



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

**Fourteenth Board Meeting
Guatemala City, 31 October - 3 November 2006**

GF/B14/12

RESOURCE FORECAST 2006-2007

Outline: This paper informs the Board of the resources forecast to be available for funding grants, including Round 6, in 2006-2007.

Part 1: Background

1. The Board at its Thirteenth Meeting amended the Comprehensive Funding Policy; with regard to the approval of new proposals, the amendment states that:

“The Board may approve proposals and commit funds for two years up to the cumulative uncommitted amount of assets that the Board determines will be available at the time of signing the related grant agreements in accordance with 3(b)”

2. In its report to that Board meeting, the Finance and Audit Committee (FAC) advised the Board that this change would align the policy for Board approval of grants with the policy for signing of grants. The change would remove the anomalies that previously could occur, particularly when Board approval takes place late in the calendar year. It would link the authority for Board approval directly to the amount of assets expected to be available at the time of grant signing.

3. The FAC also advised the Board that it would monitor the calculation process, including the estimations made, to determine the resources available for approval of proposals based on the "cumulative uncommitted amount of assets" that will be available at the time of the grant signing. The FAC has reviewed and endorsed the calculation process proposed by the Secretariat, as described in Part 3 below.

Part 2: Amount available for Round 6

4. If approved in November 2006, the amount available for Round 6 would be **US\$ 698 million**, as set out in Annex 1.

5. As illustrated in Annex 1, uncommitted assets of US\$ 807 million are forecast to be available for new Rounds in 2006-2007. Taking account of the timing of contributions and grant signings, it is forecast that US\$ 698 million of this would be available at the time of signing the related grant agreements, in accordance with Comprehensive Funding Policy (see Annex 3).

6. The Portfolio Committee (PC) has recommended to the Board modifications to the Phase 2 renewal process, one of which is to extend by three months the time when Phase 2 decisions are typically taken (GF/B14/8, Annex 3a, paragraph 5). If the Board were to adopt this recommendation, then the Board decision on renewal would normally occur in month 24 (instead of month 21). (Currently, the Board decision actually occurs in month 23, on average.) Annex 2 presents a revised calculation of funds available for Round 6 based on the Board decision being made in month 24. On that basis, US\$ 807 million would be available for approval of Round 6 in November 2006, as set out in Annex 2.

Part 3: Determining the amount available for Round 6

Calculation process

7. The calculation process covers the two calendar years during which Round 6 grant signings are expected to occur, 2006–2007. For that period, the calculation computes the amount of uncommitted assets expected to be available for approval of new proposals, taking account of:

- (a) Uncommitted assets at the start of the period
Plus: (b) Pledges to be contributed during the period
Less: (c) Grants and Phase 2 renewals approved in 2005, but not yet signed at 1 January 2006 (hence to be signed during 2006).
Less: (d) Phase 2 renewals (and beyond Phase 2 renewals¹) forecast to be approved and signed during the period
Less: (e) Operating expenses to the extent not covered by investment income

8. The timing of each item is estimated by month, to give a computation of the uncommitted assets remaining at the end of each month, after taking account of the foregoing.

9. The timing of the signing of new grants is also estimated. The overall amount available for the approval of a new Round of proposals is thus constrained so as to ensure that there is no material shortage of uncommitted assets at the time a grant would be expected to be signed (and thus become a commitment) in the normal course. (Note: If such a shortage were to occur, grant signings would have to be postponed until contributions sufficient to eliminate the deficiency were contributed.)

Assumptions underlying the estimates

10. The forecast is largely dependent on assumptions made in arriving at the estimates for items b, c and d above, and the timing of new grant signings. The basis of estimation used for each of these is as follows:

- Pledges: Only confirmed pledges are taken into account. The timing of contribution is as indicated by the donor. Where no time has been indicated, an estimate is made having regard to the timing of previous contributions.
- Grants and Phase 2 renewals approved in 2005 (but unsigned at 1 January 2006): If not already signed, the month of signing is estimated within 2006, assuming that all are signed by end of December.
- Phase 2 renewals approved and signed during 2006–2007: It is assumed that the Board decides upon the renewal of each grant eligible for renewal at month 21² following the start of the program, and that the resultant grant extension is signed three months later. The amount of the Phase 2 increment is assumed to be 85 percent (in aggregate) of the maximum amount eligible. These assumptions are in line with experience to date of Phase 2.
- New grant signings: It is assumed that all new grants are signed within nine months following approval of the proposals by the Board. This compares favourably with the experience of Rounds 4 and 5, when grants were signed within a period of twelve months following approval.

This document is part of an internal deliberative process of the Global Fund and as such cannot be made public.

Please refer to the Global Fund's documents policy for further guidance.

¹ Assuming that the recommendation of the PSC regarding "Rolling Continuation" of grants after Phase 2 is approved.

² The PC has recommended to the Board (GF/B14/8, Annex 3a, paragraph 5) to extend by three months the time when Phase 2 decisions are typically taken, such that the Board decision on renewal would normally occur in month 24 (instead of month 21). Annex 2 presents a calculation of funds available for Round 6 on this basis. Currently, the Board decision actually occurs in month 23, on average.

Annex 1
Funds available for Round 6

(Taking account of timing of contributions and grant signings)

Uncommitted Assets 2006-2007	US\$m	Timing of Contributions and Commitments (US\$ millions)															
		2006		2007												2008	
		Q1-3	Q4	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Q1	Q2-4
Uncommitted Assets at start of period	1,219	1,219	1,552	1,429	1,111	945	525	208	61	645	422	216	347	94	(0)	109	75
Pledges (confirmed)																	
Pledges for 2005 to be contributed in 2006	178	153	25														
Pledges for 2006	2,147	1,483	664														
Pledges for 2007 (Pledges for 2008)	1,591	-	-	-	100	152	-	-	838	24	-	300	-	-	178	-	-
Investment income, minus operating expenses	4	4	20	(21)	8	8	(21)	8	8	(21)	8	8	(21)	8	8	-	-
Total pledges	3,920	1,640	709	(21)	108	160	(21)	8	846	3	8	308	(21)	8	186	100	205
Assets available	5,139															209	280
Required for commitments in 2006/7, before new rounds:																	
Phase 2 signings	3,686	833	537	271	225	474	192	50	88	80	213	178	231	103	76	134	-
Less: Those of the above that will be signed in 2008	(134)	-	-	19	-	0	-	-	-	5	0	-	-	-	-	-	-
Provision for Grants Continued after Phase 2	25	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Round 5 (less signed in 2005)	755	474	281														
Total grant signing needs	4,332	1,307	818	290	225	475	192	50	88	86	214	178	231	103	76	134	-
Uncommitted assets available BEFORE new rounds	807																
New Round (if approved in November 2006)	698	-	14	7	49	105	105	105	175	140	-	-	-	-	-	-	-
Uncommitted Assets, AFTER new rounds	109	1,552	1,429	1,111	945	525	208	61	645	422	216	347	94	(0)	109	75	280

Max. Available for Round 6

Constraint!

Note that the amount available for the Round (US\$ 698 million) is constrained in order not to exceed the amount of assets available in any month.

Hence, not all of the total uncommitted assets available (US\$ 807 million) can be used to approve TRP-recommended proposals, because some pledges will be contributed later than the time of grant signing. Accordingly, uncommitted assets of US\$ 109 million are forecast to remain after approving the Round.

If any more than the constrained amount (US\$ 698 million) was approved for the Round, there would be a deficiency of assets in one or more months (including November 2007), that would be eliminated on receipt of the contributions due to be paid-in during the following months. The impact of such a deficiency is illustrated in Annex 1(a).

When grant approvals become commitments

The table below provides an overview of the years in which approved grants (and renewals) will become commitments (upon signing the grant agreement), and of the years in which pledges will be contributed.

Overview of Pledges & Contributions and Grant Approvals & Commitments in 2006/7 US\$ million

		Assets available from 2005:							1,219
Pledges		Pledged for:				Contributed in:			
		2005	2006	2007	Total	2006	2007	2008	
	Contributions pledged for 2006 (& 2005)	178	2,147		2,325	2,325			
	Contributions pledged for 2007			1,591	1,591		1,591		
	Investment income, minus operating expenses		24	(20)	4	24	(20)		
Total additional assets:	178	2,171	1,571	3,920	2,349	1,571		Contributed in 2006/7: 3,920	
					3,920				
Grants		Approved in:				Committed (signed) in:			
		2005	2006	2007	Total	2006	2007	2008	
	Phase 2 renewals	589	1,752	1,345	3,686	1,370	2,181	134	
	Grants Continued after Phase 2		25		25		25		
	Round 5 (those not signed in 2005)	705	50		755	755			
Total commitments before new rounds:	1,294	1,827	1,345	4,466	2,125	2,207	134	Committed in 2006/7: (4,332)	
					4,332				
Available for new Rounds, subject to timing								807	
Amount Available for Round 6 (after allowing for timing)								698	
Uncommitted assets at end of 2007								109	

Annex 1(a)
Demonstration of how a temporary deficiency can arise during a year

Uncommitted Assets 2006-2007	US\$m	Timing of Contributions and Commitments (US\$ millions)															
		2006		2007												2008	
		Q1-3	Q4	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Q1	Q2-4
Uncommitted Assets at start of period	1,219	1,219	1,552	1,427	1,107	934	498	164	1	557	313	107	238	(15)	(109)	0	(34)
Pledges (confirmed)																	
Pledges for 2005 to be contributed in 2006	178	153	25														
Pledges for 2006	2,147	1,483	664														
Pledges for 2007 (Pledges for 2008)	1,591	-	-	-	100	152	-	-	838	24	-	300	-	-	178	-	-
Investment income, minus operating expenses	4	4	20	(21)	8	8	(21)	8	8	(21)	8	8	(21)	8	8	-	-
Total pledges	3,920	1,640	709	(21)	108	160	(21)	8	846	3	8	308	(21)	8	186	100	205
Assets available	5,139															100	171
Required for commitments in 2006/7, before new rounds:																	
Phase 2 signings	3,686	833	537	271	225	474	192	50	88	80	213	178	231	103	76	134	-
Less: Those of the above that will be signed in 2008	(134)	-	-	19	-	0	-	-	-	5	0	-	-	-	-	-	-
Provision for Grants Continued after Phase 2	25	-	-														
Round 5 (less signed in 2005)	755	474	281														
Total grant signing needs	4,332	1,307	818	290	225	475	192	50	88	86	214	178	231	103	76	134	-
Uncommitted assets available BEFORE new rounds	807																
New Round (if approved in November 2006)	807	-	16	8	56	121	121	121	202	161	-	-	-	-	-	-	-
Uncommitted Assets, AFTER new rounds	0	1,552	1,427	1,107	934	498	164	1	557	313	107	238	(15)	(109)	0	(34)	171

If \$807m had been approved

Deficiency!

The above example demonstrates the consequence of allocating all of the uncommitted assets available through 2007 (US\$ 807 million) to the round: In October-November 2007, there would be insufficient assets to sign all the grants due for signing in those months (because of the timing of contributions and grant signings).

Funds available for Round 6, if Phase 2 approval date is changed to Month 24

This calculation would replace that in Annex 1 if the Board adopts the recommendation of the Portfolio Committee to extend by three months the time when Phase 2 decisions are typically taken (GF/B14/8, Annex 3a, paragraph 5). The effect of such a decision would be to reduce the overall amount of Phase 2 renewals approved by the Board in 2007 (a one-time effect of introducing the change).

If the Phase 2 approval date was extended by three months, the amount of Phase 2 renewals signed in 2007 would decrease by US\$ 405 million, increasing the assets available for new rounds to correspondingly. When timing constraints are taken into account, the amount available for Round 6 would increase by US\$ 109 million, from US\$ 698 million (per Annex 1) to **US\$ 807 million**.

Uncommitted Assets 2006-2007		Timing of Contributions and Commitments (US\$ millions)															
US\$m		2006		2007												2008	
US\$m		Q1-3	Q4	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Q1	Q2-4
Uncommitted Assets at start of period	1,219	1,219	1,552	1,427	1,107	933	497	163	(0)	623	459	467	702	601	395	403	93
Pledges (confirmed)																	
Pledges for 2005 to be contributed in 2006	178	153	25														
Pledges for 2006	2,147	1,483	664														
Pledges for 2007 (Pledges for 2008)	1,591	-	-	-	100	152	-	-	838	24	-	300	-	-	178	-	-
Investment income, minus operating expenses	4	4	20	(21)	8	8	(21)	8	8	(21)	8	8	(21)	8	8	-	-
Total pledges	3,920	1,640	709	(21)	108	160	(21)	8	846	3	8	308	(21)	8	186	100	205
Assets available	5,139															503	298
Required for commitments in 2006/7, before new rounds:																	
Phase 2 signings	3,556	833	537	271	225	474	192	50	20	-	-	73	80	213	178	410	-
Less: Those of the above that will be signed in 2008	(410)	-	-	19	-	0	-	-	-	5	0	-	-	-	-	-	-
Provision for Grants Continued after Phase 2	25	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Round 5 (less signed in 2005)	755	474	281														
Total grant signing needs	3,926	1,307	818	290	225	475	192	50	20	5	0	73	80	213	178	410	-
Uncommitted assets available BEFORE new rounds	1,212																
New Round (if approved in November 2006)	809	-	16	8	57	121	121	121	202	162	-	-	-	-	-	-	-
Uncommitted Assets, AFTER new rounds	403	1,552	1,427	1,107	933	497	163	(0)	623	459	467	702	601	395	403	93	298

Max. Available for Round 6

Constraint!

Decision of the Thirteenth Board Meeting Amending the Comprehensive Funding Policy.

The Board amends paragraphs (a) and (c) of decision point 3 under the Comprehensive Funding Policy approved at the Sixth Board Meeting as follows:

3 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 of assets ~~[pledged through the calendar year of the Board decision]~~ that the Board determines will be available at the time of signing the related grant agreements in accordance with 3(b);

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 two years receives priority over the funding of new proposals. A sufficient amount of assets to meet the cost of such additional funding for the grant must be deposited with the Trustee or readily available on demand prior to the Secretariat signing an amendment to the grant agreement committing such additional funding;

d No funds for appeals should be reserved. Successful appeals should be funded immediately if resources are available or as soon as new resources become available.