

Policy for approving and funding grant obligations



THE GLOBAL FUND

to Fight AIDS, Tuberculosis and Malaria

**Fifth Board Meeting
Geneva, 5-6 June 2003**

Introduction

Need to formalize a policy for approving proposals

Need to develop system to prioritize proposals for Round 3 because of projected financial shortfall

Need to develop a comprehensive policy on funding grant obligations for subsequent rounds

Need to define reserve levels to fund successful appeals

Key principles for funding grant obligations

Key principles were generally agreed upon at the 3rd Board meeting and have been used operationally for two Rounds

The Board is requested to endorse these principles for funding grant obligations:

- The Board may approve proposals and commit funds up to the cumulative amount pledged until and including the current year
- Sufficient cash and/or liquid assets to cover two years of implementation of the proposal must be deposited with the Trustee or readily available prior to the Secretariat signing a grant agreement

Decision Point 1: Key principles for funding grant obligations

Approved

The Board is requested to endorse these principles for funding Round Three grant obligations:

- a. The Board may approve proposals and commit funds up to the cumulative amount pledged until and including the current year
- b. Sufficient cash and/or liquid assets to cover two years of implementation of the proposal must be deposited with the Trustee or readily available prior to the Secretariat signing a grant agreement

The Board may not be able to fund all TRP-recommended proposals for Round 3

Projected value of recommended proposals: \$1000 million

Funds available for Round 3: \$319 million

Potential Round 3 funding shortfall: \$681 million

Two options for prioritizing proposals

1. Technical merit only
2. Technical merit and additional criteria (e.g., burden of disease, poverty)

Option 1: Proposals prioritized based on technical merit only

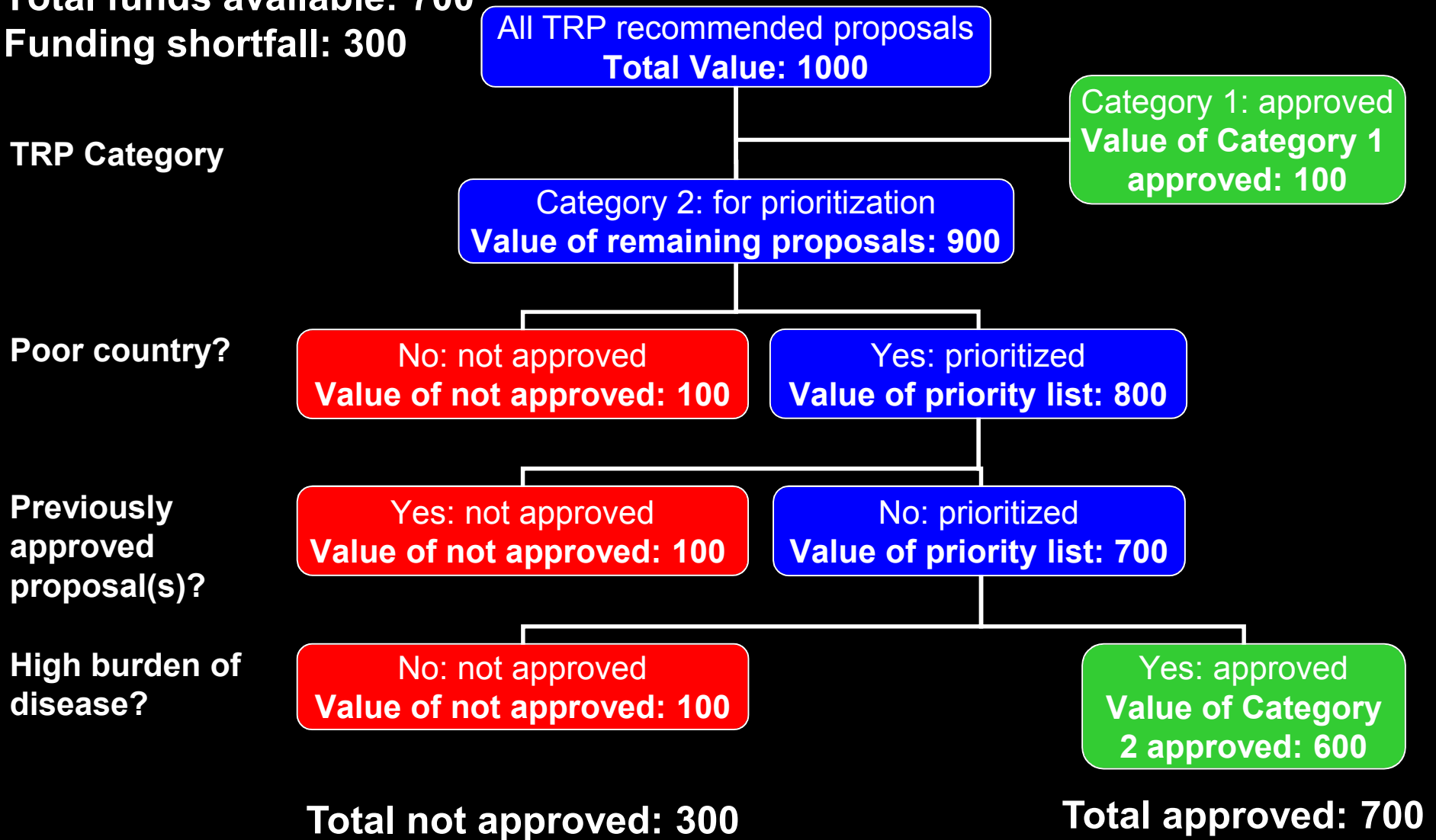
purely illustrative example

TRP category	Value of proposals		Category approved?			
	Category	Cumulative	Scenario 1: 400 available	Scenario 2: 300 available	Scenario 3: 200 available	Scenario 4: 100 available
Category 1	100	100	Yes	Yes	Yes	Yes
Category 2a	100	200	Yes	Yes	Yes	No
Category 2b	100	300	Yes	Yes	No	No
Category 2c	100	400	Yes	No	No	No
Category 3	1000	1400	No	No	No	No
Category 4	100	1500	No	No	No	No

Option 2: Proposals prioritized based on technical merit and additional criteria

purely illustrative example

Total funds available: 700
 Funding shortfall: 300



Decision Point 2A: Prioritizing Round 3 proposals

Approved

The Board is requested to:

Ask the TRP to refine the recommendations in category 2 in a way that will facilitate the Board's prioritization of proposals, and

Request the Secretariat in consultation with the PMPC to propose criteria* to be agreed by the Board for prioritizing TRP-recommended proposals, if insufficient funds are available to immediately approve all TRP-recommended proposals

* Based on the Framework Document and the Guidelines for Proposals for the Third Round

Decision Point 2B: Process for prioritizing Round 3 proposals

Approved

The Board asks the Secretariat, in consultation with the PMPC, to develop options for prioritizing TRP-recommended Round 3 proposals, and options for the lower prioritized proposals, by the end of July, with information provided to the Board by mid-August, and bring these to the Board for approval at the October Board meeting

Components of a comprehensive policy on funding grant obligations

In addition to an approach for Round 3, it is necessary to develop a comprehensive policy on funding grant obligations, which could include:

- Pledge levels required to approval proposals;
- Asset requirements to sign grant agreements;
- Reserve requirements to fund successful appeals;
- A methodology to prioritize proposals

Decision Point 3: Development of a comprehensive policy on funding grant obligations

Approved

The Board is requested to ask the Secretariat in consultation with the World Bank and other partners, PMPC and MEFA to develop a comprehensive policy on funding grant obligations, for approval at the October 2003 Board meeting

Decision Point 4: Reserve levels for appeals

Approved

The Board is requested to ask the Secretariat in consultation with MEFA to define reserve levels as a contingency to fund successful appeals, for approval at the October 2003 Board meeting

Appendix: Calculations for funding shortfall

Funds available for Round 3: \$319 million

Calculation:

Pledged or received funds through end 2003:	\$1824 million
Committed for Round 1 and 2 proposals:	-\$1454 million
Operating costs through end 2003:	<u>- \$51 million</u>
	\$319 million

Potential Round 3 funding gap: \$681 million

Calculation:

Total value of requested funding in Round 3:	\$2000 million
% of requested funding assumed to be approved*:	50%

Estimated value of Round 3 proposals to be approved:	\$1000 million
Funds available:	<u>- \$319 million</u>
	\$681 million

* Based on the experience that 40% of Round 1 and 2 requested funding was recommended by the TRP, and the assumption that the technical soundness of proposals would increase.