



**Policy to Continue Grant Funding beyond the Initially Committed
Two Years (Phase 2 Grant Renewals)**

Attachments:

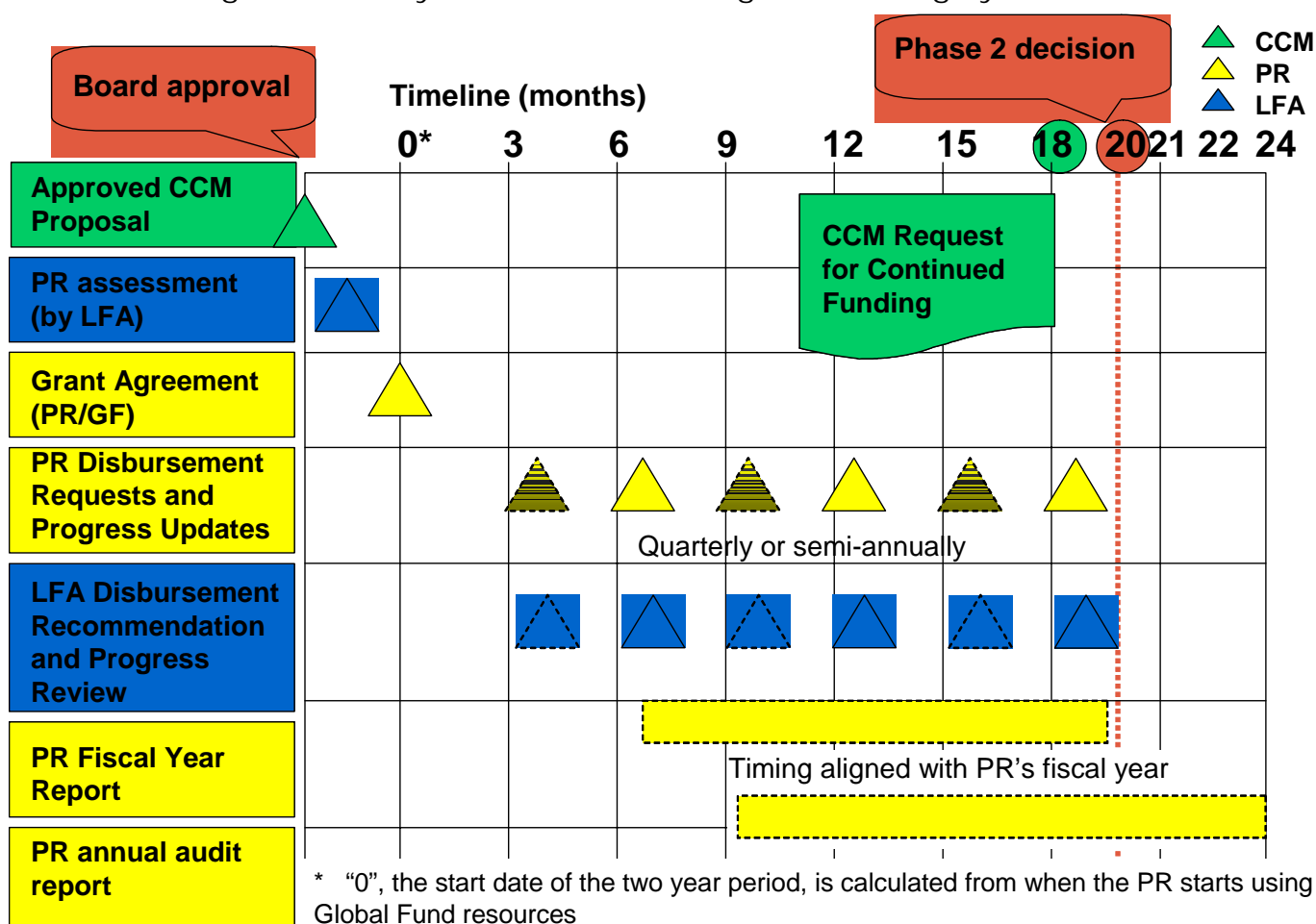
1. Information for the phase 2 grant renewal decision
2. Phase 2 grant renewal criteria
3. Phase 2 grant amount and program objectives
4. Phase 2 grant renewal review and decision process
5. Phase 2 resource projections 2004 and 2005

Attachment 1: Information for the phase 2 grant renewal decision

A. Grant information generated through the Global Fund's systems

1. The information generated through the Global Fund's grant information systems is described in the Board endorsed policy documents *Fiduciary Arrangements for Grant Recipients* and *Monitoring and Evaluation Strategy*, with further details in the operational policy notes *Guidelines for Performance Based Funding* and *Guidelines for Annual Audits of Program Financial Statements*.
2. The graph below provides an overview of the information about a grant for phase 1 (years 1-2) which will be available as a basis for the phase 2 grant renewal review and decision (funding for years 3-5).

Information generated by the Global Fund's grant making system



3. An approved grant *Proposal* contains goals and objectives to be accomplished during the Proposal period. The *Grant Agreement* between a Principal Recipient (PR) and the Global Fund includes targets according to key indicators¹ for the initial two year grant

¹ See the joint partner M&E Toolkit for HIV/AIDS, TB and Malaria and attachment 2.

period. During the grant period, a PR reports on results achieved towards targets to the Global Fund in *Disbursement Requests and Progress Updates* in order to receive periodic disbursements. Once a year, the PR submits to the Global Fund a *Fiscal Year Report* with aggregate results as compared to targets. The PR also submits an *annual financial audit report* to the Global Fund. The PR's reports are reviewed and verified by the Local Fund Agent (LFA) in-country.

4. The Global Fund Secretariat reviews the information received as a basis for the phase 2 decision between program month 18 and 20. By this time, the Global Fund should have received 3-6 PR *Disbursement Request and Progress Updates* (depending on whether disbursements are made on a quarterly or semi-annual basis), with corresponding *Disbursement Recommendations and Progress Reviews* from the LFA.
5. By this time, the Global Fund should also have received one *Fiscal Year Report* from the PR with aggregate information on the program's actual results as compared to agreed targets.
6. Depending on the timing of the grant program start date compared to the PR's fiscal year, the Global Fund may not have received an annual financial audit report at the time of the phase 2 grant renewal decision. In such cases, a phase 2 grant may be committed conditional upon the Global Fund's receipt of a satisfactory audit report within an agreed timeframe.²
7. To ensure full transparency for all stakeholders, the Global Fund's information management system will compile the key information generated for each grant program into a **Grant Fact Sheet**, which will be posted on the Global Fund's website. The Grant Fact Sheets will be updated each time the Global Fund's grant making system generates new information to: (i) track grant performance during implementation as reported by PRs and verified by LFAs; (ii) register key contextual information from a CCM's approved Proposal and Request for Continued Funding; and (iii) link up with the routine data bases of technical partners for national disease indicators and tracking of relevant resource flows. The Global Fund Secretariat Portfolio Managers will insert their comments into the Grant Fact Sheet as appropriate. The graph on the following page provides an overview of the information to be contained in the Grant Fact Sheets.³

B. The CCM Request for Continued Funding

8. The Request for Continued Funding should come from the entity that submitted the original, Board approved Proposal: in most cases a Country Coordinating Mechanism (CCM). This responsibility is given to the CCM in order to ensure continued involvement and ownership of a broad, representative group of country stakeholders throughout the implementation of their approved grant Proposal. In cases where the CCM's Proposal resulted in multiple grants to multiple PRs, the CCM will in this way be able to take a view on whether the different grants collectively correspond with the intentions of the approved Proposal. The CCM Request is due by program month 18 to

² For further details on the Global Fund's audit requirements, see *Guidelines for Annual Audits of Program Financial Statements*.

³ The actual format and content for the Grant Fact Sheets are under development and will be placed on the Global Fund's website during the first half of 2004

ensure sufficient time for the phase 2 review and decision and to allow for adequate notice for grantees.

9. By program month 16, two month prior to when the CCM's Request for Continued Funding is due, a Secretariat Portfolio Manager will send an invitation to submit this Request to the CCM accompanied by the Grant Fact Sheet. Through the Grant Fact Sheet, and in view of the Global Fund's criteria for grant renewals, CCM members will have access to the information available to the Global Fund for the phase 2 grant renewal decision, and be able to address potential issues. Grant Fact Sheets should also facilitate transparency about the Global Fund grant for all national stakeholders and facilitate assistance to PRs and sub-recipients to take measures for reprogramming as necessary.

The Grant Fact Sheet: Contents

	Key Grant Background Information	Global Fund actions
Approved CCM Proposal	<ul style="list-style-type: none"> Objectives and intended results Proposal amount 	
PR assessment (by LFA)	<ul style="list-style-type: none"> Overall assessment conclusion Identified critical weaknesses/capacity gaps 	<ul style="list-style-type: none"> Decision whether to confirm PR
Grant Agreement (PR/GF)	<ul style="list-style-type: none"> Key indicators with targets Grant amount 	<ul style="list-style-type: none"> Conditions precedent for disbursements
	Key Grant Performance Information	
PR Disbursement Requests & Progress Updates	<ul style="list-style-type: none"> Total actual expenditure vs. budget (PR; disbursements to sub-recipients)* Program progress 	
LFA Disbursement Recommendation and Progress Review	<ul style="list-style-type: none"> Disbursement recommended vs. PR request LFA rating of PR overall progress* Conditions precedent to disbursements met? Financial accountability issues? 	<ul style="list-style-type: none"> Disbursement decisions* Actions recommended/required
PR Fiscal Year Report	<ul style="list-style-type: none"> Aggregated actual program results vs. targets (coverage indicators) Successful incorporation of "lessons learned" in program design 	
PR annual audit report	<ul style="list-style-type: none"> Financial accountability issues? 	

* For each disbursement period and cumulative

10. The CCM's Request for Continued Funding provides the Global Fund with complementary, relevant information to that submitted by the PR(s), including:
 - i A CCM assessment of program performance;
 - ii Complementary contextual information; and

- iii The requested budget, objectives and performance targets for years 3-5 (phase 2).

The CCM's Request for Continued Funding should specify the partners that sign-off on the appropriateness of this Request, including technical partners in-country.

CCM Request for Continued Funding: Contents

1. CCM assessment of program performance

Based on the information prepared by the PR(s) (Disbursement Requests and Progress Updates, Fiscal Year Report, Audit Report) and the Grant Fact Sheet sent by the Global Fund, the CCM provides an assessment of progress made. The CCM would be expected to respond to issues raised by the Global Fund and may also comment on its own experiences with Global Fund processes.

2. Complementary contextual information

- A country profile on key indicators related to the three diseases, as relevant for the program, extracted from the country's routine disease surveillance data compared to baselines;
- A list of CCM membership and a description of the functioning of the CCM, including partnerships brought about among different constituencies as a result of the program;
- A description of linkages between the program and other national initiatives/programs;
- Information on the level of and distribution of overall national financial resources to the three diseases and broader purposes related to the program.

3. Years 3-5 budget, objectives & intended results

- The proposed funding period and total amount requested from the Global Fund;
- Objectives and performance targets, with appropriate baseline data;
- Information on any planned changes in existing implementation arrangements; and
- Funding available from other sources for the program.

11. The Global Fund encourages development partners to contribute to the CCM's assessment of program performance and potential replanning for phase 2 by incorporating conclusions and recommendations from independent evaluations, trip reports and other assessments which may have been conducted for the Global Fund program; related programs in-country; or the country's disease interventions in general. If partners are not included in the CCM, the Global Fund Secretariat Portfolio Managers could solicit such input directly from relevant in-country partners.

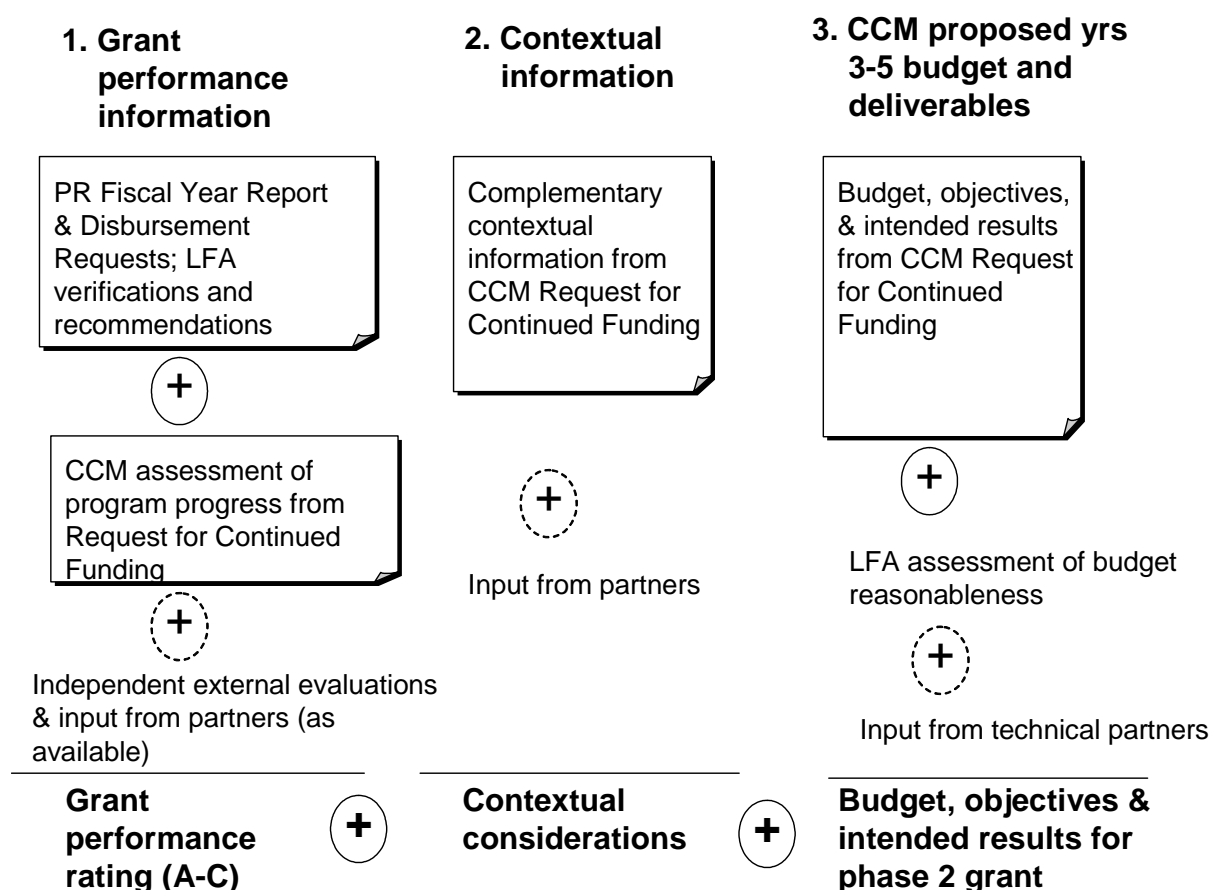
C. The Grant Score Card

12. After the Global Fund Secretariat has received the CCM's Request for Continued Funding, the Secretariat Portfolio Manager compiles the *key information necessary for the phase 2 grant renewal decision* into a **Grant Score Card** as a key part of the review leading up to the phase 2 grant renewal decision. After the phase 2 decision

has been made, the Grant Score Card will be made transparently available to all stakeholders, including through the Global Fund's website.

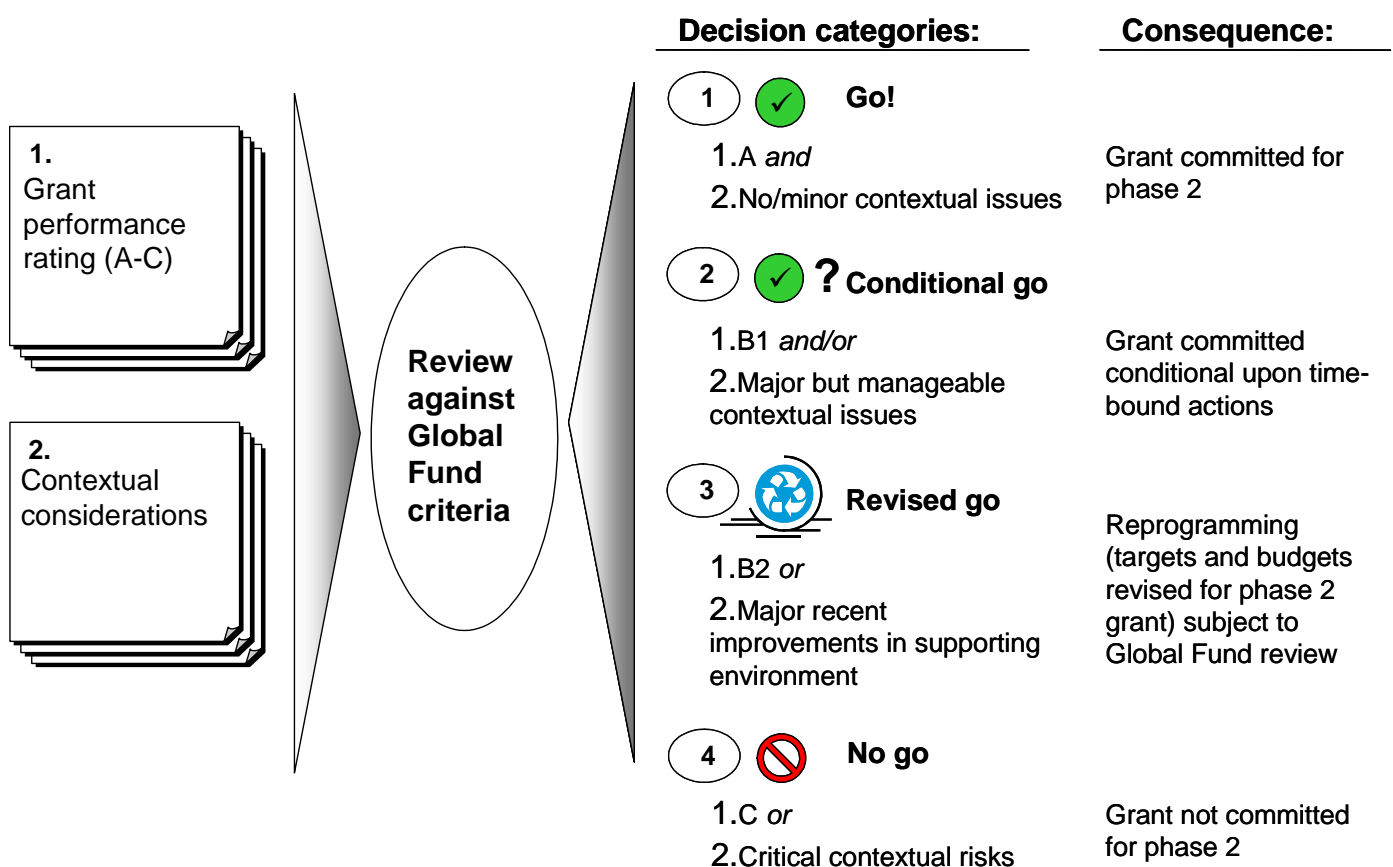
13. The Grant Score Card will contain the three types of information necessary for the phase 2 decision:
 - i A grant performance rating and the key information upon which this decision was based;
 - ii Contextual considerations and the key information reviewed; and
 - iii Budget, objectives and performance targets for the phase 2 grant period, as a result of the reasonableness review by the Global Fund.
14. The graph below illustrates the content of the Grant Score Card. Attachment 2 provides further details on how the performance rating will be determined and how contextual information will be considered.

A Grant Score Card will be prepared with the key information for the phase 2 decision



Attachment 2: Phase 2 grant renewal criteria

1. The phase 2 grant renewal decision will be based on:
 - i. A grant performance rating; and
 - ii. Contextual considerations.
2. If the Global Fund decides that continued grant funding is warranted based on the review of grant performance and contextual considerations, as further described below, the next step would be to decide on the grant amount for phase 2 and to agree with the CCM and Principal Recipient(s) (PR(s)) on appropriate targets for this period (see attachment 3: *Phase 2 grant amount and program objectives*).
3. The graph below illustrates the factors that will be considered for the phase 2 decision, the decision categories and consequences:



A. Grant performance rating

A.1. Consequences of the performance rating

4. The Global Fund's decision has to be based on criteria for grant performance that are transparent and clear to all stakeholders. A performance rating from A to C should reflect *actual program results as compared to agreed targets* for key indicators during phase 1.⁴ Funding should not be continued unless grantees demonstrate *credible potential* to reach program targets.

Grant performance rating			
A	B1	B2	C
Expected or exceeding expectations	Adequate	Inadequate but potential demonstrated	Unacceptable

5. According to this performance rating system, **grant funding would be renewed** for programs that achieved, or nearly achieved, their program targets (A), provided that there were no major contextual issues.
6. **Grant funding would be conditionally renewed** for programs that did not fully achieve their targets, but that demonstrated significant improvements (B1). These programs would be given a maximum of one year to “catch-up” with their targets. If targets were achieved, the full phase 2 amount would be rewarded.
7. Programs that demonstrated some potential to reach targets, but that were too far behind schedule to “catch-up” (B2), would be given the **opportunity to reprogram**. Revised targets and budgets based on such re-programming should be submitted with the CCM's Request for Continued Funding. The Global Fund would review the CCM's reprogramming proposal to decide whether grant funding should be committed for phase 2 as described in attachment 3: *Grant amount and program objectives*.
8. **Grant funding would be discontinued** for programs with performance classified as unacceptable (C) in terms of either:
- Potential to reach program targets not credibly demonstrated; or
 - Break of contractual obligations under Grant Agreement, e.g., gross programmatic incompetence or mismanagement of funds.
9. In cases where the original, approved Proposal resulted in multiple grants to different PRs, different performance ratings and subsequent phase 2 grant renewal decisions may apply depending on their respective performance.

A.2. Basis for the performance rating

10. The Global Fund's Monitoring and Evaluation Strategy describes different levels of indicators to measure results at different stages of program progress (see box below).

⁴ See the joint partner M&E Toolkit for HIV/AIDS, TB and Malaria.

Specific recommended indicators at different levels for HIV/AIDS, tuberculosis and malaria are provided in the recently developed joint partner M&E Toolkit⁵

Indicators to Measure Results

- **Process** – the activities, systems, actions and other outputs that need to be completed in the near term to achieve improvements or increases in coverage or delivery of services to target groups;
- **Coverage** – the changes in key variables in the medium term that demonstrate that larger numbers of individuals in identified target groups are being reached by and benefit from improved services or interventions;
- **Impact** – the changes over a longer period in sickness and death, reducing the burden of disease in the target population that indicate that the fundamental objectives of the interventions have been achieved.

11. The Grant Agreement between a PR and the Global Fund should include *annual targets for key coverage indicators*, with baselines, for the different service delivery areas included in the program.⁶
12. Coverage indicators can be based on three types of information depending on the stage of program progress, the state of the reporting system and/or the relevance to the service delivery areas included in the program:
 - i Numbers of persons reached with services
 - ii Number of service delivery points established
 - iii Number of persons trained to deliver services.
13. As stated in the Global Fund's Monitoring and Evaluation Strategy, grant programs should ultimately contribute to the reduction of infection, illness and death due to HIV/AIDS, tuberculosis and malaria. The Global Fund therefore encourages grant programs to as far as possible report on increased numbers of persons reached with services. Where this is not possible, grantees would report on improvements that will ultimately contribute towards this end.
14. By grant program month 18, when the phase 2 grant renewal review will take place, PRs are expected to have reported on actual results as compared to targets for the coverage indicators included in their Grant Agreement. PRs report on aggregate results in their *Fiscal Year Report*. Further progress would be reported, as appropriate, in PRs' *Disbursement Requests and Progress Updates*.
15. For the phase 2 decision, the Global Fund will focus on the *highest levels of indicators* where significant improvements could be demonstrated. If possible, this should include numbers of persons reached with services. For example, the key coverage indicator

⁵ Developed by WHO, the World Bank, Unicef, UNAIDS, the United States Government and the Global Fund.

⁶ In the joint partner M&E Toolkit, the indicators are referred to as input, process, output, outcome and impact. Service delivery areas are identified for each of the three diseases.

for an HIV/AIDS program aiming to scale-up ARV treatment would be the number of persons receiving ARV treatment.

16. The table below illustrates how the Global Fund would arrive at a grant performance rating based on actual results as compared to targets for key coverage indicators. The performance rating will be based on actual results as compared to targets for a majority of the service delivery areas included in a program.

Actual results as compared to targets for key coverage indicators ⁷	Grant performance rating				
	A1	A2	B1	B2	C1
	Exceeding expectations	Expected	Adequate	Inadequate but potential demonstrated	Inadequate – no potential demonstrated
i. Number of persons reached with services	Targets exceeded (>100%)	Targets met or nearly met (80-100%)	Significant improvements made (50-80%)	Some improvements made (30-50%)	Marginal or no improvements made (<30%)
ii. Number of service centers established/strengthened	If the program has achieved at least significant improvements in terms of numbers of persons reached, the Global Fund does not need to consider lower level indicators for the phase 2 decision.			Significant improvements made (>30%)	Marginal or no improvements made (<30%)
iii. Number of persons trained to deliver services				Significant improvements made (>30%)	Marginal or no improvements made (<30%)

17. The brackets with percentages indicate *recommended ranges* of actual results as compared to targets to arrive at a grant performance rating. However, professional judgment has to be applied to interpret program progress. To arrive at an appropriate performance rating, factors such as significant discrepancies between different service delivery areas or regions should be interpreted considering contextual information. Strong recent advancements after initial slow progress will be considered positively.
18. **The C2 performance rating category** is not defined in terms of program performance against targets. Rather, this performance rating would be given to programs where there was an apparent break of contractual obligations under the Grant Agreement, e.g, in terms of gross programmatic incompetence or mismanagement of funds.
19. For certain programs, the appropriate indicators for the grant performance rating may be different than the three broad types of coverage indicators described above. This could for example be the case for programs focused on strengthening the supporting environment. For such programs, the appropriate performance indicators, as agreed in the Grant Agreement, would be used for the performance rating.

⁷ See joint partner M&E Toolkit for HIV/AIDS, Tuberculosis and Malaria.

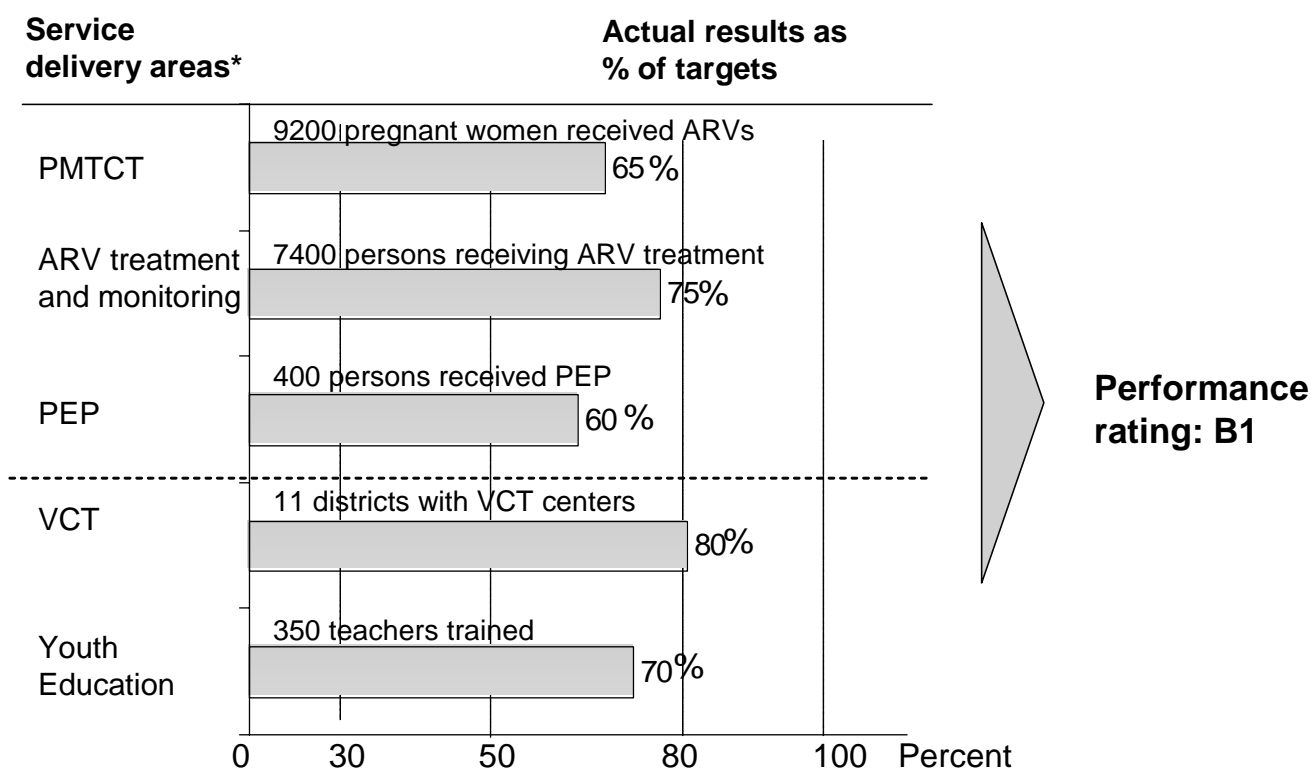
20. The performance rating system should provide a basis for phase 2 grant renewal decisions and clarity about the Global Fund's minimum performance requirements. However, there will be situations where performance data is incomplete, ambiguous or not available.
21. The Global Fund encourages grant recipients to solicit support from technical partners who can assist countries in strengthening their data collection, analysis and quality assurance systems, as necessary. The increased funding available from the Global Fund and the incentive provided by the performance based funding system should thus contribute to strengthen health information systems. This would facilitate national health program management; improve measurement of progress towards the health related Millennium Development Goals (MDGs); and make the Global Fund's phase 2 grant renewal decision more robust over time.

A.3. Examples of the grant performance rating

22. Wherever possible, the key indicator for the Global Fund's performance review should be progress in terms of numbers of persons reached. In the fictional example below, the three first service delivery areas are able to demonstrate significant improvements in numbers of persons reached. The last two service delivery areas are not, but they are able to demonstrate progress which should ultimately contribute to increased reach of persons with increases in number of service delivery points established and number of persons trained to deliver services, respectively.

Actual results as compared to targets for a fictional HIV/AIDS grant

Goal: Reduced adult HIV prevalence from 15% 2002 to 10% by 2005



* See M&E Toolkit for HIV/AIDS, TB and malaria for an overview of service delivery areas

Case study: Indonesia TB program

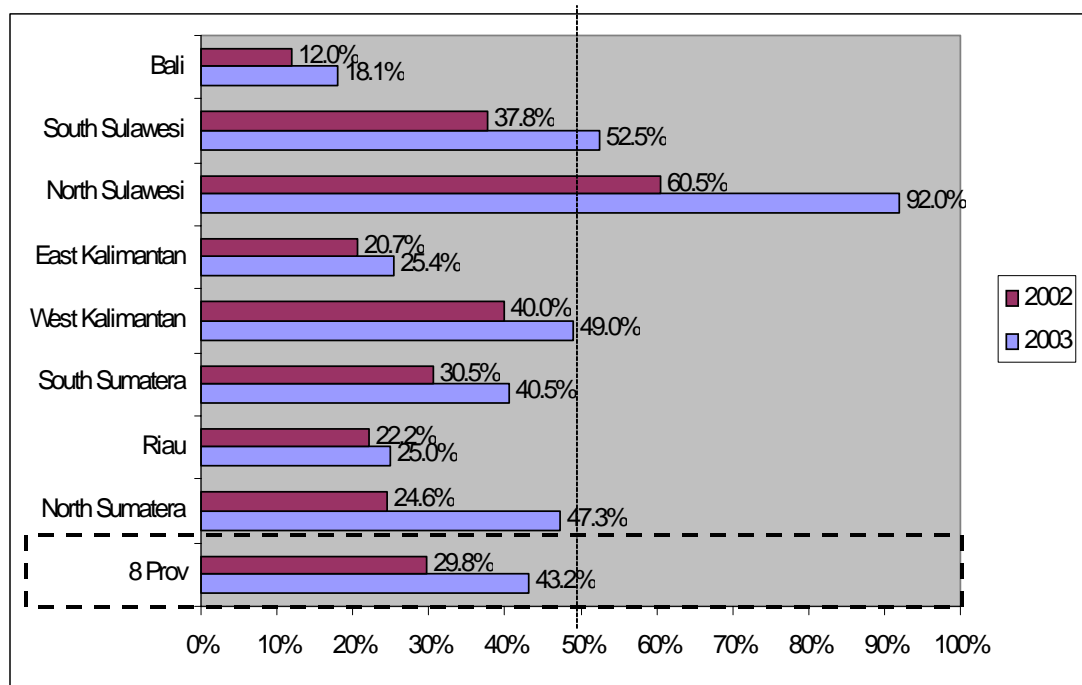
Case Detection Rate (CDR) Targets →	2001	2002	2003	2004	2005
Cases →	30% 81,000	40% 108,000	50% 132,000	60% 157,000	70% 182,000

22. The Global Fund is one of five donors supporting the Indonesian Ministry of Health's tuberculosis program. The donors support different provinces but with the same overall targets in terms of improved case detection rates (CDR) established by the Ministry working with the Stop TB partnership.

23. The program has advanced substantially in 2003. All of the eight provinces supported by the Global Fund have achieved significant progress compared to their baselines and the overall results are 85% of targets.

24. Based on current progress, this grant would receive an A2 performance rating.

Target 2003: 50% Case Detection Rate in 8 provinces



8 provinces supported by Global Fund. Overall results 85% of targets:

A2 performance rating.

More than 100% of targets: 2 provinces

80-100% of targets: 3 provinces

50% of targets: 2 provinces

40% of targets: 1 province (but significant progress compared to baseline)

B. Contextual considerations

25. As described in the Global Fund's *Monitoring and Evaluation Strategy*, the Global Fund considers the performance of grant programs in the context of **broader country-level disease information** for the phase 2 grant renewal decision. For this purpose, the Global Fund will make use of strategic information on disease trends and impact that is routinely collected and analyzed by technical partners. For access to data on national disease indicators, the Global Fund will link up with the data bases of technical partners who collect and update such information on a routine basis, e.g., UNAIDS' CRIS and WHO's Global Health Mapper.
26. **Major recent changes in the program supporting environment** will be considered by the Global Fund for the phase 2 grant renewal decision. The Global Fund will provide the opportunity to reprogram for grants that have not achieved sufficient results, but that convincingly demonstrate major recent improvements in the program supporting environment that would reverse the lack of program progress. Examples of such changes may be when technical partners introduce new capacity strengthening programs to support PRs and sub-recipients. Information on major changes in the program supporting environment should be submitted with the CCM's Request for Continued Funding.
27. The Global Fund should also consider information in the CCM's Request for Continued Funding that indicates **significant adverse external influences** on grant performance during the initial grant period (phase 1) caused by *force majeure* events.⁸ Such situations could allow for an exceptional extension of the phase 1 grant period, provided that the *force majeure* situation could be alleviated. If the *force majeure* situation would persist, and pose critical risks for program success beyond the control of the PR and/or the CCM, the grant could be halted.
28. In instances of **programmatic and/or financial management issues**, the Global Fund could require a PR and/or CCM to undertake certain time-bound actions as a condition for a renewed phase 2 grant commitment. The Global Fund would normally require such actions to be completed within one year. In certain instances, a change in PR or the introduction of an additional PR for a specific part of the program could be called for.
29. In cases of **systematic weaknesses**, for example in terms of data collection and quality assurance, the Global Fund would work with partners to ensure that grant resources were made available to support system strengthening.
30. In addition, the Global Fund could consider **contextual information** in the CCM Request for Continued Funding and/or from partner sources **indicating that a grant program was not advancing the Fund's operating principles** to:
- Promote broad and inclusive partnerships;
 - Promote sustainability and national ownership through use of existing systems and linkages with related strategies and programs;
 - Provide *additional* resources; and
 - Use the best available technical information.

⁸ E.g., the SARS epidemic in China, natural disasters, abrupt changes of government, civil unrest or war.

31. The Global Fund could require PRs/CCMs to take measures to address identified contextual issues as a condition for phase 2 grant renewal or, in extreme situations, discontinue funding.
32. The Global Fund will primarily rely on partners through the CCM process to provide relevant, contextual information in their Request for Continued Funding. In case relevant partners are not part of a CCM, the Secretariat could solicit such information directly. The Global Fund will also link up with relevant data bases through technical partners.

Attachment 3: Phase 2 grant amount and program objectives

1. The CCM Request for Continued Funding should include:
 - The proposed funding period and total amount requested from the Global Fund;
 - Objectives and performance targets, with appropriate baseline data;
 - Information on any planned changes in existing implementation arrangements; and
 - Funding available from other sources for the program.
2. The maximum grant amount for phase 2 is based on the original, approved Proposal amount less the amount spent during the initial grant period.⁹
3. The program objectives and intended results in the CCM Request for Continued Funding are expected to be broadly consistent with the original, approved Proposal. Reprogramming is encouraged as necessary and appropriate to reflect program realities.
4. The Global Fund Secretariat will review the CCM Request for Continued Funding for reasonableness. To ensure full transparency, the Global Fund will inform CCMs about the review process and criteria. To facilitate the phase 2 grant renewal decision, a CCM will be encouraged to submit a Request for Continued Funding which:¹⁰
 - Has a budget which is within the permitted maximum and objectives which are broadly consistent with the original approved Proposal. Significant reprogramming, such as a change in program objectives, e.g., in terms of disease interventions, or a substantial reduction in targets, should be clearly justified;
 - Is in line with trends, i.e., the requested phase 2 budget should not be disproportionate to actual phase 1 spending levels without clear justifications in terms of credible accelerations or “catch up” activities;
 - Uses the best available technical information, including up-to-date technical norms and standards for the disease(s);
 - Shows sufficient detail including key assumptions;
 - Can be structured to bring programs in-line with the country’s planning and budgetary processes (e.g., a PR’s fiscal year).

A. Budget review

5. The Secretariat will be assisted by its in-country LFAs in reviewing a CCM’s budget request for reasonableness. The LFA’s reasonableness review of the budget will be based on the following considerations:
 - i. The usage of funds and performance during phase 1;

⁹ The amount in the original, approved Proposal for the full Proposal period, following adjustments from TRP clarifications and phase 1 grant negotiations, less the amount disbursed by the Global Fund to PRs at the end of the phase 1 period.

¹⁰ A template for the CCM Request for Continued Funding is under development.

- ii. Anticipated program realities for phase 2 (including grantees' abilities to speed up implementation as compared to phase 1); and
 - iii. The reasonableness of key unit costs for the budget (e.g., changes in price for health products since the original Proposal was approved); and
 - iv. General accuracy of arithmetic calculations, including appropriate application of exchange rates.
6. Based on the LFA's recommendation, the Global Fund Secretariat could commit a lower grant amount than that requested by the CCM, as considered reasonable given the above-mentioned criteria.

B. Review of program objectives and intended results

7. A CCM's Request for Continued Funding is expected to be broadly consistent with the goals and objectives of the original, approved Proposal but should also reflect lessons learned and program experiences during phase 2.
8. There may be circumstances that may warrant a CCM to submit a Request for Continued Funding that is significantly different in terms of disease interventions compared to the original, approved Proposals due to e.g., new medical developments or a change in national disease trends. Furthermore, a program may be so far behind its original targets that it would be unrealistic to "catch up" during phase 2. In these cases, the CCM should submit revised targets and budgets with its Request for Continued Funding.
9. The involvement of technical partners, through the CCM process, should ensure that the objectives and performance targets in the Request for Continued Funding are appropriate and adhere to up-to-date technical standards and norms for the diseases. In cases where technical partners have not signed-off on the CCM Request, the Global Fund Secretariat Portfolio Managers may solicit their input directly.
10. The Global Fund Secretariat will review the CCM's Request for Continued Funding. In instances where the Request involves significant reprogramming, such as a change in program objectives, e.g., in terms of disease interventions, or a substantial reduction in targets, the Secretariat may solicit the opinions of the TRP.

C. The phase 2 grant

11. As a result of the Secretariat's review of a CCM's Request for Continued Funding for reasonableness, the following will be determined for the phase 2 period:
- o The grant amount;
 - o Objectives and performance targets; and
 - o Time-bound actions that a PR and/or the CCM may be required to undertake as a condition for continued funding. Such actions would be expected to be completed within one year.
12. The performance targets against which the Global Fund will disburse funds during phase 2 may be fine-tuned during grant negotiations with the PR(s).

D. Uncommitted funds

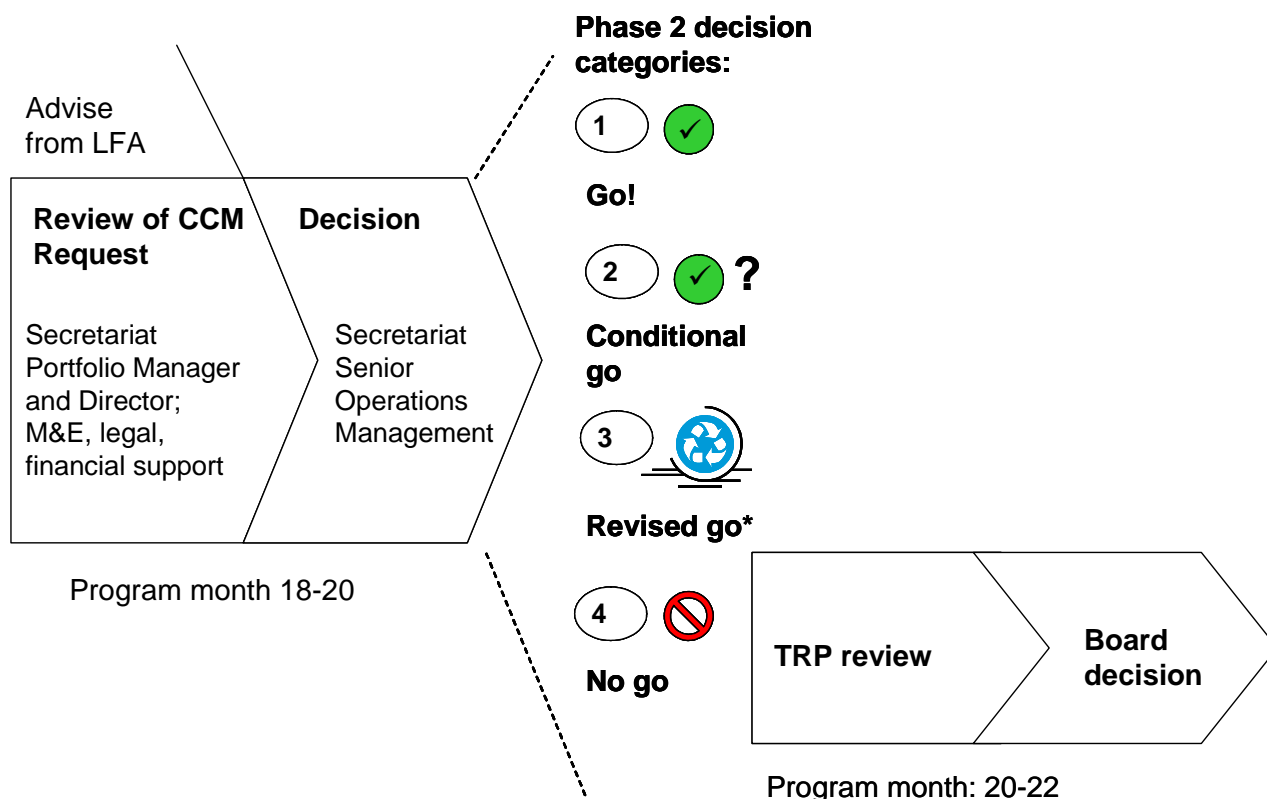
13. As a result of the phase 2 grant renewal process, uncommitted funds will revert to the Global Fund's general funding pool. Funds that revert to the general funding pool could include:
 - o Unspent funds from the phase 1 grant; and
 - o Global Fund resources that had been reserved for grant renewals rather than new Proposals.
14. Unspent funds from the phase 1 grant are defined as *funds committed for the phase 1 grant which have not been disbursed by the Global Fund to a PR by the end of the phase 1 period.*¹¹
15. Under Global Fund's procedures, the Secretariat only authorizes disbursements after having assessed the reasonableness of a PR's funding request through PR *Disbursement Requests and Progress Updates* and the LFA's *Disbursement Recommendations and Progress Reviews*. This should prevent accelerated, unwarranted spending towards the end of the phase 1 period to use up the initial grant and limit the amount of funds disbursed to a PR which would remain unexpended at the end of the phase 1 period.
16. However, PRs and sub-recipients are only entitled to disbursed but unexpended grant funds provided that:
 - o Such funds are, within a reasonable period after the end of phase 1, used for purposes consistent with the program objectives; and
 - o These funds are taken into account when determining the phase 2 funding requirement (in order to avoid double counting).

¹¹ The Grant Agreements may permit the Global Fund to seek a refund of amounts that have been disbursed but remain unexpended at the end of phase 1. However, there are commercial and practical limitations to doing so. There will be resistance to refunding such funds particularly since some of the unexpended funds may have been committed or earmarked for legitimate expenditures. The situation may be exacerbated by the fact that some of the unexpended funds will be located with sub-recipients.

Attachment 4: Phase 2 grant renewal review and decision process

1. The Global Fund's grants will be renewed at different points in time throughout the year. As further described in attachment 5, more than 100 grants will come up for phase 2 grant renewal in 2005; with more than 20 grants coming due in certain peak months.
2. The process to commit grant funding for phase 2 has to be completed swiftly, efficiently and on an on-going basis throughout the year as a routine, core portfolio management function of the Global Fund, with capacity to deal with a large volume of work. The bulk of the Global Fund's phase 2 grant renewal work will be performed by the Secretariat. Other entities that will be involved in phase 2 grant renewals include LFAs and the TRP, which accordingly also have to be available to work throughout the year. The Board will make final decisions to discontinue grant funding.
3. The graph below illustrates the phase 2 grant renewal review and decision process:

Overview of phase 2 grant renewal review and decision process



* If the CCM Request for Continued Funding involves reprogramming, the Secretariat may, at its discretion, request the TRP to perform a second review.

Phase 2 grant renewal work performed by the Secretariat:

<u>Task:</u>	<u>Responsible:</u>	<u>Timing:</u>
i. Regular update of Grant Fact Sheets	Portfolio Manager	On-going
ii. Invitation to a CCM to submit a Request for Continued Funding, accompanied by the Grant Fact Sheet. Identification of issues and requests for clarification as appropriate	Portfolio Manager	Program month 16
iii. Review of CCM Request; LFA recommendation on reasonableness of budget; and partner input as appropriate. Solicitation of opinion from TRP in instances of significant reprogramming as appropriate. Completion of Grant Score Card and recommendation for phase 2 decision.	Portfolio Manager assisted by finance, M&E and legal teams as necessary; review confirmed by Regional Director	Program month 18-20
iv. Decision on phase 2 grant renewals: 1. Go 2. Conditional go 3. Revised go ¹² 4. No go: recommendation to be reviewed by the TRP for final Board decision.	Senior Operations Management ¹³	Program month 20
v. Negotiation of extension to Grant Agreement for phase 2 with PR(s) (agreement on specific targets etc.)	Portfolio Manager	Program month 20-22
vi. Instruction to Trustee to make first phase 2 disbursement	Finance team	Program month 22
vii. Regular reports to MEFA and PMPC on the results of phase 2 grant renewal reviews and decisions.	Senior Operations Management	At each MEFA/PMPC meeting

4. **The LFA** in-country will assist the Secretariat with a budget review of the CCM Request for Continued Funding for reasonableness. The LFA may also submit other comments and recommendations to the Secretariat for the phase 2 review based on its knowledge of program realities and the country situation. The Secretariat may

¹² A second review may be requested by the TRP for significant reprogramming at the discretion of the Secretariat

¹³ Secretariat Chief Portfolio Director; Senior Director Strategy, Evaluation and Program Support; Director Strategic Information and Measurement; Chief Financial Officer

furthermore request the LFA to assist with necessary clarifications of the CCM Request and solicit partners' input as appropriate.

5. Once the Secretariat Senior Operations Management has decided that a grant will be renewed for phase 2, the LFA will assist with Grant Agreement negotiations, including establishment of any time-bound actions that a Principal Recipient (PR) would need to complete within the first year of the phase 2 period. Where program or financial management issues have been identified, or in instances of reprogramming that require certain new capacities for a PR, the LFA may be requested by the Secretariat to conduct certain assessments or verifications. In instances where there will be a change in PR for phase 2, the LFA will complete an assessment of the new PR according to the Global Fund's guidelines.¹⁴
6. A subset of the **Technical Review Panel**, as organized by the TRP Chair, will be available throughout the year to perform the following functions:
 - Upon request by the Secretariat, review CCM Requests for Continued Funding that involve significant reprogramming such as a change in program objectives, e.g., in terms of disease interventions, or a substantial reduction in targets;
 - Review and provide a technical opinion on Secretariat recommendations to discontinue funding.
7. For decisions to discontinue funding, **the Board** Chair and Vice Chair will receive the recommendation and justifications from the Secretariat and the TRP in order to confirm the final decision. In cases where the TRP's opinion differs from that of the Secretariat, the Board Chair and Vice Chair will make the final decision based on the justification provided. Decisions to discontinue funding should be completed by program month 22, to give grantees adequate advance notice.
8. At each Board meeting, the full Board will receive reports from the PMPC Chair on all phase 2 grant renewal decisions since the last Board meeting. All phase 2 decisions will also be made transparently available on the Global Fund's website.
9. The Board will periodically review the policies and procedures for phase 2 grant renewals. The first such review will be initiated in March 2005.

¹⁴ See the Global Fund's *Guidelines for the Principal Recipient Assessment*.

Attachment 5: Phase 2 resource projections for 2004 and 2005

1. The Global Fund will estimate the resources required for phase 2 grant renewals at the beginning of each calendar year. These resources will be set aside with priority over resources available for new Proposal Rounds according to the Global Fund's *Comprehensive Funding Policy*. These resource projections will be made transparently available at the Global Fund's website. They will be up-dated when the Global Fund receives new donations as well as when specific grant amounts are committed for continued funding to existing grant programs (phase 2).
2. Phase 2 grant renewal decisions will be made 20 months after the grant start date, as based on when funds arrive in country (proxy: the date of the first disbursement from the Trustee plus one week).
3. For Rounds 1 and 2, the grant start date was based on estimates agreed between the Secretariat and Principal Recipients (PRs) rather than the date when funds actually arrived in country. As agreed between the Secretariat and PRs of already signed Rounds 1 and 2 grants, Grant Agreement start dates may be adjusted to reflect program realities. The Secretariat estimates that most PRs will opt to adjust the grant start date based on when funds arrived in country. There may, however, be other agreements reached for adjusted grant start dates between the Secretariat and PRs based on program realities or country circumstances.¹⁵

A. Estimate of phase 2 grant renewals in 2004

4. Based on the estimated revised program start dates for Round 1 grants,¹⁶ there are 22 components (27 grants; 19 countries) for which grants would need to be renewed during 2004. The aggregate amount of the total years 3-5 budgets from the original, approved Proposals for these grants is USD 280 million. The HIV/AIDS and TB grants for Ghana are the first grants that would be renewed, with a renewal decision by August 31.
5. In the Secretariat's previous budget projections for 2004, the amount USD 411 million was quoted for grant renewals for 2004. This amount was based on slightly different assumptions than those currently included in the recommended phase 2 policy:

¹⁵ E.g., for some Rounds 1 and 2 grants, only a very small amount was released in the first disbursement (e.g., to finance the completion of procurement plans; for PR capacity building; or to only one sub-recipient). The revised grant program start date may in these cases be the second disbursement to reflect when a PR and sub-recipients could actually initiate program implementation activities.

¹⁶ These estimates are based on the date of the first disbursement to a PR. Following Board decisions on the phase 2 grant renewal policies, the Secretariat will swiftly clarify Rounds 1 and 2 grant start dates with PRs and revise Grant Agreements as necessary.

- The basis for when grants were expected to come due for renewals was the start date as per the signed Round 1 Grant Agreements.¹⁷
 - It was assumed that grant renewal decisions would be taken by program month 22 rather than by program month 20 as per the current policy recommendation.¹⁸
6. In the Secretariat's budget projections for 2004, it was furthermore assumed that the total, aggregate budget amounts for years 3-5 in the original, approved Proposals would not be committed for phase 2. Rather, this amount was reduced by 15% to arrive at a reasonable amount of expected phase 2 grant commitments. This is a conservative estimate given the track-record for other grant making institutions. The 15% reduction assumption should be used also for the revised estimates for 2004 and 2005 phase 2 grant renewals until more experience is gained with the grant renewal process and this estimate could be improved.
- 7. *Based on these assumptions, the estimated amount for phase 2 grant renewals in 2004 is USD 240 million.***

B. Estimate of phase 2 grant renewals in 2005

8. The Grant Agreements signed by the Global Fund by mid-February 2004 include grants with expected phase 2 grant renewal decision dates up until October 19, 2005.¹⁹ The aggregate amount of the total years 3-5 budgets in the original, approved Proposals for these 101 grants (about 90 components; 60 countries) is USD 1.4 billion.
9. Assuming that the total number of grants coming due for phase 2 renewal in 2005 is proportional to those that had been signed by mid-February 2004, there would be an estimated 120 grants (about 110 components; 70 countries) with total aggregate years 3-5 budgets as per the original, approved Proposals of USD 1.6 billion. This total aggregate budget amount should be reduced by 15% to arrive at the expected phase 2 grant commitments.
- 10. *Based on these assumptions, the estimated amount for phase 2 grant renewals in 2005 is USD 1.4 billion.***
11. Revised projections for resource needs for phase 2 grant renewals for 2004 and 2005 will be provided as soon as the Secretariat has confirmed revised grant start dates with PRs for already signed Rounds 1 and 2 grants. These projections will then be updated on an on-going basis as new grant commitments are made and assumptions fine-tuned based on experience.

¹⁷ Based on agreements between the Secretariat and PRs rather than when funds arrived in country. The mean difference between the current Grant Agreement start date and the date when funds arrived in country for Rounds 1 and 2 grants is 50 days.

¹⁸ This assumption was included in the policy document *Fiduciary Arrangements for Grant Recipients*, which was endorsed at the June 2003 Board meeting and has been revised for the current policy recommendations to be considered by the Board at its March 2004 meeting based on lessons learned.

¹⁹ Based on the assumption that PRs will opt to revise the grant start date based on when funds arrived in-country.