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The Global Fund

To Fight AIDS, Tuberculosis and Malaria

**Eighteenth Board Meeting
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**GF/B18/9
Information**

FORECAST OF FUNDS AVAILABLE FOR ROUND 8

OUTLINE:

1. This paper informs the Board of the forecast of funds to be available for grant commitments in 2008–2009, to support the Board when considering approval of Round 8 grant proposals at the Eighteenth Board meeting.

EXECUTIVE SUMMARY:

1. This forecast has been compiled by the Secretariat in accordance with the comprehensive funding policy and applying a methodology endorsed by the FAC.
2. Annex 1 provides the computation of the amount available for Round 8. Uncommitted assets of US\$2,300 million are forecast to be available at the time of signing Round 8 grant agreements that are approved by the Board in November 2008. This forecast takes account of confirmed pledges only. Additional assets of US\$165 million are forecast to be available to enable the Board approve a further tranche of Round 8 grants in May 2009; this amount may increase subject to confirmation by then of additional pledges for 2009 and 2010.
3. Annex 2 describes the implications for future funding needs that arise from grant renewals including Phase 2 and the Rolling Continuation Channel, under various scenarios.

PART 1: INTRODUCTION

1. In accordance with the Comprehensive Funding Policy:

The Board may approve Rounds-Based proposals, Phase 2 Renewals, and RCC-I and RCC-II continuations, and commit funds for the resulting financial commitments up to the cumulative uncommitted amount of assets that the Board determines will be available at the time of signing the related grant agreements.

2. Accordingly, the Secretariat provides in this paper a forecast of assets available so that the Board may make the determination required by the Comprehensive Funding Policy, for the purpose of approving Round 8 grant proposals at the Eighteenth Board meeting. The forecast was compiled in accordance with the Policy and applying the methodology previously endorsed by the FAC.

PART 2: AMOUNT AVAILABLE FOR ROUND 8

1. Based on currently confirmed pledges through 2009, uncommitted assets of US\$2,473 million are forecast to be available at the time of signing grants approved in Rounds 8, as illustrated in Annex 1, Table 1. Of this amount, it is forecast that on taking account of the timing of contributions and grant signings, US\$2,300 million will be available at the time of signing the related grant agreements for Round 8 grants approved in November 2008, in accordance with Comprehensive Funding Policy.
2. The assets forecast to be available in 2009 and 2010 as currently confirmed would also allow additional Round 8 grants worth a further US\$165 million to be approved in May 2009. Further pledges are expected to be contributed in 2009 and 2010, which would increase the amount available for Round 8.
3. If all confirmed pledges for 2009 were to be contributed by September 2009, the amount of Round 8 grants that could be approved in November 2008 would increase to US\$ 2,400 million, which would be sufficient for approval of all TRP-recommended proposals in Categories 1 and 2, but not Category 2B.

COMPUTATION OF THE AMOUNT AVAILABLE FOR ROUND 8

This purpose of this Annex is to support the Board in assessing the funding available for approval of Round 8 grants when considering approval the TRP-recommended proposals for Round 8 which in total amount to US\$ 3.15 billion.

PART 1: CALCULATION PROCESS

1. The calculation process covers the two calendar years from approval to when Round 8 grant signings are expected to occur, 2008–2009. For that period, the calculation computes the amount of uncommitted assets expected to be available for approval of new proposals, taking account of when pledges are contributed and when grants are signed (i.e. committed). The methodology was endorsed by FAC in 2006.

2. The uncommitted amount available comprises:

- (a) Uncommitted assets at the start of the period
- Plus: (b) Confirmed pledges to be contributed during the period
- Less: (c) Grants and Phase 2 renewals approved in 2007, but not yet signed at 1 January 2008 (which, hence, require to be signed during 2008).
- Less: (d) Phase 2 renewals and Rolling Continuations of grants forecast to be approved and signed during the period
- Less: (e) Operating Expenses to the extent not covered by investment income.

3. 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.

4. 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.)

PART 2: ASSUMPTIONS UNDERLYING THE ESTIMATES

1. The forecast is dependent on assumptions made when making the estimates for items b through e above, and the timing of new grant signings. The estimation used for each of these is as follows:

- i. 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.

Note: Pledges as currently confirmed for 2009-2010 include a United States pledge of US\$ 500 million for 2009 and none for 2010. US\$ 500 million corresponds to the Presidential request, prior to the appropriations process. The US pledge for 2008 is US\$ 840 million. Pledges as currently confirmed for 2009-2010 do not take account of expected private sector income (such as from Product RED), contributions from the

Russian Federation and from other donors which do not confirm a pledge in advance of making the contribution.

- ii. Grants and Phase 2 renewals approved in 2007 (but unsigned at 1 January 2008): If not already signed, the month of signing is estimated within 2008, assuming that all are signed by end of December.
- iii. Phase 2 renewals approved during 2008–2009: Based on experience to date, the amount of the increment approved for Phase 2 is assumed to be 90% of the maximum amount eligible for approval.
- iv. Rolling Continuation Channel renewals approved during 2008–2009: Based on initial experience of RCC, it is assumed that expiring Phase 2 grants that are continued through RCC incorporate a scale-up of 80% over their Phase 2 amount, and that 45% (by value) of RCC applications are approved, on average.
- v. New grant signings: It is assumed that all new grants are signed within nine months following approval of the proposals by the Board. (Note: In practice, this period spans up to 12 months.)
- vi. Investment income covers operating expenses.

PART 3: AMOUNT AVAILABLE FOR ROUND 8

1. Based on the calculation process and assumptions described above, sufficient uncommitted assets are forecast to be available for approval of Round 8 grants totalling US\$ 2,465 million, per Table 1 below. Upon taking account of the timing of grant signings and the contribution of pledges, US\$ 2,300 million of this would be available *at the time of signing the related grant agreements* for Round 8 grants approved in November 2008, and a further US\$ 165 million for Round 8 grants approved in May 2009. Of these amounts, US\$ 100 million would be accelerated to November 2008, if it could be assumed that all 2009 pledges were contributed by September 2009.

2. As mentioned in Part 2, 1, i, only confirmed pledges are included in Table 1. Further contributions are expected in 2009-2010 that have not yet been pledged.

Table 1

Forecast of Assets Available for New Rounds		US\$ millions	2008-2009	2010 Qtr. 1
Uncommitted Assets at start of period		(A)	1,780	120
Contribution of Pledges (not contributed by end 2007)				
Pledges for 2007			324	-
Adjustments in 2008 to pledges through 2007			-	-
Pledges for 2008			2,954	-
Pledges for 2009			2,855	-
Pledges for 2010			-	497
Investment income, minus operating expenses			-	-
Total contributions forecast		(B)	6,133	497
Assets available		(A+B=) (C)	7,913	617
Required for commitments before new rounds:				
Phase 2 signings			2,707	301
Rolling Continuation Channel signings			1,648	205
Round 7 grants signed in 2008			1,085	-
Grant signing needs, before new Rounds		(D)	5,440	506
Uncommitted assets available BEFORE new Rounds		(C-D=) (E)	2,473	112
New Rounds:				
		<u>Approval</u>	Signing	
Round 8	November 2008	2,300	2,300	
Round 8/9	May 2009	165	53	112
Round 9	November 2009	-	-	
Total New Round grants		2,465	2,353	112
Uncommitted Assets after new Rounds		(E-F=) (G)	120	(0)

3. See Annex 2 for details of the funding implications beyond 2010 of renewals of grants approved in Round 8, plus further potential new rounds.

IMPLICATIONS FOR FUTURE FUNDING NEEDS – SCENARIOS

1. This Annex describes the implications for future funding needs that arise from renewal (through Phase 2 and the Rolling Continuation Channel) of grants approved through Round 8, plus potential new Rounds, under various scenarios.
2. The scenarios that follow illustrate potential options for the Board when considering the approval of grant proposals in Round 8 and Round 9. Given the very large value of the TRP-recommended amounts for Round 8 proposals and the resultant funding challenge, the Secretariat has modelled the effect of various options to optimize the use of resources.
3. The principal options identified are:
 - i. **Budget savings**, mainly on medical commodity prices but also from a stringent review of other elements of the proposal budgets. A comparison of budgets for a sample of proposals with price data captured through the Price Reporting Mechanism suggests that savings on commodities, combined with other budgetary reductions identified at the time of grant negotiation, could yield overall reductions on the TRP-recommended amounts of approximately 10%.
 - ii. **RCC scale-up**: The placing of constraints on the extent of scale-up (beyond the Phase 2 level) permitted on renewal of grants through the Rolling Continuation Channel; currently no limit is specified.
4. The scenarios that follow illustrate the impact of applying such measures.

Before any changes:

5. If Round were approved at the TRP-recommended amount of US\$ 3.15 billion, in two tranches (Categories 1 and 2 approved in November 2008 and Category 2 B approved in May 2009), the approval needs would be as follows:

Approval needs if Round 8 is approved at \$3.2bn, including Category 2B approved in 2009

US\$ billions	2008	2009	2010	2011	2012	2013	2014	2015
Round 8	2.4	0.8						
Round 9 -- illustrative amount								
Renewals (Phase 2 & RCC)	2.3	1.8	2.9	6.2	2.4	2.7	4.3	1.4
Total	4.7	2.6	2.9	6.2	2.4	2.7	4.3	1.4
	Total 2008-2010: \$10.1 bn							
	Confirmed pledges: \$8.5 bn							

6. The total need for 2008-2010 of US\$ 10.1 billion per the above table is compatible with contributions anticipated for that period (currently confirmed pledges of US\$ 8.5 billion, plus an anticipated amount of US\$ 1.6 billion for contributions from donors that have not yet confirmed their pledges for 2009 and 2010, and from the private sector and the Russian Federation.
7. Although compatible with resources available in 2008-2010, the grant renewal needs that would arise in subsequent years peak at US\$ 6.2 billion in 2011. Accordingly, in order to contain future

needs, potential reductions in both the Round 8 Phase 1 amount and in the renewal amounts of all grants are considered in the Scenarios below. These measures also seek to make funds available for Round 9.

Round 10

8. No funds are forecast to be available for Round 10 under any of the scenarios described below; the implications of this would be for consideration at the Mid-term Replenishment Review in 2009.

Scenario 1 for Rounds 8 and 9:

9. Scenario 1 incorporates budget reductions of 10% overall on the TRP-recommended amounts for Round 8. These reductions would occur through the grant negotiation process, as is consistent with the TRP recommendations. As mentioned in 3 i above, price savings on medical commodities, combined with other budgetary reductions could yield a reduction of 10% on the Round 8 proposal budgets as a whole.

10. If the Board were to approve Round 8 on this basis, the Secretariat would rigorously seek budget reductions that maintained the efficacy of the program, within the overall amount of US\$ 2.8 billion (10% reduction) approved by the Board for Round 8. This budget reduction would reduce the both Phase 1 amount of Round 8 and the subsequent renewal needs for Phase 2, as illustrated below, which makes no provision for Round 9.

Approval needs if Round 8 is \$2.8bn (10% budget reduction); no provision for Round 9

US\$ billions	2008	2009	2010	2011	2012	2013	2014	2015
Round 8	2.1	0.7						
Round 9 -- illustrative amount								
Renewals (Phase 2 & RCC)	2.3	1.8	2.9	5.8	2.4	2.7	4.0	1.4
Total	4.4	2.5	2.9	5.8	2.4	2.7	4.0	1.4
	Total 2008-2010: \$9.8 bn							
	Confirmed pledges: \$8.5 bn							

Scenario 2 for Rounds 8 and 9 :

11. In order to make some funding available for Round 9, consideration could be given to limiting the extent of the scale-up (beyond the Phase 2 level) permitted on renewal of grants through the Rolling Continuation Channel. Currently, high-performing grants are encouraged to scale-up their programs subject to the recommendations of the TRP, but no ceiling is specified.

12. Applying a ceiling of various percentages of the Phase 2 amount was analysed and the table below models the effect of limiting the scale-up of RCC proposals to 30% of the Phase 2 amount (i.e. the RCC 1 amount would not exceed 130% of the Phase 2 amount). The table below also assumes that Phase 2 amounts would be contained to 85% of the potential Phase 2 increment, as compared to 90% currently, by limiting the amount of unspent Phase 1 funds that are carried over into Phase 2 to facilitate scaling-up. Limiting the extent of scale-up at the time of renewal would make some funding available for new programs through Round 9, as illustrated in the table below:

Approval needs if Round 8 is \$2.8bn (10% reduction); Round 9 is \$1.1bn; RCC scale-up limited to 30%

US\$ billions	2008	2009	2010	2011	2012	2013	2014	2015
Round 8	2.1	0.7						
Round 9 -- illustrative amount		1.1						
Renewals (Phase 2 & RCC)	2.3	1.5	2.5	5.3	3.2	1.8	2.8	1.8
Total	4.4	3.3	2.5	5.3	3.2	1.8	2.8	1.8
	Total 2008-2010: \$10.2 bn							
	Confirmed pledges: \$8.5 bn							

13. Constraining scale-up in the manner described above could enable a Round 9 amount of US\$ 1.1 billion to be approved in November 2009, within a total approval need for 2008-2010 of US\$ 10.2 billion. That total need is close to the US\$ 10.1 billion per the table in 5 above that would be needed before applying the budget reductions and scale-up constraints and which had no provision for Round 9.

14. As outlined in 6 above, anticipated contributions in 2009-2010 of US\$1.6 billion, in addition to the currently confirmed pledges of US\$ 8.5 billion, could make funding of Round 9 feasible. The resultant peak of approval needs in 2011 would need to be considered within the context of the Third Voluntary Replenishment, for 2011 and subsequent years.

Scenario 3 for Rounds 8 and 9:

15. Scenario 3 is the same as Scenario 2, but makes no provision for the approval of Category 2B of Round 8. This would reduce renewal needs in 2011 by US\$ 0.5 billion.

Approval needs if Round 8 is \$2.1bn (without Category 2B); Round 9 is \$1.1bn; RCC scale-up limited to 30%

US\$ billions	2008	2009	2010	2011	2012	2013	2014	2015
Round 8	2.1							
Round 9 -- illustrative amount		1.1						
Renewals (Phase 2 & RCC)	2.3	1.5	2.5	4.8	2.8	1.8	2.5	1.6
Total	4.4	2.6	2.5	4.8	2.8	1.8	2.5	1.6
	Total 2008-2010: \$9.5 bn							
	Confirmed pledges: \$8.5 bn							