring that sufficient funds be deposited with the Trustee to cover the full two years of grant implementation prior to grant signing means that large cash balances are likely to arise if donors contribute cash, as disbursements will necessarily lag behind contributions. This can be avoided if contributions are made in the form of promissory notes.
16. However, not all forms of promissory notes are equally secure, and not all notes can be encashed equally easily. PMPC and MEFA Committee members therefore recommend that both cash and demand public promissory notes be considered as assets.
17. Annex 2 covers cash balances and assets on page 14.

Decision 4: Assets basis for grant signing:

Both cash and demand public promissory notes should be considered as assets.

18. Further work is needed to assess the risks and possibilities of different forms of promissory notes, including from private sector entities, so this topic is also covered below in the section on next steps.

Part 3: Selecting proposals in a resource-constrained environment

1. Currently, there are only limited restrictions on applications to the Global Fund: proposals can only be submitted in response to a Call for Proposals (rather than on a rolling basis) and some countries are not eligible to apply. The only criterion currently used for prioritizing among applications is technical merit, as assessed by the TRP. Proposals are approved in their entirety.
2. PMPC and MEFA Committee members felt that it was important to provide recipients with the assurance that at least one Call for Proposals would be issued a year, but also wanted to preserve the flexibility to change this based on the needs for Global Fund financing and on the availability of resources.
3. This topic is covered on pages 16-19 of Annex 2.

Decision 5: Calls for Proposals:

The Board will announce a minimum of one Call for Proposals per year. The Board can adjust this based on need and on resources available.

A forecast of the resources available for the Round will be announced at the time that the Call for Proposals is issued.

4. PMPC and MEFA Committee members felt that estimates of resources available and of demand for Global Fund financing should be regularly updated and presented to the board, in order to improve transparency for both donors and potential recipients.

Decision 6: Estimating Resources and Demand:

At the final Board meeting of each year, beginning with the 2004 budget, the Global Fund will forecast resources and estimate demand for the next year.

This estimate will show clearly the funds available for commitment.

This estimate should be updated at each Board meeting.

5. Committee members felt that it would be inappropriate to make any other changes to the eligibility criteria proposed by the PMPC to the Fifth Board Meeting (and postponed at that time).
6. There was consensus that technical merit should continue to determine proposal approval, and although this has been the practice to date, the Committee members felt that it was appropriate to reiterate this in the comprehensive policy.
7. There was also consensus that the TRP should facilitate the Board's efforts to respond to a resource-constrained environment by presenting the Board for more than the existing two recommended categories. This could be done by introducing additional recommended categories or by subdividing the existing category 2.
8. At the June Board meeting, a similar recommendation was adopted, but it focused on the Round 4 process. The recommendation below codifies the principle as part of the comprehensive policy.
9. However, in the event that the TRP's classification is insufficiently precise to match resources available to recommended proposals, there was near-unanimity that a few additional criteria should be used to prioritize among TRP-recommended proposals: poverty, disease burden, and previous repeated failure to obtain proposal approval for the same component. These criteria were selected based on the Framework Document and existing Guidelines for Proposals, and for the feasibility of measuring them.
10. A minority felt that only technical merit should be used for prioritizing among proposals, and that including other criteria would dilute the emphasis on financing only the most technically-sound proposals.
11. Annex 2 discusses these topics on pages 17 and 22-27.

Decision 7: Prioritizing among TRP-recommended proposals

Technical merit will be the criteria used to determine proposal approval.

The Technical Review Panel should refine its recommendations in category 2 in a way that will facilitate the Board's prioritization of proposals for approval.

Near consensus recommendation:

If it is necessary to further prioritize within these sub-categories, the following additional criteria will be used by the Board: poverty, disease burden, and repeated failures for the same component.

[Alternate:

Only technical merit will be used to prioritize among proposals.]

12. PMPC and MEFA Committee members recommended against partially approving components, as this could cause considerable difficulties for applicants and could result in delays in signing grant agreements after proposal approval.

13. This topic is addressed in Annex 2 on pages 17 and 29.

Decision 8: Partial approval:

The Board will not partially approve components.

Part 4: Topics requiring additional work

1. PMPC and MEFA Committee members requested that forecasts of resources available for commitment and of estimated demand for Global Fund financing be provided to the Board on a regular basis (at the least, at the final Board meeting of every year). Committee members requested the Secretariat to work with the Trustee to develop financial models that would provide these estimates.

Decision 9: Estimates and financial models:

The Secretariat will work with the Trustee, the MEFA Committee, and other partners such as WHO and UNAIDS develop financial models that provide regular estimates of resources available for commitment and of demand for Global Fund financing, to be presented to the Board at its seventh meeting.

2. The Secretariat was also requested to work with the Trustee to further assess the specific types of promissory notes that could be considered assets.

Decision 10: Promissory notes:

The Secretariat will work with the Trustee and the MEFA Committee to determine the specific criteria on promissory notes to be considered as assets, to be presented to the Board at its seventh meeting.

3. The process by which a successful proposal is extended beyond its initial two-year grant remains to be defined, although the MEFA Committee and the Secretariat have begun work on the topic.

Decision 11: Extension of grants:

The Secretariat will work with the MEFA Committee and with PMPC to determine the process for the extension of two-year grants, to be presented to the Board at its seventh meeting.

4. Although recommendations for the general principles guiding the prioritization of TRP-recommended proposals were agreed to, further work is needed to operationalize, including determining the approach used to combine the criteria selected (e.g., use of a flow chart or of a composite index) and the specific values for the criteria chosen (e.g., what measure of poverty and disease burden to use).

Decision 12: Operationalization of prioritization principles:

The Secretariat will work with PMPC to operationalize the principles for prioritization among TRP-recommended proposals, to be presented to the Board at its seventh meeting.

5. Finally, any financial policy must be regularly assessed to determine whether it is meeting its objective. It is therefore important to develop a set of indicators to assess the performance of this policy.

Decision 13: Financial indicators:

The Secretariat will work with the MEFA Committee to identify a set of indicators for assessing the performance of the Global Fund's financial policies, to be presented to the Board at its seventh meeting.

6. To provide transparency, the various aspects of the comprehensive policy should be gathered into a single, short document that can be made publicly available. The Secretariat will prepare such a document and make it publicly available.

Annex 1: Special considerations for Round Three

1. PMPC and MEFA Committee members felt that it was appropriate to make an exception to the comprehensive policy for Round Three, in light of the fact that policies had not been adopted and publicized when applicants submitted Round Three proposals.
2. There was unanimity that a percentage of the next calendar year's pledges should be used to approve Round Three proposals. The Committee members felt that this was both fair to Round Three applicants and carried little risk of putting the Global Fund in a position of being ready to sign a grant agreement without sufficient assets, because the timing of the Board meeting at which Round Three proposals will be approved: an October Board meeting means that many proposals will only be ready for grant signing in the next calendar year, significantly lowering the risk of having insufficient assets available to sign the agreements.

Decision 14: Round Three:

A percentage of pledges for 2004 will be used to approve all TRP-recommended proposals in Round 3.