



## CRITERIA FOR CONSIDERING PROMISSORY NOTES AS ASSETS

**Outline:** At the sixth Board meeting, the Secretariat was asked to 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. This paper proposes these criteria.

### Decision Point:

The MEFA Committee recommends that the Board decide that:

- 1 The Global Fund shall consider as assets for the purposes of entering into grant agreements, promissory notes or similar obligations issued by the government of a sovereign state (or its designated depository) which shall be non-negotiable, non-interest bearing and payable at par value to the account of the Fund in the designated depository on demand or in accordance with an encashment schedule agreed between the contributor and the Secretariat.

## **Part 1: Introduction**

1. The sixth Board meeting decided that both cash and demand public promissory notes should be considered as assets for the purposes of entering into grant agreements. The Secretariat was asked to 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.
2. While only one contributor to the Global Fund currently pays its contribution in the form of promissory notes, this practice may become more widespread on introduction of the Voluntary Replenishment Mechanism which was mandated by the sixth Board meeting.
3. A feature of this Mechanism is that participating contributors would (under a proposal to the Board from the Resource Mobilization and Communications Committee (RMCC)) be asked to back all pledges above a minimum threshold of \$10 million with either cash or promissory notes callable on a schedule matching expected Fund disbursements

## **Part 2: Promissory Notes**

4. The Secretariat has conferred with the World Bank regarding the practice of other funds with regard to promissory notes.
5. The World Bank advises that, typically, public promissory notes are accepted on terms of the following nature:

“The Fund shall accept promissory notes or similar obligations issued by a government or its designated depository, which shall be non-negotiable, non- interest bearing and payable at par value on demand to the account of the Fund in the designated depository.”
6. While promissory notes may be designated as payable on demand, the typical practice in replenishment schemes is to call the notes for encashment as and when the money is needed to fund disbursements. Hence an ‘encashment schedule’ is often agreed as part of the replenishment terms.
7. Accordingly, it is recommended that the Global Fund consider as assets for the purposes of signing grant agreements, those promissory notes that conform to the criteria outlined at 5 above, as amended to allow for encashment in accordance with a schedule agreed between the contributor and the Secretariat (which would be related to the disbursement profile of the grant commitments to be funded by the particular promissory notes).

**Decision Point:**

- 1 The Global Fund shall consider as assets for the purposes of entering into grant agreements, promissory notes or similar obligations issued by the government of a sovereign state (or its designated depository) which shall be non-negotiable, non-interest bearing and payable at par value to the account of the Fund in the designated depository on demand or in accordance with an encashment schedule agreed between the contributor and the Secretariat.**