



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

**Eighth Board Meeting
Geneva, 28 - 30 June 2004**

GF/B8/8

REPORT OF THE MONITORING AND EVALUATION, FINANCE AND AUDIT COMMITTEE (MEFA)

Outline: This report from MEFA and its seven (7) annexes summarizes the deliberations of the MEFA Committee Meeting on 10 - 11 May 2004 and offers a number of recommendations for decision by the Board.

Summary of Decision Points

The MEFA Committee recommends that:

1. The Board adopts decisions 1 – 5 (pages 5-7) relating to Phase 2 grant renewals;
2. The Board adopts decisions 6 – 8 (page 12), relating to the timeframe and policies for signing of grant agreements;
3. The Board adopts decisions 9 and 10 (page 14) relating to the mechanics for protecting grants from exchange rate fluctuations.

Part 1: Introduction

1. This report summarizes the deliberations of the MEFA Committee at its meetings on 10 - 11 May 2004 and highlights ten decision points which it recommends to the Board for action. The report also includes additional material and discussion covered in the May 10 – 11 for information to the Board. The meeting agenda, participants list and 2004 – 2005 MEFA work plan are attached as annexes 4 – 6.

2. Two constituencies (the United States of America and the European Commission) had asked for more time to consider the underlying documentation than was available before the MEFA meeting. These constituencies participated in the deliberations of the meeting but were not formally able to conclude their position and join the emerging consensus recommendations at the meeting (see Part 2, para 4 below regarding the U.S. position).

Part 2: Phase 2 Grant Renewals

1. At the March 2004 Board meeting, policies and procedures for Phase 2 grant renewals were approved based on recommendations prepared by MEFA and PMPC. The Board decision document *Policy to Continue Grant Funding beyond the Initially Committed Two Years (Phase 2 Grant Renewals) (GF/B7/8 Annex 4: Phase 2 Grant Renewals)* specified four areas where further related work would be undertaken by the Secretariat:

1. Phase 2 renewals in situations of resource constraints;
2. Special considerations for grant programs involving on-going drug treatment;
3. Data quality assurance; and
4. Technical assistance to enhance implementation capacities.

In addition to these areas for further related work, Board members requested protocols for reports to the Board on Phase 2 grant commitments.

2. The Secretariat presented a paper for MEFA's consideration: *Policy to Continue Grant Funding beyond the Initially Committed Two Years (Phase 2 Grant Renewals): Further related Policy Development (Attached as Annex 1)*. This document covered the following issues:

2.1 Part 1 of the document presented issues, options and a proposal for Phase 2 renewals in situations of resource constraints for MEFA's and PMPC's guidance in developing a policy recommendation to the June Board meeting, including options:

- a) "First due, first access"
- b) Partial allocation, on basis of either;
 - i. limited time:
 - ii. a percentage amount: or
 - iii. a maximum USD amount.
- c) Prioritization, on basis of:
 - i. performance (e.g. A1 – 2 rated grants prioritized);
 - ii. composite index scores (per new rounds)
 - iii. disease-based (e.g. treatment continuity)
 - iv. availability of alternative funding.

2.2 Part 2 of the document presented a proposal for special considerations for grant programs involving on-going drug treatment for MEFA's consideration. A specific proposal was presented, including soliciting of in-country contextual information followed by consideration of establishment of a special grant procedure for on-going drug treatment. MEFA's guidance was requested on whether this approach should be recommended or other options should be pursued.

2.3 Part 3 of the document presented a proposal for protocols for reports to the Board on Phase 2 grants.

2.1 Phase 2 renewals in situations of resource constraints:

- a) MEFA reviewed and discussed at length the three policy options for renewals in years of resource constraints prepared by the Secretariat.
- b) There was consensus in MEFA that options A and C should not be pursued with the principle that all programs that qualify for renewals according to the Global Fund's criteria (as stipulated in the March Board decision document) should receive continued funding. Thus, option B was recommended by MEFA.
- c) In reaching this consensus recommendation, it was recognized that performance is a key criteria for renewals and will be considered for each disbursement decision during Phase 2 implementation according to the Global Fund's performance based funding system.
- d) It was furthermore recognized that due consideration is required for coping with the necessary continuity in programmes that offer disease treatment in situations of resource constraints or unsatisfactory performance. MEFA recommends that further work on this should be conducted by the Secretariat and reviewed by MEFA prior to the November 2004 Board meeting. Such work should include considering ways to engage country level partners and stakeholders related to other treatment programmes within the overall national strategy and take into account broader policy issues related to both sustainability of on-going treatment and additionality.
- e) Based on MEFA's discussions, draft Board decision points were prepared for PMPC's consideration and finalization. The decision points on pages 5-7 reflect the combined conclusions of both MEFA and PMPC.

2.2 Special Considerations for Ongoing Drug Treatment

- a) The Global Fund, as one of the development partners providing funding for programs involving on-going treatment, is committed to policies that will sustain treatment long term. Strategies for phasing out funding from the Global Fund for such programs that involve treatment therefore need to be explicitly considered up-front and jointly by partners, since isolated decisions on discontinuation of funding may have the most severe consequences for affected patients.
- b) Further work will be conducted on special considerations for on-going treatment before the November Board meeting by the Secretariat, in collaboration with partners and with reference to the need for sustaining quality national treatment programmes long term. This work will recognize that different approaches may be appropriate in the following different instances:

- i. Discontinued funding for a program as a result of the Global Fund's performance review according to the criteria for Phase 2 grant renewals or during implementation according to the Global Fund's system for performance based disbursements;
- ii. Risks for insufficient funding for Phase 2 grant renewals in situations of resource constraints;
- iii. Discontinued funding at the end of the proposal period (maximum five years).

2.3 Protocols for Reports on Phase 2 Grant Renewals

- a) As requested by certain Board members and the Board Chair during the March 2004 Board meeting, MEFA discussed appropriate protocols for Board reports on Phase 2 grant renewals in light of the need for the Board to exercise appropriate oversight of the renewal process.
 - i. It was recognized that such protocols for oversight would build on Board decisions on the Comprehensive Funding Policy (October 2003) and Phase 2 Grant Renewals (March 2004);
 - ii. It was, however, noted that at least one of the member constituencies might alternatively want to reopen the Board decision on the Phase 2 renewal with the view to establish a mechanism where the Board formally approves all Phase 2 renewal decisions
 - iii. The fiduciary responsibility of the Board was recognized in the context of ensuring that funds for Phase 2 grant renewals would not be committed beyond available resources; and additional safe guards were proposed to this effect
 - iv. The Board's role in overseeing that the Secretariat would commit funds according to the criteria for satisfactory grant performance and contextual considerations for Phase 2 grant renewals was also discussed - see the Board decisions on Phase 2 Grant Renewals (March 2004).
- b) Based on these discussions, MEFA recommends the following additional Board decision for strengthening Board oversight of Phase 2 Grant Renewals, building on the already agreed and established procedures of March 2004, as presented below.
- c) Furthermore, operational policies for protocols for Board reports on Phase 2 grant renewals were also agreed as indicated in the decision point.
- d) Certain MEFA members requested that estimates on amounts required for Phase 2 grant renewals for future years be made available. Further work on how such forecasts will be presented to the Board will be conducted during up-coming work on the Global Fund's replenishment model.

3. Further work on data quality assurance is part of the 2004 work program for the Secretariat unit for Strategic Information and Measurement. The Secretariat reported on progress in this area to MEFA under Part 3 below.

4. Subsequent to the meeting of the Committee, the US delegation has notified that they still do not deem these arrangements as satisfactory in terms of Board oversight of the decision

making process for the Phase 2 renewals. Following subsequent discussions with the MEFA Chair, the US delegation has submitted an alternative process and potential decision point for Board for consideration. This proposal has not been examined by the Committee, but for convenience and ease of reference is attached to this report as Annex 7.

Decision Points:

The MEFA Committee and PMPC recommend that:

1.1 The Board decides that special policies and procedures are required in the event of insufficient resources during a certain calendar year to fund all Phase 2 grant renewals. Such a situation of resource constraints would become evident at the final Board meeting of the previous year.

1.2 The Board decides that provided funding is available for at least one year of renewals, available resources will be allocated among all grants that satisfy the Global Fund's renewal criteria according to a time-limited partial allocation system.

- a. A time-limit for renewed grants should be established by the Board at the final Board meeting of the year prior to the year of renewals. This time limit will be based on conservative estimates of resource needs for renewals as compared to resources available for the calendar year of resource constraints.**
- b. Initial amounts committed during the year may be adjusted at the end of the year based on actual resource needs for renewals as compared to resources available.**

There are no material budgetary implications for this decision point.

2. For subsequent year(s), the following priority system will apply in the event of resource constraints:

First funding priority: Unfunded portions of prior year(s) renewals.

Second funding priority: Renewals due in the current year. A time limited partial allocation system will be established as necessary (see Decision Point 1.)

Third funding priority: New proposal rounds (as already established in the Comprehensive Funding Policy).

There are no material budgetary implications for this decision point.

3. If funding is not available for at least one year of Phase 2 grant renewals during a certain calendar year, special procedures will be decided by the Board at the final Board meeting of the previous year.

There are no material budgetary implications for this decision point.

4. The Board recognizes the importance of sustaining ongoing treatment.

The Board requests the Secretariat urgently to explore internal mechanisms and to work with partners to develop options for the continuity of treatment services through broader country partnerships associated with common national strategic framework for the three diseases. The Board requests the Secretariat to report back to MEFA and PMPC on these issues in time for the development of recommendations by the Ninth Board Meeting.

Budgetary implications of this decision point:

The additional cost of implementing this decision is estimated at US\$67,500.

5. At the final Board meeting of each year, the Board will provide executive guidance on Phase 2 grant renewals as appropriate (including, for example, special procedures in the event that funding is not available for at least one year of Phase 2 grant renewals during the next calendar year).

The Board will approve a maximum cumulative amount for renewals to be committed by the Secretariat during the next calendar year subject to the policies and procedures approved by the Board - i.e. The Comprehensive Funding Policy (October 2003) and the policy for Phase 2 Grant Renewals (March 2004)

5.1 Prior to the final Board meeting of each year:

The Board will receive the following financial and programmatic information concerning Phase 2 grant renewals:

Financial information:

- a) Total estimated resources required for Phase 2 grant renewals for the next calendar year;**
- b) Total estimated resources available to the Global Fund for the next calendar year (cumulative uncommitted amount pledged through that calendar year); and**
- c) Based on the above, an estimate will be made of the surplus available for new rounds or the deficit for Phase 2 grant renewals.**

Programmatic information:

- a) A list of all grants coming up for Phase 2 grant renewals in the following calendar year and the associated Grant Fact Sheets (format and specific content under development by the Secretariat). These will include relevant information for each grant e.g., country; disease; PR; performance to-date; disbursements to-date.**

5.2 Twice monthly:

The following information about Phase 2 grant renewals will be posted on the Global Fund's website and updated twice monthly through the Global Fund's Grant Status Updates:

- a) *Actual Phase 2 amounts committed to-date per country with decision category and variances compared to the maximum amount possible;*
- b) *Actual cumulative Phase 2 amounts committed per region; disease; and decision category;*
- c) *Completed Grant Score Cards* following renewal decisions.*

5.3 At each Board meeting:

At each Board meeting, the PMPC Chair with assistance from the Secretariat will report to the Board on Phase 2 grant renewals as follows:

- a) *Overview and analysis on Phase 2 grants committed for the current calendar year based on information contained in completed "Grant Score Cards". This would include new information since the last Board meeting as well as cumulative information for that calendar year;*
- b) *Specific relevant information for decisions not to renew funding for Phase 2;*
- c) *Updated estimates for Phase 2 amounts to be committed for the remainder of the calendar year.*

There are no material budgetary implications for this decision point.

Part 3: Update on Monitoring and Evaluation activities: LFA Review and Assessment

1. The Secretariat initiated a review of the LFA system early 2004 as agreed in the M&E operations plan. MEFA had given input to the draft TOR and the inception report, which had been prepared by external consultants, has been shared with MEFA for information.
2. The Secretariat gave an overview on the status of the review. The consultant team is now visiting the selected countries. MEFA appreciated the effort and progress and raised some concerns about the number of evaluation questions included in the inception report. The Secretariat explained that interviews had been set up with key informants for limited time periods and that the evaluation questions in the inception report reflect the framework for the interviews, rather than a strict questionnaire. Initial feedback on the review was positive, both by the consultants and the partners included in the review. It is expected that relevant insight will be gained which shall contribute to management and decision making processes.
3. The Secretariat will present the findings of the review to MEFA during its next meeting.

Part 4: Review Selection of Key Performance Indicators

1. The Secretariat presented the draft Executive Dashboard with key performance indicators to MEFA. It was made clear that the Executive Dashboard is one product in a series of performance reports currently under development to track performance at the different levels of the Fund. The Executive Dashboard focuses on a number of high level indicators that measure the overall performance of the Secretariat and the Global Fund.

* (since the term "Grant Score Card" has caused concern among grant recipients, an alternative name may be proposed by the Secretariat and endorsed by the Board).

2. MEFA appreciated the efforts of the Secretariat and a number of suggestions were made including a review of the balance between quantitative and qualitative indicators, between time sensitive and rather static indicators, and the identification of critical indicators identifying outliers that would require immediate action (rather than a focus on means). MEFA also suggested including the hierarchical evaluation pyramid from Secretariat performance to ultimate impact in the presentation of the dashboard in order to locate this performance tool within the broader M&E framework of the Fund.

3. The MEFA discussions then focused on priorities and assessment of the systemic effects which are not the focus of the Executive Dashboard. The Secretariat was asked to develop a matrix with key indicators to measure systems effects of the Global Fund in the following broad priority areas.

- Predictability of the Fund
- Development and effectiveness partnerships
- Additionality
- Sustainability of Global Fund programmes

4. MEFA constituencies recognized the need to actively support the development of this activity in an appropriate manner.

Part 5: Update on the “Three Ones” discussion in Washington DC, April 25 2004

1. The Chair of MEFA briefed the group on the outcomes of a recent meeting hosted by Ambassador Tobias in Washington DC in April 2004 on the “Three Ones”:

- i. One agreed HIV/AIDS Action Framework that provides the basis for coordinating the work of all partners.
- ii. One National AIDS Coordinating Authority, with a broad based multi-sectoral mandate.
- iii. One agreed country level Monitoring and Evaluation System.

2. The meeting in Washington ended with a strong commitment by all stakeholders towards these three principles. MEFA briefly discussed issues of special relevance for the Global Fund.

3. It was felt that with the work initiated by the Fund, in partnership with technical agencies and bilateral donors, in harmonizing the M&E efforts had progressed substantially and that Global Fund principles are very much in line with the “one country level M&E system”. More work is needed to further clarify and define the roles and responsibilities of CCMs vis-à-vis the “one coordinating authority”, but it was felt that this was not inconsistent with Fund policies. The biggest unsolved issue for the Global Fund is the fact that the “Three Ones” relate to action on HIV/AIDS. While there was general agreement that exceptional action on HIV/AIDS is needed and appropriate, the Fund and its structures are focused on, and need to take into account specific issues around, HIV/AIDS, Tuberculosis and Malaria

Part 6: Technical Evaluation Reference Group (TERG): Consideration of an Additional Nominee

1. At the Seventh Board meeting, the Board confirmed the shortlist of nominations for the TERG as presented by the Selection Committee. The Board also invited the Japanese delegation to make a nomination for the TERG to be considered by the MEFA committee.

2. The nomination for Dr Etsuko Kita from Japan was received by the Secretariat on 26 April 2004 and the CV was distributed to all MEFA members. The Secretariat reviewed the nomination following the same procedure as for the other TERG nominations. Based on this review, the Secretariat suggested that the technical expertise and professional experience of Dr Etsuko Kita are relevant for TERG and of equally high standard compared to other TERG members.

3. MEFA agreed with the assessment of the Secretariat and decided that Dr Etsuko Kita would be an excellent addition to the TERG complementing the skills of the already confirmed members. It was also appreciated during the discussions that with this additional member TERG would improve in gender and geographic balance.

4. The Secretariat informed MEFA that the external institution to support the TERG Secretariat at the Global Fund had been identified through a tendering process. The selected institution, the University of Lausanne, brings extensive experience and an excellent track record. The Secretariat is in the process of finalizing a contract with the University of Lausanne.

5. The Secretariat informed MEFA that it will not be possible to arrange for a first TERG meeting before the June Board meeting. It was agreed that, if possible, the first TERG meeting should be held back to back with the next MEFA meeting in order to allow interested MEFA members to get to know TERG members through an informal meeting.

6. MEFA decided to accept the nomination from Japan as an additional member of TERG. The Secretariat is to revise the TOR of TERG to reflect the increased number of regular TERG members from eight to nine. The Secretariat will prepare for the first TERG meeting to be held just prior to the October MEFA meeting.

Part 7: Consideration of CCM Case Studies Analysis

1. The Secretariat presented an update on a series of CCM case studies that have been conducted by different partners to assess the functioning of CCMs since 2003. The Secretariat reported to MEFA the progress regarding the comprehensive policy paper, including options for Board decisions on CCMs, which will be presented by GPC to the June Board meeting.

2. The focus of the MEFA discussions was on the soundness of the approaches and possible limitations in the studies that have been conducted so far in order to identify priorities for M&E work in this area.

3. MEFA appreciated the efforts of the Secretariat and agreed that the studies initiated were appropriate considering the objectives set for the studies, mainly focusing on general functioning of CCMs, including issues of representation and operationalization of the principles of the Fund. It was agreed that the development of indicators to measure and monitor progress of CCMs should be a priority area of work for the Secretariat. These would,

however, depend substantially on the options currently being developed by GPC for decisions during the June Board meeting. The Secretariat should develop a work plan for the development of such indicators after the Board meeting and report back to MEFA at its next meeting.

Part 8: Timeframe and Policies for Signing of Grant Agreements

1. At the March 2004 Board meeting, the Secretariat was requested to prepare a discussion document for MEFA on the timeline and process for grant signings. This was presented and discussed at the meeting. The document provided an overview of the different steps from Board approval of proposals to conversion of the proposals to one or more grant agreements with Principal Recipient(s). It furthermore described the main reasons behind delays in grant signings, according to the Secretariat's experience to-date, and provided a proposal for MEFA's consideration to introduce a time limit for when Board-approved proposals should have resulted in signed grant agreements. Based on MEFA's guidance, the Secretariat sought to prepare decision points on this issue for the June 2004 Board meeting.

2. Significant discussion in the Committee focused on the respective responsibilities of the actors involved. These exchanges generated the following overview of responsibilities:

a) CCMs are responsible for:

- i. providing timely responses to any request for clarification to their proposal from the TRP;
- ii. nominating one or a few PRs with the necessary capacities, according to the Global Fund's minimum requirements.

b) The TRP is responsible for providing timely and substantive feedback to the responses received from CCMs.

c) The Secretariat is responsible for:

- i. acting as an efficient intermediary between a CCM and the TRP;
- ii. swift contracting of a competent LFA;
- iii. providing CCMs and PRs with appropriate information about the Global Fund's policies and procedures; and
- iv. efficient, timely and constructive interactions with CCMs and PRs during the PR assessment and grant agreement negotiations.

d) LFAs are responsible for:

- i. swiftly and efficiently conducting the PR assessment and assisting during grant negotiations according to the guidelines provided by the Global Fund; and
- ii. efficient, timely and constructive interactions with the PR and the CCM during the PR assessment and grant negotiation process.

e) PRs are responsible for:

- i. ensuring that they have the required capacities for successful proposal implementation, according to the Global Fund's minimum requirements;
- ii. swift completion of the implementation plans necessary for successful proposal implementation. This includes a monitoring and evaluation plan with appropriate targets and indicators for the Global Fund's performance based funding system according to the goals and objectives in the proposal;

- iii. efficient, timely and constructive interactions with the LFA during the PR assessment and with the Secretariat during grant agreement negotiations.

3. In addition to specifying clearly the respective obligations, several Committee members emphasized the opportunity to provide much greater clarity in proposal guidelines regarding these respective obligations in order to maximize the speed of grant signings, disbursement and early implementation.

Decision Points:

6. A maximum time limit is needed for a proposal to result in one or a few grant agreements to set performance incentives for all actors involved in this process. This includes the Secretariat, the TRP, LFAs, CCMs and PRs, with responsibilities to be clearly defined. Based on these specified responsibilities, all actors are accountable for completing the necessary work between Board approval of a proposal and grant agreement signing as swiftly as possible.

There are no material budgetary implications for this decision point.

7. The normal time from Board approval of a proposal to grant agreement signing should be approximately 6 months. If a grant agreement has not been signed 12 months after Board approval, the proposal should no longer be considered approved unless the Board decides to allow a further exceptional time extension based on information received from the Secretariat and CCMs. This time extension will be limited to a maximum of 3 months.

Based on further experiences with Global Fund processes, the Secretariat will provide improved estimates on the time required to complete the work between Board approval and grant signing to MEFA before the November Board meeting. At this time, the Board may decide to shorten the maximum time limit specified in decision point 8.

There are no material budgetary implications for this decision point.

8. The Secretariat will analyze possible implications for proposals approved in Rounds 1-3 for which grant agreements have not been signed within the maximum time limit specified.

There are no material budgetary implications for this decision point.

Part 9: Mechanics for Protecting Grants from Exchange Rate Fluctuations

1. Introduction – The Exchange Rate “Issue”:

- a) Grant proposals are currently required to include 5-year US dollar denominated budgets. In preparing such budgets, assumptions are made as to exchange rates when calculating the US dollar equivalent of planned non-USD expenditures. Taken over the life of the program, these exchange rates may deviate from the original exchange rate assumptions, resulting in a larger or smaller amount of non-USD expenditures being covered by the grant (in dollars) than budgeted.

- b) In many cases, such a shortfall would be offset by savings made on the original amount budgeted (possibly through lower commodity prices or contingencies built into the budget). However, in certain circumstances, a severe exchange rate fluctuation could lead to a shortfall in funding, potentially jeopardizing the program viability.

2. Mechanisms already adopted:

- a) Further to a decision at the Seventh Board meeting (March 2004), application for Phase 2 funding on an accelerated basis is now possible where grants have suffered adverse exchange rate fluctuations. This decision has been communicated to CCMs and PRs.

3. Potential further mechanisms:

- a) The Seventh Board Meeting also requested the Secretariat to evaluate the implications of the Global Fund offering the following additional mechanisms as a means of providing protection from currency fluctuations:
 - i. top-up grants; and
 - ii. multi-currency denominated grants.

4. At the MEFA meeting held in May 2004, an analysis was considered of these two further mechanisms. The meeting quickly reached consensus not to pursue the top-up grant mechanism. Similarly, primarily for reasons of complexity, offering a range of multi-currency options did not receive support.

5. However, since some 45% of the Fund resources are contributed in EURO and a significant group of recipient countries have economies closely related to the EURO market, some recipient countries and donor partners represented in MEFA wished to put the option of offering grants in either USD or EURO to the Board.

6. The US MEFA delegation made it clear that they did not necessarily agree with this approach and that they were not convinced that the Global Fund should have the capability to cater for grants denominated in any currency other than USD nor that any investment in systems to facilitate this was warranted at this time. The US delegation stressed that a EURO option would represent a potentially significant policy shift for the Global Fund. The US delegation emphasized that this item would require more information and discussion with colleagues in other specialized parts of the US government and that they would require more time to complete these discussions.

7. Furthermore, it was flagged that setting up a EURO or any non-USD grant facility would require significant changes in the Trustee's IT systems for managing the assets and liabilities. At the MEFA meeting, the Trustee advised the committee that its systems development work was at a stage where any modification to cater for non-USD grants should be taken into account as soon as possible. To do so later could result in considerably greater cost.

8. The Trustee further indicated that investing in system modification now – at a cost suggested to be approximately US\$150,000 - would allow for a decision on any multi-currency facility at such a time when the Board is ready for it. Not taking the step now could imply a more difficult choice later, as the eventual possible systems adaptation cost could be much higher.

9. Subsequent to the close of the meeting, the Secretariat undertook to pursue and further clarify with the Trustee the issues as to size and timing of any systems investments and to explore scope to reduce or eliminate the systems cost dimension from the USD / EURO grant option discussion.

10. The meeting concluded that MEFA members should consult with their constituencies and provide feedback to the Chair and Secretariat as to whether they believed that the necessary investments should be made immediately to ensure systems capability to manage non-USD denominated grants.

11. Subsequent consultation by the Chair of MEFA has resulted in conflicting advice as to how this issue can be resolved in the best interest of all parties. A majority of Committee members were ready to invest in a management system that would make it possible at a later stage to accommodate the needs of a multi-currency facility. It has, however, not been possible to clarify the cost implications of such an option. This has led the Committee to conclude that further consideration of this important and potentially complex issue is required and that the Committee is not yet ready to forward a recommendation to the Board.

Decision Points:

9. The option of top-up grants and multi-currency grants should not be pursued as mechanisms to protect against exchange rate fluctuations.

There are no material budgetary implications for this decision point.

10. MEFA requests the Board to endorse its recommendation to conduct further discussions with various constituencies and to deliberate further at its October 2004 meeting as to whether grants should be made available in either USD or Euro, or remain USD denominated only.

There are no material budgetary implications for this decision point.

Part 10: Operating Expenses from January – March 2004 (Quarter 1)

1. MEFA reviewed Secretariat budget performance for Q1 and took note of the highlights:

- a) Total operating expenses (LFA fees plus Secretariat expenses) at \$10m are 3% below the budget of \$10.3m for Q1 and represent 19% of the total budget for the year 2004.
- b) In-country oversight (LFA) fees at \$3.6m in Q1 are 2% below the budget of \$3.7m for Q1.
- c) Secretariat expenses at \$6.3m are 4% below the budget of \$6.6m for Q1.

2. Committee members made several helpful suggestions to improve the clarity of presentation of the material and these will be incorporated into future budget performance presentations.

Part 11: Procedures for Operation of Secretariat Bank Accounts

1. The Global Fund maintains a bank account with Credit Suisse, Geneva comprised of sub-accounts denominated in Swiss francs and US dollars. One of these sub-accounts is solely for the purpose of holding the foundation capital of CHF 50,000 in accordance with the legal requirements under which the Global Fund was established as a Swiss foundation. The other sub-accounts are used to pay for goods and services that are not acquired via WHO, and to receive contributions towards operating and minor receipts.
2. In the course of the Seventh Board meeting, the US delegate asked that MEFA approve the procedures for the operation of any bank accounts held by the Global Fund Secretariat.
3. The Secretariat presented in detail the authorization procedures for each payment – as summarized in the relevant Committee paper. Several helpful suggestions on the format and presentation of the associated forms were made by Committee members and will be incorporated into the process.
4. The Secretariat further confirmed that the bank account records form part of the accounting records of the Global Fund and hence are subject to external audit in the same manner as all accounting records of the Fund.
5. The Committee reviewed a summary of detailed transactions on the accounts for the period since inception to 31 December 2003, which formed part of the Committee documentation. The Secretariat also proposes to present to MEFA a summary of transactions on the accounts for each half year from now on.
- 6. The MEFA Committee approved the Secretariat procedures for operation of the Global Fund bank accounts as presented.**

Part 12: Timetable for 2005 Budget and Work Plan

1. The Committee reviewed the work plan for preparation of the 2005 budget and took note of the associated timelines and deliverables.
2. The view was expressed that MEFA should have the opportunity to engage in the 2005 budget development process at an earlier stage than that implied in the work plan (September 22), for example, by circulating an initial discussion paper in June / July outlining major assumptions likely to underpin the 2005 budget. It was further suggested that consideration be given to scheduling a half day budget discussion immediately prior to the October MEFA meeting to ensure adequate time and focus be given to 2005 budget discussion, which MEFA members with a special interest and/or particular financial expertise would be encouraged to attend.
- 3. The Secretariat took note of these suggestions and will liaise with the MEFA Chair on how best to incorporate them into the 2005 budget development work plan.**

Part 13: Process for Analysis of Secretariat Staffing Levels, Skill Mix and Salary Structure

1. In the course of the Seventh Board meeting the Board requested this analysis be undertaken, and that it be submitted, together with the Secretariat recommendations for the profile of a mature Secretariat for Global Fund operations, to the Ninth Board meeting, together with the 2005 budget for approval.
2. In January 2004, the Executive Director initiated a project to examine future implications of the current portfolio management model and to develop options for evolving that model to contain costs and to maximize the impact of our work. In addition to focusing on costs and staff size, the exercise is also intended to address opportunities to improve the Global Fund's overall client orientation and the user-friendliness of its procedures at the country level.
3. This work is on-going and MEFA heard a Secretariat presentation outlining the approach being taken and considerations impacting on the modeling exercise. These include the impact of the recent (May 1) Secretariat reorganization to realign activities into tighter functional units, a process mapping exercise to look in detail at the individual steps evolving grant management process and link to this analysis the required target level of skills and seniority required within the various teams, and a review of the implications of moving away from the administrative and operational umbrella of WHO towards a more market-based independent operating model.
4. It is expected that initial data and scenario options will be presented to the Eighth Board meeting in June 2004 and refined proposals to the November Board to underpin the 2005 budget.
5. **MEFA took note of the work in progress.**

Part 14: Discussion of Committee Structure Options for the Future

1. At the Seventh Board meeting in March, 2004, the Board mandated a study of, and recommendations regarding the structures, role and composition of the Board committees. The findings and recommendations of the study should be presented, via the Governance and Partnership Committee with options, to the Board at the Ninth Board meeting (November 2004).
2. In that context, MEFA members reviewed a discussion paper from the Chair and had an initial exchange of views on the possible future role and functions of the Committee, with the objective of agreeing a general position to be presented to the consultants conducting the study.
3. While no definitive positions were taken, the sense of the meeting was that there is an essential requirement for a Finance Committee, as well as a solid case for an M&E Committee. There was broad consensus that the two functions did not necessarily sit comfortably together – frequently Finance issues dominated, leaving insufficient opportunity for M&E matters. The establishment of the TERG was viewed by some members as a potential opportunity to phase out an M&E Committee over time, although caution was expressed as to how quickly this could happen.

4. Finally, there was broad agreement that current MEFA membership did not include sufficient financial expertise and that consideration should be given as to how such additional expertise could be identified and/or leveraged in the 2005 budget preparation and review process later this year.

Part 15: Consideration of MEFA work plan and agenda for next meeting

1. The MEFA work plan was reviewed and updated and is attached as Annex 6.
2. **The next meeting was agreed to be held on October 7 & 8 in Geneva.** An agenda for the next meeting was not tabled and will be developed and circulated separately.

Part 16: Technical Assistance

1. The delegate from NGO Developed flagged a concern that the GF system needed a more systematic approach to evaluation of technical assistance (TA) within the established grant process - a more rigorous way identify gaps. He proposed that consideration be given to an enhanced TA assessment process. Three avenues were suggested:

- a) a clearer indication on TA needs to be built into grant proposals, implying the need for clearer treatment of this aspect also in proposal guidelines;
- b) consideration of TA in more depth in the PR assessment process; and
- c) integrating TA needs definition more overtly into Phase 2 renewal process.

2. The discussion concluded that this item should be considered for further discussion by MEFA at an upcoming meeting and be taken into consideration by the Secretariat in further work on the three opportunity areas identified.

Part 17: Investment Policy on Trust Funds

1. The Trustee representative briefed MEFA on the outcomes of a recent World Bank investment policy review. The World Bank has decided to split its trust funds, currently held in one co-mingled account, into two separate tranches, with respectively a one year and three year investment horizon. The risk profiles are defined as a less than 1% probability of any capital loss over the respective time horizons.

2. Global Fund assets will be included in the three year horizon account, allowing a different investment asset mix. The allocation to the three year horizon account will be within about three months, latest by early 2005.

3. The Trustee representative confirmed that this update was for information only and /or to allow identification of any early expressions of concern from MEFA.

4. None being expressed, the Trustee representative concluded by confirming that this information would also be shared with the Board in the next Trustee report.

Annexes:

- Annex 1: Phase 2 grant renewals: matters referred from March 2004 Board meeting
- Annex 2: Timeframe and policies for signing of grant agreements
- Annex 3: Mechanics for protecting grants from exchange rate fluctuations
- Annex 4: Meeting Agenda 10-11 May 2004
- Annex 5: Attendance and Participant list
- Annex 6: MEFA Work plan 2004-2005
- Annex 7: US Phase 2 proposal



The Global Fund to Fight AIDS, Tuberculosis and Malaria
 Monitoring and Evaluation, Finance and Audit Committee
 Discussion Paper: May 2004

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

Introduction

1. At the March 2004 Board meeting, policies and procedures for phase 2 grant renewals were approved based on recommendations prepared by MEFA and PMPC. The Board decision document *Policy to Continue Grant Funding beyond the Initially Committed Two Years (Phase 2 Grant Renewals) (GF B7 8 Annex 4 Phase 2 Grant Renewals)*¹ specified four areas where further related work would be undertaken by the Secretariat:
 - f) Phase 2 renewals in situations of resource constraints;
 - g) Special considerations for grant programs involving on-going drug treatment;
 - h) Data quality assurance; and
 - i) Technical assistance to enhance implementation capacities.

In addition to these areas for further related work, Board members requested protocols for reports to the Board on phase 2 grant commitments.

2. This discussion document provides the basis for the upcoming May meetings of MEFA and PMPC as follows:
 - Part 1 of this document presents issues, options and a proposal for phase 2 renewals in situations of resource constraints for MEFA's and PMPC's policy guidance. The Chairs of MEFA and PMPC will specify the roles of the two committees in developing a policy recommendation to the June Board meeting.
 - Part 2 of this document presents a proposal for special considerations for grant programs involving on-going drug treatment for MEFA's consideration. Based on MEFA's guidance, decision points could be prepared for the June Board meeting.
 - Part 3 of this document presents a proposal for protocols for reports to the Board on phase 2 grant commitments for MEFA's consideration. Based on MEFA's guidance, decision points could be prepared for the June Board meeting.

¹ Decision points attached for reference

3. Further work on data quality assurance is part of the 2004 work program for the Secretariat unit for Strategic Information and Measurement. The Secretariat will report on progress in this area to MEFA.
4. The Secretariat has intensified its work to strengthen partnerships with entities equipped to provide technical assistance to grantees to enhance implementation capacities. Efforts in this area will be reported to Board committees as stipulated by the Board.

Part 1: Phase 2 renewals in situations of resource constraints: policy issues, options and a proposal

Background

5. There may be situations where the resources available to the Global Fund for phase 2 grant renewals are not sufficient to fund all grants eligible for renewal based on the Global Fund's criteria². The Global Fund needs a special policy for renewals in such exceptional situations. According to the March 2004 Board decision document, the Board aims to decide upon such a policy at its June meeting based on the policy guidance from MEFA and PMPC.
6. This section describes how the demand for phase 2 resources for the next year will be estimated and compared to resources available to the Global Fund at the end of each calendar year. Such a comparison will illustrate whether resources are sufficient or if exceptional policies for phase 2 renewals will have to be implemented. The subsequent sections presents different options for possible policies for phase 2 renewals in situations of insufficient resources and a proposal for MEFA's and PMPC's policy guidance.
7. According to the Global Fund's *Comprehensive Funding Policy*,³ the Global Fund forecasts resources and estimates demand for the next calendar at the final Board meeting of each year. Resource forecasts are based on the latest available information on pledges for the next calendar year and uncommitted assets (cash and pledges) remaining from previous years.
8. The Global Fund's *Comprehensive Funding Policy* stipulates that funding beyond the first two years of grant implementation receives priority over the funding of new proposals.
9. Estimates for the resources required for phase 2 renewals for a specific calendar year needs to be based on:
 - o The Global Fund's policy on approval of proposals for funding and signing of grant agreements. The *Comprehensive Funding Policy* includes a policy for approval of proposals and signing of grant agreements. Renewals could be treated consistently with proposals from the perspective of resource requirements. According to this policy, funding approvals can be made up to the cumulative uncommitted amount pledged through that calendar year. A sufficient amount of assets⁴ to cover the amount of the grant must be deposited with the Trustee or readily available on demand prior to the Secretariat signing a grant agreement.

² As specified in the March 2004 Board decision document *Policy to Continue Grant Funding beyond the Initially Committed Two Years (Phase 2 Grant Renewals): Part 4: Decision criteria*

³ Approved at the October 2003 Board meeting and provided as an attachment for reference.

⁴ For the purposes of entering into grant agreements, cash and promissory notes or similar obligations issued by the government of a sovereign state are considered as assets, according to March 2004 Board decision point 4, Additional MEFA Items, attached for reference.

- An overview of all grants for which a renewal decision needs to be taken during that year. The phase 2 grant renewal decision will normally be taken 20 months after the program start date. The program start date is defined as when a PR receives its first disbursement from the Global Fund.⁵ For the demand estimate to be made at the final Board meeting of each year, the Global Fund would thus include estimated phase 2 renewal amounts for all grants that are predicted to reach their 20 month point during the next calendar year.⁶
 - An estimate of the amounts to be committed for phase 2 for these grants. In the Secretariat's current estimates of phase 2 renewals for 2004 and 2005,⁷ it was assumed that the actual amounts committed for phase 2 grants would be 15% lower than the total, aggregate budget for years 3-5 in the original Board approved proposals (on the assumption that 85% of grants would be continued into Phase 2). This assumption was considered conservative given the track-records of other grant making institutions and may be fine-tuned for future years based on information on actual phase 2 amounts committed.
10. As described above, the Board will receive information on the estimated resource needs for phase 2 renewals for the next calendar year at the final Board meeting of each year. At that time, the Board could set a maximum ceiling for the Secretariat to commit grants for phase 2 renewals for the next calendar year. If resources available for that calendar year would not be sufficient to cover a conservative estimate of phase 2 renewals, exceptional policies for renewals would have to be implemented. Options for such exceptional policies are described below for MEFA's and PMPC's consideration.

Policy options

I. During a calendar year of resource constraints

11. Phase 2 grant renewals will be made on a rolling-basis throughout the year, depending on start and end dates for individual grants. Phase 2 grant renewal decisions will accordingly have to be taken independently of each other at different points in time. It is thus not possible to take a collective view for prioritization purposes at one point in time of all grants coming up for phase 2 renewals in a particular year of insufficient resources. This requires a different policy for phase 2 renewals in the event of insufficient resources as compared to the system for prioritization for approval of proposals in new rounds, which was endorsed at the March 2004 Board meeting.⁸
12. Three different policy options for phase 2 renewals in the event of insufficient resources, with pros and cons, are outlined below for MEFA's and PMPC's consideration and policy guidance:

⁵ The date of the first disbursement from the Trustee to a PR plus one week.

⁶ Estimates of resource requirements for phase 2 renewals for 2004 and 2005 were furthermore based on the assumption that PRs for already signed Rounds 1 and 2 grants would opt to adjust their grant start dates based on the date of the first disbursement. The Secretariat is currently negotiating adjustments to start dates for already signed Rounds 1 and 2 grants with PRs based on program realities according to the March Board decision. This process is expected to be finalized before the end of Q2 2004, upon which the initial estimates for renewal requirements for 2004 and 2005 will be fine-tuned.

⁷ *Policy to Continue Grant Funding beyond the Initially Committed Two Years (Phase 2 Grant Renewals): Attachment 5: Phase 2 resource projections for 2004 and 2005.* See attached for reference.

⁸ See the policy for *Prioritization in Resource Constrained Environments* adopted by the Board at the March 2004 meeting, attached for reference

A **“First due, first access”** This means that phase 2 funding decisions would be taken on a rolling basis with resources committed as far as:

- (i) decision are taken to renew funding for phase 2 based on the Global Fund’s criteria as stipulated in the March 2004 Board policy document;⁹ and
- (ii) resources are still available to the Global Fund for that calendar year.

This system would favor grants that come due for renewal decisions early in the calendar year. Grants falling due late in the year when there would be no more resources left to the Global Fund would not receive continued funding even though they may have merited continued funding according to the Global Fund’s criteria for phase 2 grant renewals.

A. “First due, first access”	
Pros	Cons
<ul style="list-style-type: none"> o Easy to administer. o Maximizes pressure on resource mobilization efforts during a year of insufficient resources. 	<ul style="list-style-type: none"> o Grants falling due late in the year when there are no resources left to the Global Fund will be suspended. A program for which a grant is not renewed for phase 2 is likely to be aborted or at least disrupted. To resurrect an aborted or disrupted program through funding made available at a later date may be very difficult. o A system that favors grants that come due for renewal decisions early in the year may be perceived as unfair and arbitrary by grant recipients. o Such a system may encourage artificial scheduling of grant start dates as those falling early in the year will benefit in the phase 2 renewal process.

B **Partial allocation** This means that available resources would be allocated among grants coming due in the same calendar year according to a partial allocation system whereby all grants for which a decision is taken to renew funding according to the Global Fund’s criteria¹⁰ would receive at least some funding in situations of insufficient resources.

A partial allocation system could be based on either:

- a) limited time (e.g., 1 or 2 yrs rather than 3); or
- b) a certain percentage of the amount deemed as reasonable for the phase 2 grant; or
- c) a maximum USD amount.

⁹ Policy to Continue Grant Funding beyond the Initially Committed Two Years (Phase 2 Grant Renewals): Part 4: Decision criteria

¹⁰ Policy to Continue Grant Funding beyond the Initially Committed Two Years (Phase 2 Grant Renewals): Part 4: Decision criteria

The partial allocation system, based on either a, b or c above, would be set at the beginning of a calendar year of insufficient resources based on a conservative estimate of resource needs for phase 2 grant renewals coming due in that year.¹¹ The estimated gap between resources needed for all phase 2 renewals and the actual resources available would lead to a partial allocation according to one of the three different options presented above, for example either:

- a) 2 years; or
- b) 60 percent of the amount deemed as reasonable for the phase 2 grant; or
- c) a maximum phase 2 amount of USD 7 million.

Since phase 2 renewal decisions are made on an on-going basis throughout the year, predictions of resource availability will need to be updated after specific phase 2 grant amounts have actually been committed. Resources not committed for phase 2, which may include unspent funds from the initial phase 1 grant, will return to the Global Fund's general funding pool after the phase 2 decision. The Global Fund may also receive new pledges during the year, with subsequent positive implications for resource availability.

Actual resource requirements for phase 2 grant renewal purposes may be different from the predictions at the beginning of the calendar year when the partial allocation system was set. Resources available may increase with new pledges and as uncommitted funds are returned to the general funding pool. Adjustment to increase the initial partial allocations could therefore be made at the end of each calendar year.

A system for partial allocation could be established by the Board at the beginning of a calendar year for which the resources available to the Global Fund were not sufficient to cover the estimated needs for phase 2 grant renewals based on:

- (i) a conservative estimate of the gap between resource needs and resource availability; and
- (ii) the preferred partial allocation system (a, b, or c above).

¹¹ See attached document *Phase 2 resource projections for 2004 and 2005* for a description of these conservative assumptions

B. Partial allocation	
Pros	Cons
<ul style="list-style-type: none"> ○ All grants that meet the Global Fund's criteria for phase 2 renewals would receive at least some funding ○ May be considered most fair by grant recipients. ○ Resources that become available during the year or at a later date (new pledges or resources "freed up" from existing commitments) may be applied to increase initial partial allocations. <p><u>Option a (limited time):</u></p> <ul style="list-style-type: none"> ○ Allows programs to be implemented to their full capacity albeit for a limited period of time. ○ Unfunded years could be placed on high funding priority in order to: <ul style="list-style-type: none"> • Give the Global Fund and/or grantees time to find new funding sources before the shortfall in grant resources would affect program implementation; and • Receive priority over new rounds for funding available for subsequent year(s). 	<ul style="list-style-type: none"> ○ The initial partial allocation of funding would not meet the full financial needs of programs. ○ The Global Fund would need to make an imprecise yet conservative assessment at the beginning of a year of resource constraints of all anticipated phase 2 renewals for that year and determine the partial allocation system based on this estimate. <p><u>Options b or c (limited percentage of phase 2 amount or maximum dollar amount):</u></p> <ul style="list-style-type: none"> ○ Would require programs to be curtailed to fit within the funding available in a given year of resource constraints. This may require reprogramming to fit the limited resources available.

C Prioritization This means that available resources would be allocated among grants coming due in the same calendar year according to a priority system. This is similar to the system endorsed at the March 2004 Board meeting for new proposal rounds in the event of insufficient resources. A priority system could be based on:

- a) performance (e.g., grants with A1-2 rating would receive priority);
- b) scores from the composite index used for prioritization among TRP-recommended proposals for approval of new rounds (see decision points from March 2004 Board meeting: *Prioritization in Resource Constrained Environments*, attached for reference); and/or
- c) disease based (i.e., continuation of on-going drug treatment and other disease interventions deemed as critical would be prioritized over continued funding for other programs); and/or
- d) availability of alternative funding sources (domestic and/or from other donors).

Similarly to the partial allocation system described above, a system for prioritization could be established by the Board at the beginning of a calendar year for which the resources available to the Global Fund were not sufficient to cover the estimated needs for phase 2 grant renewals based on:

- (i) a conservative estimate of the gap between resource needs and resource availability; and
- (ii) the preferred criteria for prioritization (a, b, c, and/or d above).

Similarly to the partial allocation system, adjustments in actual resource commitments for phase 2 grant renewals could be made at the end of each calendar year based on actual data on resource availability and phase 2 grant renewal requirements. However, grants that do not fall within high priority categories, but which merit continued funding according to the Global Fund's criteria for grant renewals,¹² may have to be put on hold until resources would become available, with potentially severe programmatic consequences.

C. Prioritization	
Pros	Cons
<ul style="list-style-type: none"> ○ A system of prioritization would ensure that programs deemed to be the most deserving according to the criteria determined by the Global Fund's Board would be the ones to receive continued funding in situations of insufficient resources. ○ Programs which would receive continued funding would receive the full amount deemed reasonable for the phase 2 grant. 	<ul style="list-style-type: none"> ○ A program for which a grant is not immediately renewed for phase 2 is likely to be aborted or at least disrupted. To resurrect an aborted or disrupted program with funding made available at a later date may be very difficult. ○ A prioritization system would be complex and time-consuming to administer. ○ Exact predictions of resource availability vs. requirements for phase 2 renewals would not be available at the beginning of a calendar year. Thus, some grants may be put on hold based on lower prioritization until actual data become available at the end of the calendar year. Such discontinuation of funding would be disruptive for the programs concerned.

II. Implications for subsequent years

13. In addition to a system to determine phase 2 grant renewals in situations of insufficient resources during a certain calendar year, the Global Fund needs to consider whether funding available for subsequent years could be used to finance unfunded portions of phase 2 grant renewals. As described in the Background section above, it is assumed under the current *Comprehensive Funding Policy* that it would not be possible to access pledges made for future years before they come due.
14. However, there are two other possibilities for how resources pledged to future years could be made available to fund unfunded portions of grants that would have qualified for renewals had sufficient resources been available:
 - A The unfunded portion could be prioritized over new rounds also for the next and subsequent calendar year; and
 - B Phase 2 renewals for subsequent years could be treated similarly as during the year of insufficient resources. The unfunded portion would gain access on an equal basis to funds available for renewals for subsequent years once that year had begun.

¹² *Policy to Continue Grant Funding beyond the Initially Committed Two Years (Phase 2 Grant Renewals): Part 4: Decision criteria*

15. Whether it would be practical or even possible to use resources pledged for subsequent years to finance unfunded portions of phase 2 grant renewals depends on which of the policy options described above would be selected for implementation. Options A: *“First due, first access”* and C: *Prioritization* would lead to discontinued funding for certain programs that would have qualified for phase 2 grant renewals according to the Global Fund’s criteria if sufficient resources had been available. To resurrect an aborted or disrupted program through funding committed during a subsequent calendar year, when pledged resources would become available, may be difficult or impossible. For Option B: *Partial allocation*, this problem is removed as all grants that qualify for phase 2 renewals according to the Global Fund’s criteria would receive at least some funding to continue program implementation.

Proposal

16. At the final Board meeting of a year, the Board would establish a maximum ceiling for the Secretariat to make phase 2 grant commitments for the next year based on a conservative estimate of resource requirements and in view of resources available to the Global Fund. If available resources would not be sufficient for phase 2 renewal purposes, the Board would decide to enact exceptional policies.
17. Given the above description of pros and cons of three different options for such exceptional policies, a partial allocation system based on limited time is recommended. According to this system, the number of months/years to be funded for renewals during the next year would be determined by the Board at its final yearly meeting based on conservative estimates of the gap between available resources and resource needs for renewals.
18. At the final Board meeting of the year of resource constraints, the Board would receive an update from the Secretariat of actual resource requirements for phase 2 grant renewals during that year and actual resources available. This would include new pledges made during the year and resources “freed up” as uncommitted funds were returned to the general funding pool. Based on this information, the Board could decide to make adjustments to increase the initial partial allocations.
19. Unfunded years should be placed on high funding priority for the Global Fund to:
- Give the Global Fund and/or grantees time to find new funding sources before the shortfall in grant resources would affect program implementation;
 - Receive priority over new rounds for funding available for the subsequent year(s); and
 - Receive priority over phase 2 grant renewals for funding available for the subsequent year(s) for *any period longer than the limited time rewarded for renewals during the year of insufficient resources.*
20. Special considerations for programs involving on-going drug treatment may also be warranted, according to the proposal in Part 2, below.
21. The Secretariat requests MEFA’s and PMPC’s guidance on the development of Board decision points on phase 2 grant renewal allocation in the event of insufficient resources. Based on MEFA’s and PMPC’s guidance, the Secretariat will prepare decision points for

the June 2004 Board meeting. Following the Board's decision, the Secretariat will conduct further work on the operational details of the preferred system.

Part 2: Special considerations for grant programs involving on-going drug treatment

Background

22. Special considerations are necessary for decisions to discontinue grants for programs involving on-going drug treatment, e.g., ARV therapy, as discontinued funding may have the most severe consequences for the affected patients. There may also be legal liability issues associated with such situations that would warrant a special policy from the Global Fund.
23. According to the March 2004 Board decision document, the Secretariat will conduct further work on this issue before the June Board meeting in view of possible alternative arrangements to continue provision of on-going drug treatment. Such work needs to be part of a broader effort to address various policy issues related to on-going drug treatment. The subsequent section presents a proposal for how the Global Fund could decide not to renew grant funding according to its criteria while minimizing risks of interruption of on-going drug treatment.

Proposal

24. There may be situations where the phase 2 review and decision process would conclude that funding should not be renewed for a program which includes the financing of on-going drug treatment based on the Global Fund's criteria for phase 2 grant renewals.¹³ There may also be situations where programs involving on-going drug treatment would not receive continued funding despite qualifying for phase 2 grant renewal according to the Global Fund's criteria due to insufficient resource availability. It is recommended that the Global Fund establish a special procedure for such situations to avoid interruption of treatment despite discontinued funding for the overall program.
25. The first recommended step for such a special procedure would be for the Secretariat to solicit contextual input from partners in-country to understand whether discontinued funding would pose risks of interrupted treatment. This may not necessarily be the case, for example if the grant from the Global Fund is part of an integrated program with multiple funding sources. The Secretariat would solicit information on whether any other partner would be able to fund continued treatment. The Secretariat would also request information on the number of patients that would be affected without alternative funding sources and on the costs of continued treatment for these patients.
26. This contextual information would be brought to the Board of the Global Fund prior to the Board's decision not to renew a grant for phase 2. Based on this contextual information, the Board could decide whether or not it would be necessary and appropriate to continue funding of on-going treatment for patients that would otherwise be adversely affected through a special grant procedure.
27. Such a special grant procedure could cover the actual amount necessary to sustain treatment until the end of the proposal period (years 3-5; phase 2) for patients that receive on-going treatment within programs for which overall funding would be discontinued (in the case of a no-go renewal decision or in the event of insufficient

¹³ *Policy to Continue Grant Funding beyond the Initially Committed Two Years (Phase 2 Grant Renewals): Part 4: Decision criteria*

resources and a “first due; first access” system) or curtailed (in the event of insufficient resources and a partial allocation system).

28. The amount to be granted for continuation of on-going treatment would be calculated based on current treatment costs per patient in the country in question, to be reviewed and revised as necessary on a yearly basis. The on-going treatment grant would be accessible from a special account by the partner administering the on-going treatment program for the remaining period of the original Board approved proposal period.
29. MEFA’s guidance is requested on whether this proposal should be recommended to the Board, or whether other options should be pursued. As guided by MEFA, the Secretariat will prepare decision points for the June 2004 Board meeting. The Secretariat will also conduct further work on broader considerations for on-going drug treatment beyond the specific purposes for phase 2 grant renewals.

Part 3: Protocols for reports to the Board on phase 2 grant commitments

Background

30. At the March 2004 Board meeting, the Board decided to delegate the authority to make phase 2 grant commitments to the Secretariat according to the policies and review and decision process set forth in the phase 2 grant renewals Board policy document. The Board also decided that the Board will confirm all decisions to discontinue funding based on reviews by the Secretariat and the TRP.
31. Safeguards were established as part of the phase 2 grant renewal policy decided by the Board at its March meeting. Part 1 of this document proposes further safeguards to ensure that resources are not committed beyond resource availability to the Global Fund.

The box below summarizes the risks and safeguards for phase 2 grant renewals.

Risks	Safeguards
<p>Inappropriate commitment of funds by the Secretariat</p>	<p>The March 2004 Board policy document stipulates the criteria for satisfactory grant performance and contextual considerations for phase 2 grant renewals. The Board decisions also specified that the decision will be based on systematically collected information, which will be made transparently available by the Global Fund through Grant Fact Sheets and Grant Score Cards.</p> <p>The following safeguards are included in the March 2004 Board policy document:</p> <ul style="list-style-type: none"> ○ The Secretariat will regularly report on phase 2 grant commitments to MEFA and PMPC. ○ The PMPC Chair will inform the full Board at each Board meeting. ○ The Technical Evaluation Reference Group (TERG) will regularly review and report on the soundness of the phase 2 review of the phase 2 renewal and decision process to the Board through MEFA. ○ A formal review of the phase 2 grant renewal policies and procedures based on lessons learned will be undertaken one year after the March 2004 Board meeting. MEFA will oversee this review and the Chair of MEFA will present its results to the Board. ○ Data quality checks may be undertaken for some grants each year by a team of external experts.
<p>Commitment of funds beyond resources available</p>	<p>The March 2004 Board policy document stipulates that phase 2 grant renewals are subject to Global Fund resource availability.</p> <p>In Part 1 of this document, it is proposed that the Board at its final yearly meeting sets a maximum limit for phase 2 grant commitments for the subsequent calendar year in view of resource forecasts and demand estimates. In situations of resource constraints, exceptional policies would be implemented to ensure that resources are not committed in excess of availability.</p>

32. At the March Board meeting, Board members requested protocols for reports on phase 2 grant commitments to the Board. The subsequent section provides a proposal for such Board protocols.

Proposal

33. It is recommended to institutionalize a system to provide the Board with periodically updated information as relevant for phase 2 grant renewals. This system has to be consistent with the *Comprehensive Funding Policy* and the decisions taken by the Board on phase 2 renewals at the March 2004 meeting. According to this recommendation, information on phase 2 renewals would provided to the Board in two ways:

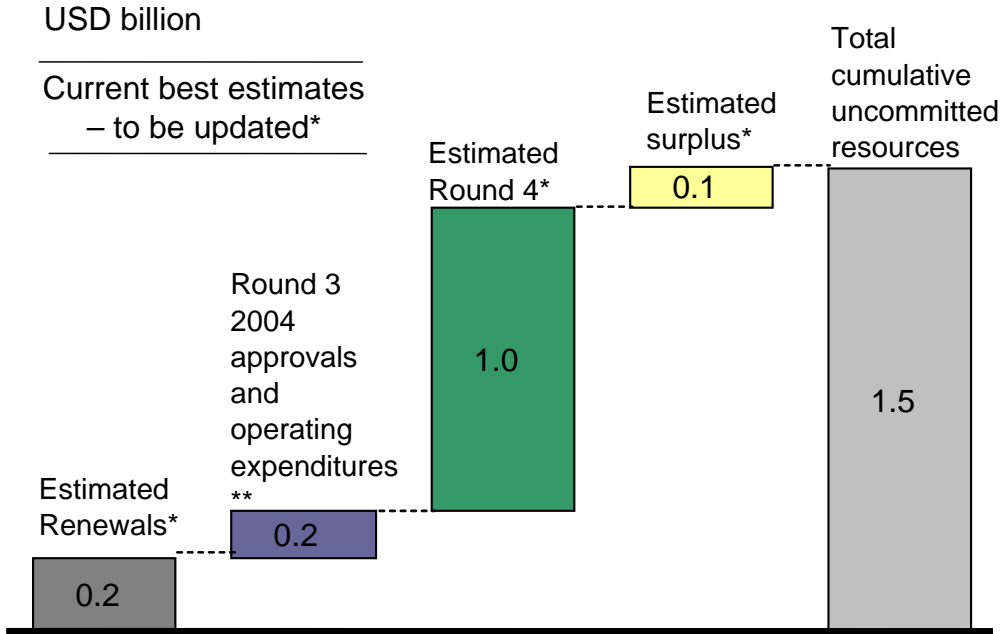
- At the final Board meeting of each year; and
- Periodic updates on grant renewals during the year.

34. **At the final Board meeting of each year** As stipulated in the *Comprehensive Funding Policy*, the Global Fund forecasts resources and estimates demand for the next year at the final Board meeting of each year. For phase 2 renewal purposes, this information would include:

- An estimate of the resources required for phase 2 grant renewals for the next year and the assumptions that these estimates were based upon (see Part 1 for a description on how this estimate would be made);
- Total resources available to the Global Fund for the next year (cumulative uncommitted amount pledged through that calendar year); and
- Estimated surplus available for new rounds or deficit which would need to be covered for phase 2 grant renewals.

The graph overleaf illustrates the information that would be made available to the Board at its final meeting of each year (using 2004 data). The information would be provided to the Board in more precise, numeric format.

Estimated resource needs for phase 2 renewals and resource availability 2004



* To be updated based on completed revision of start-dates for Round 1 and 2 grants for phase 2 purposes and improved estimates of Round 4 approvals following TRP review

** USD 120 million Round 3 grants were approved in 2004. Operating Expenditures, less investment income, for 2004 are approximately USD 40 million.

35. Periodic updates on grant renewals during the year On a regular basis, it is proposed that the following information is updated and made available to the Board:

- Actual phase 2 amounts committed to-date;
- Phase 2 amounts committed per decision category (go; conditional go; revised go); per region and per disease category with variances compared to the maximum amount possible;¹⁴
- Decisions not to renew funding for phase 2 (no-go) and amounts “freed-up ;” and
- Updated estimates for phase 2 amounts to be committed for the remainder of the year and the assumptions that these estimates were based upon.

36. MEFA’s guidance is requested on the proposed content of these periodic reports and the appropriate periodicity with which the Board should receive such reports. Three options are presented below for MEFA’s consideration:

- A Updated reports would be reviewed by MEFA and PMPC prior to each Board meeting and would then be submitted to all Board members. At each Board meeting, the PMPC Chair would report to the Board with an overview and analysis of phase 2 grant renewals since the previous Board meeting.
- B The reports would be updated on a quarterly basis and submitted to all Board members. The PMPC Chair would report to each Board meeting as proposed in a) above.
- C The reports would be updated more frequently and submitted to all Board members. The PMPC Chair would report to each Board meeting as proposed in a) above.

37. Based on MEFA’s guidance at the May 10-11 meeting, the Secretariat will prepare decision points for the June 2004 Board meeting. Based on MEFA’s guidance, the Secretariat would also prepare information on any resource implications of the preferred system prior to the Board meeting.

38. The Secretariat will prepare an updated estimate of resource requirements for phase 2 renewals for 2004 to be made available prior to the June Board meeting based on the completed adjustment of grant start dates for already signed Rounds 1 and 2 grants.

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Strategy, Evaluation and Program Support/mr

¹⁴ 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.

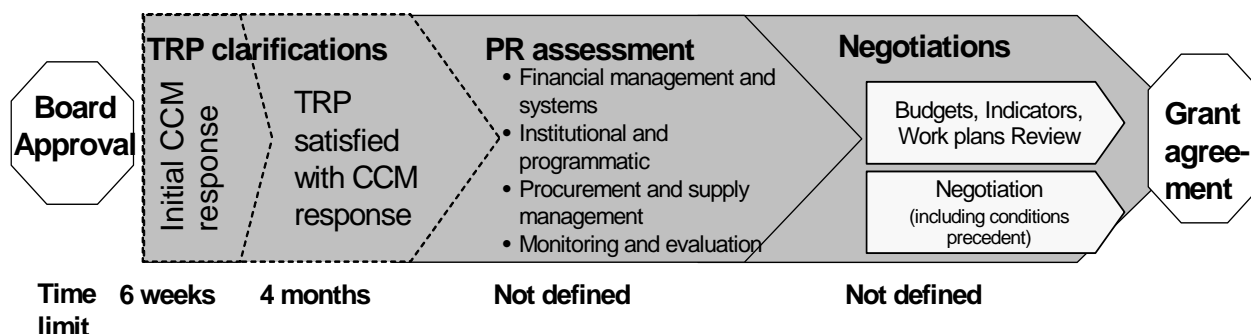
Timeframe and Policies for Signing of Grant Agreements

Introduction

1. At the March 2004 Board meeting, the Secretariat was requested to prepare a discussion document for MEFA on the timeframe and policies for grant signings. This document provides an overview of the different steps between Board approval of a proposal and when that proposal results in one or more grant agreements with Principal Recipient(s). It furthermore describes the main reasons behind delays in grant signings according to the Secretariat's experiences to-date and provides a proposal for MEFA's consideration to introduce a time limit for when Board-approved proposals should have resulted in signed grant agreements. Based on MEFA's guidance, the Secretariat could prepare decision points on this issue for the June 2004 Board meeting.

From Board approval to grant signing

2. There are three distinct steps before a proposal approved by the Board results in one or more grant agreements with Principal Recipient(s), as illustrated by the graph below and further described in the Board policy documents *Fiduciary Arrangements for Grant Recipients* (5th Board meeting June 2003) and *TRP Report to the Board* (6th Board meeting October 2003).



3. According to Board policy, Board approval for proposals in TRP category 2 is contingent upon responses from CCMs to TRP requests for clarifications within six weeks. After receiving a CCM's response, the TRP may require further elaborations from the CCM before considering the response fully satisfactory. The maximum time allowed for completion of TRP requested clarifications is four months after the receipt of the initial CCM response. If a CCM has not submitted a satisfactory response to the clarifications requested by the TRP within this time limit, the Board is informed and decides on whether to cancel its approval of the proposal concerned.

4. The CCM normally nominates one or a few Principal Recipients in its proposal. If a CCM proposal did not include a PR nomination, the Secretariat needs to request the CCM to submit such a nomination. Based on the CCM's nomination, the Secretariat instructs the LFA in-country to undertake an assessment of the nominated PR(s) against the Global Fund's minimum capacity requirements. The PR assessment includes four areas: financial management and systems; programmatic and institutional; procurement and supply management; and monitoring and evaluation. As far as possible, the LFA is instructed to rely on existing assessment to confirm that the nominated PR has the minimum required capacities.
5. In certain instances, the LFA's assessment may indicate that the nominated PR does not have the minimum required capacities. If capacities can be strengthened within a reasonable time and at reasonable cost, the Secretariat works with the PR to reach an agreement on capacity strengthening measures or other requirements that the PR needs to undertake as part of the grant agreement negotiations. Such capacity strengthening measures or other actions may be included as conditions precedent in the grant agreement.
6. If a nominated PR requires major capacity strengthening that appears excessive under the circumstances, the Secretariat will request the CCM to submit an alternative PR nomination.
7. It is the responsibility of a PR to prepare implementation plans as necessary to successfully implement the approved proposals. This includes a work plan and budget, a procurement plan and a monitoring and evaluation plan. The LFA reviews the PR's implementation plans as part of the PR assessment and the finalized plans are an important element of the grant agreement negotiations with the Secretariat. The PR's monitoring and evaluation plan is expected to include periodic targets according to relevant indicators which are consistent with the goals and objectives of the approved proposal. These targets will be agreed with the Secretariat and included in the grant agreement as the basis for the periodic performance based disbursements from the Global Fund during the initial two year grant period and for the phase 2 grant renewal review.

Reasons for delayed grant signings

8. **Global Fund start-up processes:** For grants approved in Rounds 1 and 2, there were delays for grant signings which were associated with the Global Fund's start-up processes. Especially for Round 1 grants, delays were significant as grant signing policies and procedures had to be developed, Secretariat staff had to be recruited and LFAs had to be contracted through competitive tender. For Round 3 grants and onwards, such start-up delays have been addressed. However, there are factors beyond the control of the Secretariat that influence the speed of grant signings, as further described below.
9. **TRP clarifications:** For several grants approved in Rounds 1 and 2, there were substantial delays due to the time before CCMs responded to the TRP's requests for clarifications. In view of these delays, the Board in October 2003 stipulated the current maximum time limit for the CCM to submit its initial response (6 weeks) and for the TRP clarification process to be finalized (4 additional months).

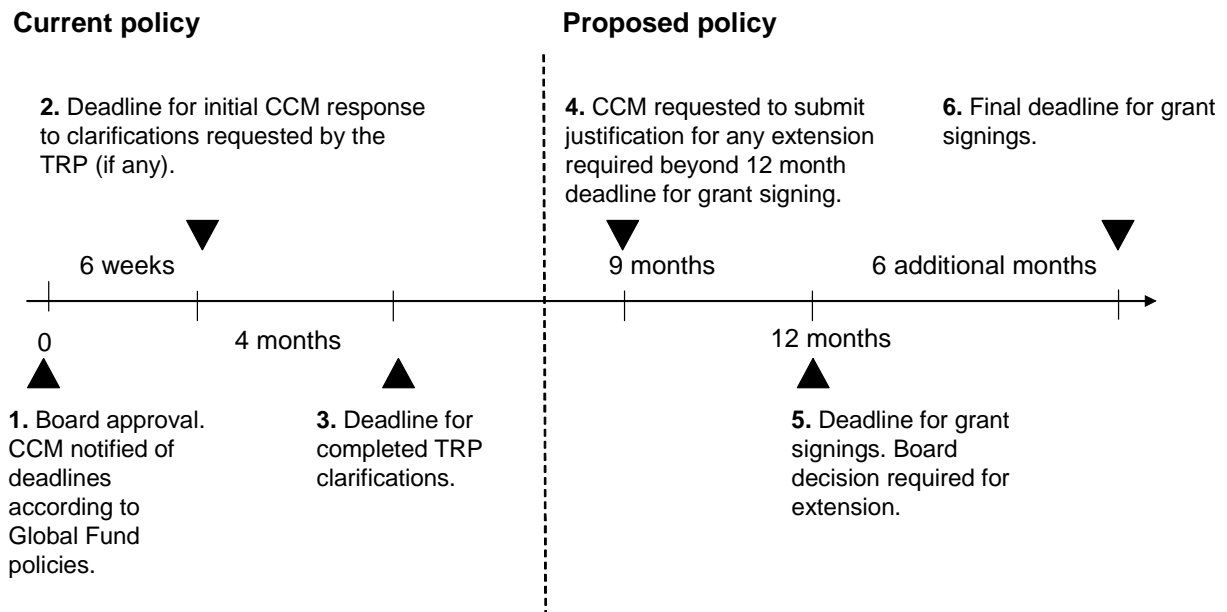
10. **PR arrangements:** For Round 1 grants, CCMs had not been requested to submit a PR nomination as part of their proposal. This was addressed with the revised proposal guidelines and form for Round 2 and onwards. However, despite the instructions in the proposal form, some CCMs did not submit their PR nomination with their Rounds 2 and 3 proposals. For such proposals, there were delays as the Secretariat had to wait for the CCMs to submit their PR nominations. In other cases, the PRs nominated by certain CCMs did not meet the Global Fund's minimum capacity requirements. In most of these instances, measures were identified to strengthen the capacities of the nominated PRs through negotiations between that PR and the Secretariat which required some time to complete. In a few cases, the Secretariat had to request CCMs to submit an alternative PR nomination, with subsequent delays.
11. **Preparation of implementation plans:** A PR may require substantial time to prepare its implementation plans as necessary before the PR and the Secretariat can complete grant agreement negotiations. The time required by PRs to prepare their implementation plans have been the most common reason for delays in grant signings to-date.
12. There is currently no Board policy on a maximum time limit between satisfactory completed TRP clarifications and grant agreement signing.

Proposal

13. MEFA's guidance is requested on whether there should be a maximum time limit set for the period between Board approval of a proposal and grant agreement signing. The following system is proposed for MEFA's consideration:
- Notification of proposal approval should stipulate that the approval will lapse if a grant agreement has not been signed within a certain period of time unless an extension is allowed by the Board. 12 months is recommended as a reasonable deadline based on the Secretariat's experiences to-date.
 - When this deadline has been reached for a certain round of proposals, the Board would be informed of any proposals that had not yet resulted in signed grant agreements. The Board could then decide whether extensions should be allowed on the basis of the specific circumstances behind delays for each proposal concerned. An absolute deadline of six additional months is recommended.
 - The Board decision on whether to allow individual extensions beyond the general deadline could be done through written procedure similarly to the way the Board currently decides on category 2 proposals and appeals.
 - The Secretariat is responsible for working with CCMs and nominated PRs to speed up grant agreement signings. Three months prior to expiration of the general deadline, the CCM should be requested by the Secretariat to justify any additional time required beyond this deadline. Justifications received from CCMs and other background information prepared by the Secretariat, as appropriate, would be submitted to the Board prior to the decisions on whether extensions should be allowed.

14. The graph below provides an illustration of the timing of the proposed system.

Proposed timeline between Board approval and grant signing



15. MEFA's guidance is requested on this proposal. Based on MEFA's guidance, the Secretariat could prepare Board decision points for the June 2004 Board meeting.

30 April 2004
Strategy, Evaluation and Program Support/mr

Protecting Grants from the Impact of Exchange Rate Fluctuations – Further Mechanisms

Introduction

1. At the Seventh Board Meeting the Secretariat was requested to analyze the implications of the Global Fund introducing top-up grants and multi-currency denominated grants. This paper presents the issues and findings based on work undertaken to date by the Secretariat in conjunction with the World Bank.

Part 1: Background

2. Grant proposals include 5-year US dollar denominated budgets. In preparing such budgets assumptions are made as to exchange rates when calculating the US dollar equivalent of planned non-USD expenditures. Taken over the life of the program, these exchange rates will deviate from the original exchange rate assumptions, resulting in a larger or smaller amount of non-USD expenditures being covered by the grant (in dollars) than had been budgeted.
3. In many cases, such a shortfall would be offset by savings made on the original amount budgeted (possibly through lower commodity prices or contingencies built into the budget). However, in certain circumstances, a severe exchange rate fluctuation could lead to a shortfall in funding potentially jeopardizing the program viability.

Mechanisms already adopted

4. Further to a decision at the Seventh Board meeting, application for Phase 2 funding on an accelerated basis is now possible where grants have suffered adverse exchange rate fluctuations. This decision has been communicated to CCMs and PRs.

Potential further mechanisms

5. The Seventh Board Meeting also requested the Secretariat to evaluate the implications of the Global Fund offering the following additional mechanisms as a means of providing protection from currency fluctuations:
 - iii. top-up grants; and
 - iv. multi-currency denominated grants.

This report updates MEFA on the analysis of these two further mechanisms.

Part 2: Top-up grants

How a top-up grant would work

6. Acceleration of Phase 2 funding would defer any potential funding shortfall brought about by an adverse currency fluctuation. In the course of Phase 2, the shortfall may be corrected by an appreciation of the US dollar, cost savings or under-spending of the original budget. However, where such a correction did not occur, the funding shortfall would recur later in Phase 2 (e.g. in year 4 or 5 of the program). In such a case, a top-up grant would fill the shortfall, enabling the program to be continued through to the end of the Phase 2.
7. The following table presents a simplified example to illustrate the concept:

Example of calculation of Top-up grant			
		Phase 1	Phase 2
Approved grant	USD	2,000,000	6,000,000
Budgeted portion of expenditure in local currency		50%	50%
Currency rates – Budgeted	USD 1=LCY	10	10
Budgeted expenditure in local currency	LCY	10,000,000	30,000,000
Currency rates – Actual (Depreciation of US\$)	USD 1=LCY	7.5 (25%)	8.0(20%)
Available local currency funds	LCY	7,500,000	24,000,000
Funding shortfall – in absence of compensating savings	LCY	2,500,000	6,000,000
	USD	333,333	750,000
Total Top-Up required (as % of original grant)	USD	1,083,333 (14%)	
Estimated duration of funding “gap” period		6.5 months	

8. In the above (illustrative) example, a US dollar devaluation (25% in Phase 1 and 20% in Phase 2, both relative to the exchange rate assumptions in the proposal budget) has affected a portion of the grant spending giving rise to a US\$1,083,333 shortfall, representing about 6.5 months of activity. In the absence of any contingencies built into the budget or any other budgetary savings or under-utilization of funds, funding would be exhausted 6.5 months prior to end of Phase 2. In such a case, a top-up grant of US\$1.1m would allow the program to complete Phase 2.
9. The introduction of a top-up grant facility would require the creation of rules governing:
 - a. Computation & verification: The methodology for assessing whether it is currency losses that have led to the anticipated funding shortfall and quantifying the amount of the shortfall, covering aspects such as:
 - i. Which exchange rates should be taken as the ‘base rates’ – those ruling at the date of proposal submission, proposal approval or when compiling the budget (and, if the latter, how should that be verified)?
 - ii. Determining the quantum of expenditures that are affected by the exchange loss, taking account of dates of significant expenditures

- iii. The factoring-in of budget savings achieved or likely to be achieved (such as from reductions in drug/commodity prices) or projected under-utilization of funds.
 - iv. Whether a threshold should be set, to avoid trivial claims
 - v. Whether the computation should be verified by the LFA.
- b. Priority: The relative priority that would be afforded to top-up grant applicants vis-à-vis applicants from new rounds and Phase 2 renewals.
- c. Approval process: Since a top-up grant would be additional to the Phase 1 & 2 approved amounts, a mechanism for Board approval would also need to be established. This would need to be a streamlined process, less onerous than a new round application (possibly delegated to the Secretariat as is the case with Phase 2 renewals).

Alternative to top-up grant

10. Many successful programs may seek new grants after the completion of Round 2, through the normal grant application process. Such an application would need to be made shortly after the top-up application and may be a preferable alternative, as it would provide greater funding certainty for a longer period.

The Pros and Cons of introducing top-up grants

11. The table below presents the pros and cons of offering top-up grants:

Pros	Cons
<ul style="list-style-type: none"> ○ Subject to the rules to be established, a top-up grant could: <ul style="list-style-type: none"> - be given a higher priority, and/or - have a more streamlined application process than a new grant application. ○ Top-up would permits Phase 2 to be planned at original activity levels with a higher (though not guaranteed) certainty of funding through to the end of year 5. 	<ul style="list-style-type: none"> ○ Only a small proportion of grants may be in need of top-up funding, on the assumption that actual expenditures may be less than originally budgeted. ○ Any application for a top-up is likely to cover a relatively short period – possibly only several months – towards the end of Phase 2. Many top-up applicants may be applying for a new grant soon after a top-up application. This duplication of effort could be burdensome for both the applicant and the Secretariat. ○ Complexity of quantifying the extent to which a funding shortfall has been caused by a currency fluctuation, while taking account of actual or anticipated budgetary savings.

Part 3: Multi-Currency Grants

12. The Seventh Board mandated the Secretariat to further evaluate the implications of offering multi-currency denominated grants. It has done so in conjunction with the World Bank.

The issues

13. The issues relating to changing the existing single currency arrangements and adoption of any multi currency structure are complex and have far reaching cost and risk ramifications. Any analysis therefore needs to take into account (i) the currency choices (ii) managing the currency exposure of the Global Fund and (iii) the impact on related systems issues and costs.
14. Should multi-currency grants be adopted, there is also the question of which grants should qualify – whether existing grants should be allowed to convert, new rounds and unsigned grants only or whether the option is also extended to Phase 2 renewals.

Currency choices

15. There are three alternative approaches to consider as follows:
- a. Retain the current USD only system;
 - b. Allow recipients to choose from a number of currencies in determining the currency denomination of new grants; and
 - c. Denominate all new grants in a fixed currency basket (i.e., USD/EUR mix or the SDR).
16. By way of illustration, the table below shows the currency choices for loans and grants offered by the World Bank group and other trust funds that it administers (See also Annex A):

Institution	Currency choices offered
IBRD	Loans in EUR, YEN and USD and all currencies in which IBRD can efficiently intermediate
IDA	SDR credits
GEF	USD grants
HIPC Trust Fund	USD grants
Other Trust Funds	USD grants

17. Amongst these only the IBRD portfolio offers a choice of currency. However, borrowers chosen currencies are heavily weighted toward the US dollar.

Option a: Retain USD Denomination

18. A reliance on any one currency does create risk exposure in the event that this currency depreciates over a sustained period.

19. The introduction of the accelerated Phase 2 process is likely to address the majority of cases where currency fluctuations have a **demonstrable** negative impact on the grant program. It should be recognized that not all programs that have suffered currency loss will experience funding shortages: many will achieve cost savings or will incur less expenditure than was estimated in the proposal budget — as is common in many donor-funded programs — effectively alleviating pressure on funding and absorbing currency-related losses.
20. As yet it is too early for the Global Fund to assess the extent to which exchange losses have impacted on program funding: this will become clear only as Phase 1 grants approach the end of that phase, in cases where cost savings and under-budget expenditures have not fully absorbed for the exchange loss.

Option b: Allow recipients to choose from a number of currencies

21. Under this model, recipients will be given certain choices in the selection of their preferred currency. Possible options are:

a. Denominate the grant in either USD or EUR

Recipients in countries with pegged currencies may instinctively want to denominate their grant in the currency to which their local currency is pegged; however, if the currency composition of the grant expenditures is not in the currency to which their local currency is pegged, they will not be effectively hedged (see Annex 2). Recipients should therefore seek to pick a currency which is most closely aligned with the composition of their expenditures.

b. Denominate the grant in one of the 4 SDR currencies (USD, EUR, JPY, GBP) or the SDR¹⁵

This is simply an expansion of the first option. However, even with a choice of these 4 currencies and the SDR it would be likely that most recipients would in practice select either the USD or the EUR and correspondingly have limited use of the other two currencies or the SDR.

c. Denominate the grant in more than one currency, for example, 50% USD and 50% in Euro

For practical purposes, they would be recorded as two sub-grants under one grant umbrella adding another layer of complexity in the financial management. For such a currency split the disbursement instructions from the Secretariat would need to specify the amount of each currency that was being drawn down for that disbursement from the overall grant commitment. The Trustee would reduce the outstanding commitment for each currency accordingly.

¹⁵ The SDR is a currency basket, used by the IMF and other international organizations as a unit of account. The composition of the SDR is reviewed and adjusted as needed every 5 years by the IMF. The last review took place in October 2000. Currently the SDR basket is composed of the USD, JPY, GBP and EUR.

22. Even where given a choice of currency the purchasing power of the grant could decline if the choice was a currency that weakened (e.g., the grantee chose the EUR and then the EUR declined in value vis-à-vis the USD). In many cases therefore such a choice of an alternative currency would simply swap the risk exposure of the USD for that of another currency. The exception to this would be the SDR and the USD/EUR combination.

Option c: Denominate all new grants in a fixed currency basket

23. Under this model all new grants will be denominated in a pre-determined currency basket. Among the options that could be considered are:

- a. denominate all new grants in a fixed USD/EUR 50/50 split; or
- b. denominate all new grants in SDRs.

24. Setting the currency basket removes one element of uncertainty, namely the composition of the liabilities, and correspondingly reduces somewhat the complexity of the risk management requirements. From the recipient perspective, a standard currency basket, potentially provides more of a hedge against currency fluctuations. However it may not correspond to the expected currency composition of the expenditures.

Managing the currency risk of the Global Fund

25. A move to a multi-currency grant portfolio must be accompanied by a matching asset and liability matching strategy. Failure to do so would expose the Global Fund to significant currency risk exposure.

26. It is common and prudent financial practice to match the currency of the asset and liability. By way of example, IBRD matches its liabilities in any one currency (after swaps) with assets in the same currency to minimize exchange rate risk in a multi-currency environment. Thus, in practice, IBRD invests or lends the proceeds of its funding, in the same currency as the after swap funding currency.

27. An increased number of currencies in the portfolio will add incremental complications to managing the asset and liability currency mismatches and would diminish the economies of scale for investment management. Specifically, those currencies that are rarely used in the grant denomination would most likely be invested in cash rather than in a longer term investment portfolio.

28. The move to a voluntary replenishment funding model is likely to see more donors contributing via promissory notes. This could lead to an expansion of donor currencies and will influence the Global Fund's currency risk management strategy.

Systems and cost implications

29. A change over to multi-currency grants would require a substantial systems development effort by the Trustee (the system under development was designed to address a USD based fund)

30. As noted above, the systems development that has been undertaken by the Trustee for the Global Fund Trust Fund reflected the single operational currency (i.e., USD) nature of the trust fund as specified in the basic design of the Global Fund and the Trustee Agreement. The agreed systems development process is already well advanced with a “going live” target of early summer.
31. The implications of changing the systems design, at this late stage, to operate in multi-currencies is a shifting of the overall implementation schedule. The World Bank has concluded that such a redesign, while complex and difficult, is possible. Such a shift to a multi-currency system will require substantial additional development effort (and additional costs). However, a decision at a later date to redesign the systems to accommodate multi currencies would be considerably more expensive, more disruptive and take longer to achieve.
32. If work began immediately on the development of a multi-currency capacity within the overall systems framework, it is estimated that a working module could be up and running by the fall but would necessitate postponing full implementation of some modules of the system to a later date. The World Bank is currently in the process of defining the work that will be needed to carry out this task. An estimate of the additional costs will be provided at the May MEFA Committee meeting.
33. If a multi-currency grant system is adopted, it will be necessary to define whether the system is to apply to new grants only or whether it will also be available to existing grants. Permitting existing grantees to convert their existing USD denominated grant into a grant denominated in another currency would however be very complex and costly in terms of Secretariat and Trustee resources. The grants would have to be renegotiated. A methodology would need to be developed to value the disbursements that had already been made and the value of the committed but undisbursed in the currency(ies) of the new grant. From an accounting/systems perspective it would likely require substantial costly manual revision.

Part 4: Synopsis and MEFA guidance

Top-up grants - synopsis

34. The analysis suggests that the calculation of the top-up grant amount can be complex. Further, the benefit of a top up grant may be outweighed by the limited duration of such funding, the likely need for a reapplication for continued funding at the end of the top-up period and the resultant duplication of effort.

MEFA guidance requested on Top-up grants

35. *MEFA is requested to give guidance on whether:*

- a) *Top-up grants during Phase 2 should be pursued as a mechanism to alleviate further the impact of exchange rate fluctuations; or*
- b) *Recently introduced procedures allowing acceleration of Phase 2 applications, in combination with the existing grant mechanism under new rounds (and potential future ‘post phase2’ mechanisms) sufficiently address the need*

Multi currency grants - synopsis

36. There is a likelihood that only a small proportion of grants will eventually suffer a demonstrable negative funding impact brought about by currency fluctuations.
37. A key factor is the extent to which actual expenditures will be less than was estimated in proposal budgets, leading to under-utilization of available funds. Whilst premature to judge, early anecdotal evidence would suggest that this may be significant.
38. The Board-approved policy to allow accelerated Phase 2 applications will act to alleviate the burden of currency loss by effectively delaying its impact (by up to 3 years) and in the process allowing time for the problem to be cured, through factors such as cost savings, US dollar appreciation and, perhaps most significantly, under-budget expenditures.
39. If a multi-currency option were pursued, it should be recognized that a choice of any single alternative currency – e.g. the Euro – does not necessarily solve the currency exposure. It may simply shift the risk to a different currency. A basket of currencies on the other hand would provide a measure of natural hedge.
40. Should the Global Fund pursue a policy of more diverse grant currencies, then it would need to very carefully assess the systems and cost implications and devise an asset and liability strategy that matches and manages the currency risk.

MEFA guidance requested on Multi-Currency grants

41. *MEFA is requested to give guidance on whether multi-currency grants should be pursued at this point. In this regard, certain related decisions must also be addressed and consequently guidance is now sought between Options A and B below, each of which incorporates a set of sub-decisions.*

Option A

At present, not to pursue multi-currency grants on the basis that:

1. *the approved policy on accelerated Phase 2 applications provides an adequate safeguard to protect grant recipients from the impact of currency fluctuations while also allowing time during which the problem may be cured (due to potential USD appreciation, grant under-spending, etc.);*
2. *the evidence emerging from the grant programs over the next 12-18 months will provide a basis for this decision to be better assessed; and*

Notwithstanding the foregoing, request the World Bank (subject to review of cost estimates to be provided at the upcoming MEFA meeting) to modify the systems development work so as to have the capacity to handle any future move to multi-currency grants. This recognizes that any future redesign of the systems to enable them to handle multi currency grants would be considerably more complex and expensive.

Option B

Undertake further investigation into evaluating the procedures for and impact of introducing non-USD denominated grants. In this connection;

- 1. consistent with the decision made at the 7th Board meeting, estimate the incremental costs related to this decision as regards new systems development, trustee management fees and secretariat costs;*
- 2. request the World Bank (subject to review of cost estimates to be provided at the upcoming MEFA meeting) to modify the systems development work so as to have the capacity to handle multi-currency grants;*
- 3. undertake, in conjunction with the World Bank, further analysis in order to narrow the currency choices/baskets that could form part of the strategy; and*
- 4. undertake, in conjunction with the World Bank, further analysis of how the asset and liability strategy should be addressed in order to protect the Global Fund from currency exposure. Such analysis to include consideration of the impact of increased use of multi currency promissory notes.*

4 May 2004

Finance/RdeM (with input from the World Bank)

Annex A

Description of Currency Offerings by the IBRD, IDA and Bank Administered Trust Funds

The following table summarizes the currency denomination of the products offered by the World Bank Group and trust funds that it administers.

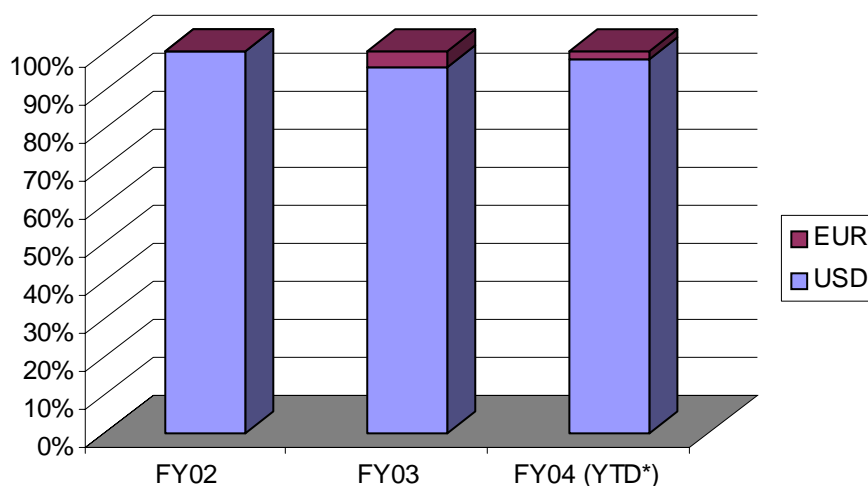
Table 1: Currency Choices Offered to Recipients

Institution	Currency choices offered
IBRD	Loans in EUR, YEN and USD and all currencies in which IBRD can efficiently intermedate
IDA	SDR credits
GEF	USD grants
HIPC Trust Fund	USD grants
Other Trust Funds	USD grants

IBRD

IBRD's current offerings consist of single currency loan products denominated in USD, Japanese Yen, Euro and other currencies in which the institution can effectively intermedate. IBRD matches its liabilities in any one currency (after swaps) with assets in the same currency to minimize exchange rate risk in a multi-currency environment. Thus, in practice, IBRD invests or lends the proceeds of its funding, in the same currency as the after swap funding currency. While IBRD provides clients with a choice of the currency denomination of the loan, the majority of new IBRD loan commitments made in FY02-FY03 were denominated in US dollars. Similarly, Table 2 below shows that Euro and Yen denominated loans comprised fewer than 15% and 8% of the outstanding loan portfolio in 2002 and 2003.

Chart 1: IBRD New Lending Commitments (in US\$bn)



Source: IBRD

Note: * data until March 31, 2004

Table 2: IBRD Loan Breakdown (in millions of USD equivalent)

	Euro	Yen	USD	Others	Total
2003	17403	7120	89978	1739	116240
2002	17102	9284	93416	1787	121589
(in %)					
2003	15.0%	6.1%	77.4%	1.5%	100.0%
2002	14.1%	7.6%	76.8%	1.5%	100.0%

Source: World Bank Annual Reports

International Development Association (IDA)

IDA replenishments are based in SDRs, however, most IDA donors pledge and make contributions (payments) in their local currencies. Pledges are converted into SDR equivalents for purposes of comparisons (burden sharing) across donors. These pledges are supported by submission of an Instrument of Commitment. Donors subsequently pay against their commitment through the payment in cash or the deposit with IDA of promissory notes typically denominated in their national currency or SDR. The promissory notes are then drawn down on a schedule. The payments are then converted, if necessary, into the equivalent SDR basket of currencies. In order to manage any mismatches in the currency composition of IDA's assets and liabilities, IDA rebalances its liquidity holdings periodically to achieve an aggregate currency composition such that its current liquidity balance and future inflows would match those of its obligations. Actual disbursement amounts are determined on an SDR equivalent basis, but can be paid in a convertible currency as chosen by the borrower. The borrower's obligation is in SDRs and is billed in SDRs. However, the borrower makes payments in a chosen convertible currency for the SDR equivalent amount. In each case, the prevailing exchange rate at the time of receipt (value date) is used to determine the actual SDR amount repaid. As a result, the recipients bear the effects of foreign exchange rate fluctuations.

Global Environmental Facility (GEF)

The GEF is a Trust Fund for which the World Bank is a trustee as well as one of the implementing agencies. Similar to IDA, donors pledge in their local currency, which is converted into an SDR equivalent for burden sharing purposes. As in the case of IDA, donors pay against their commitment in cash or the deposit of promissory notes denominated in local currency, a convertible currency or SDR which are drawn down on a schedule. The encashment of the promissory notes received by the GEF are immediately converted into and held in US dollars, which is the operating currency of the GEF Trust Fund. Both the commitments and obligations of the GEF Trust Fund are based in US dollars. While the GEF Trust Fund disburses in US dollars to the implementing agencies, the funds can be delivered to the recipients in any freely convertible currency. As with IDA the recipient bears all the foreign exchange risk.

Heavily Indebted Poor Country (HIPC) Trust Fund

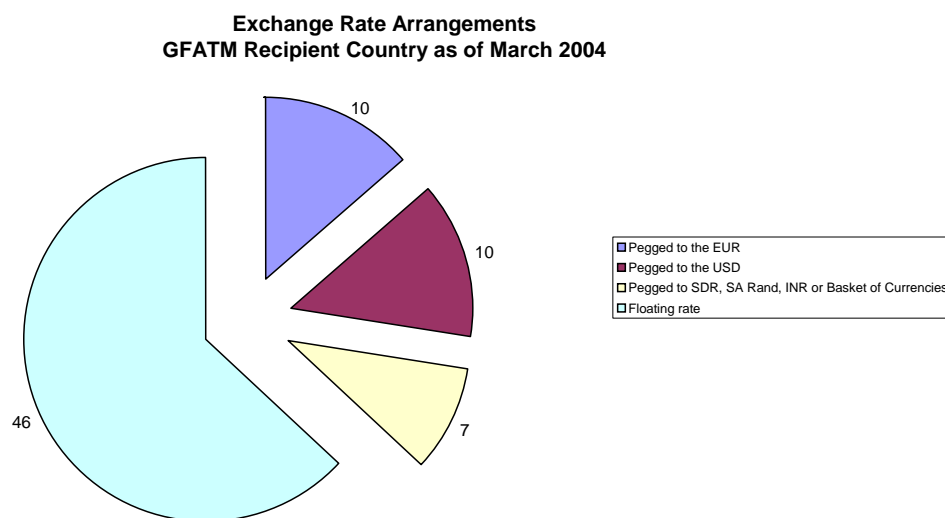
From its inception, the HIPC Debt Initiative has used the US dollar in all of its calculations of debt relief to be provided by creditors to each of the eligible HIPC countries. Similarly, the HIPC Trust Fund is a single currency (USD) trust fund. All Trust Fund grants to eligible creditors and disbursements from the Trust Fund have been in US dollars while all contributions are immediately converted into US dollars upon receipt.

Other World Bank administered Trust Funds

The World Bank administers over 850 active trust funds. In addition to the trust funds mentioned above, World Bank administered trust funds are single currency and the majority are denominated in US dollars. From the total balance of the Trust Fund portfolio of US\$ 8.1bn as at March 31, 2004, close to US\$ 7.7bn was in USD and slightly over US\$ 437mn was in non-USD denominations.

Annex 2

Exchange Rate Arrangements of Global Fund Recipient Countries as of March 2004



Note: Pegged is termed to include various fixed/pegged exchange rate arrangements including currency board and crawling pegs. USD classification includes Jordan, (which is officially pegged to the SDR but in practice is pegged to the USD) and East Timor/Timor Leste (which is US dollarized)

Source: IBRD

10th Meeting of MEFA Committee on 10-11 May 2004
Global Fund Conference Room “Hope Plaza”
Ground Floor, 51 Ave Louis Casai, 1216 Cointrin

Draft Agenda

Monday, 10 May 2004

09:00 Meeting commences

- 1 Approval of Agenda
- 09:10 2 Phase 2 Renewals: matters referred from March Board meeting
- 11:00 3 Monitoring & Evaluation
 - a Update on M&E activities: LFA Review & Assessment
 - b Review selection of Key Performance Indicators
 - c Update on the “Three Ones” Discussion in Washington, DC 25 April 2004
- 12:30 4 TERG: Consideration of additional nominee
- 14:00 5 Consideration of CCM case studies analysis (in context of baseline for monitoring CCM performance)
- 15:00 6 Timeframe and policies for signing of grant agreements
- 7 (Moved to Tuesday)
- 16:15 8 Finance
 - a Operating Expenses in January-March 2004 (Quarter 1)
 - b Procedures for operation of Secretariat bank accounts
- 17:00 9 Timetable for 2005 budget and work plan

Tuesday, 11 May 2004

09:00 Meeting commences

- 7 Mechanisms for protecting grants from exchange rate fluctuations
- 10 Process for analysis of Secretariat staffing levels, skills mix and salary structure
- 11 Discussion of committee structure options for the future
- 12 Consideration of MEFA work plan and agenda for next meeting

10th Meeting of MEFA Committee on 10-11 May 2004
Global Fund Conference Room “Hope Plaza”
Ground Floor, 51 Ave Louis Casai, 1216 Cointrin

Attendees

Present

Mr Jérôme Baconin (11/05 only)
Mr Kieran Daly
Mr Paul Ehmer
Dr Maurice Fezeu
Mr Robert Greener
Dr Mengjie Han
Ms Kyung Hee Kim

Ms Charlotte Laurence
Ms Sigrun Møgedal (Chairman)
Mr Jerry O Dwyer
Dr Guglielmo Riva
Mr Shri Arun Sharma
Dr Wim Van Damme

Secretariat

Ms Karmen Bennett
Mr John Burke
Mr Ruwan De Mel
Professor Richard Feachem
Mr Barry Greene
Mr Brad Herbert
Ms Marie Rosencrantz
Dr Bernhard Schwartländer
Mr David Sullivan

Guests

Mr Hiroyuki Horie (JAPAN)
Mr Alex Ross (WHO)

Absentees

Ms Razia Essack-Kauria

COMMITTEE NAME	MONITORING, EVALUATION, FINANCE & AUDIT COMMITTEE					
CHAIR	POINT SEVEN Dr. Sigrun Mogedal					
VICE-CHAIR						
Secretariat Focal Point	Barry Greene, Chief Financial Officer					
Secretariat Assistant	Philippa Dobree-Carey					
CONSTITUENCY	REPRESENTATIVE					
	TITLE	NAME	SURNAME	TELEPHONE	FAX	EMAIL
China (Western Pacific)	Dr.	Mengjie	Han			
European Commission	Prof.	Wim	van Damme			
France	Mr.	Jerome	Baconin			
Italy	Dr.	Guglielmo	Riva			
NGO Developing	Ms.	Razia	Essack-Kauaria			
NGO Developed	Mr.	Kieran	Daly			
Point Seven	Ms.	Sigrun	Mogedal			
Ireland (Support to Chair)	Mr.	Jerry	O'Dwyer			
South East Asia	Mr.	Arun	Sharma			
Canada, UK and Switzerland	Ms.	Charlotte	Laurence			
UNAIDS	Mr.	Robert	Greener			
USA	Mr.	Paul	Ehmer			
West and Central Africa	Dr.	Maurice	Fezeu			
Trustee Representative	Ms.	Kyung Hee	Kim			
Observers	Mr.	Alex	Ross			
	Mr.	Hiroyuki	Horie			

MONITORING, EVALUATION, FINANCE AND AUDIT COMMITTEE															
WORKPLAN FOR COMMITTEE NOVEMBER 2003 - DECEMBER 2004 (04 JUNE 2004 version)															
	Secretariat Focal Points	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sept-04	Oct-04	Nov-04	Dec-04
1. Forecasting Global Funding Demand															
Develop a method with partners that provides a regular estimate of the global demand for funding for the 3 diseases.	Bernhard Schwartlander														
a. Present regular updates on WHO/UNAIDS progress at MEFA			deferred		23-Feb								7-8 Oct		
2. Additionality															
Define dimensions of system-wide effects, identify GF priorities (including Additionality) and establish measures and monitoring mechanism	Bernhard Schwartlander														
a. Contract consultants for concept paper, including proposed GF priorities and measures/indicators.															
* initial review												#####			
* report back to TERG v MEFA													5-8 Oct		
3. Phase II Grant Criteria															
Extension of 2-year grants	Brad Herbert														
Determine and recommend the Fund's position on the extension of 2-year grants, including a process.															
a. Draft options paper on handling of delayed grant performance in Phase I		20-Nov													
b. Present options to PMPC/MEFA			deferred for PMPC input 12-Dec		10-Feb										
c. Receive input from both committees					23-Feb										
d. Committees' recommendation out to Board						3-Mar									
e. 7th Board meeting						18-Mar (completed)									

	Secretariat Focal Points	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sept-04	Oct-04	Nov-04	Dec-04
Approval Process/Criteria for Phase II Renewals (Go/No Go) (PMPC)	Brad Herbert														
Recommend the process, criteria and accountability for decisions on Phase II renewals.															
a. Secretariat drafts paper proposing methods for decision-making		17-Nov	11-Dec												
b. Circulate paper to PMPC/MEFA for review		20-Nov													
c. MEFA w/ PMPC reps. meet to discuss			12-Dec	deferred to get PMPC input	10-Feb										
d. Present revised draft to committees					10-Feb										
e. Receive input from committees					23-Feb										
e. Paper to Board for review						3-Mar									
f. Present to 8th Board for decision						18-Mar									
g. Present options regarding resource constrained and non-renewal situations								10-11 May							
h. MEFA recommendation sent to Board										5-Jun					
i. Present to 9th Board for decision										28-Jun					
4. 2004 Budget Approval	Completed														
Receive approval for 2004 Budget	B. Greene														
a. Paper out to MEFA re: additional budget information on focus areas		20-Nov													
b. Discuss at MEFA			11-Dec												
c. Revise budget based on MEFA advice				24-Dec											
c. Final Budget recommendation sent to Board					20-Feb										
d. Present to 8th Board.						18-Mar									
						(completed)									

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5. 2004 Secretariat Workplan Approval	Completed														
Receive approval for 2004 workplan															
a. Draft workplan to MEFA				30-Jan											
b. MEFA approval					23-Feb (completed)										
6. 2005 Budget & Workplan Approval															
Receive Board approval for 2005 Budget & Workplan	Barry Greene														
a. Review timetable for 2005 Budget & Workplan								10-11 May							
b. Review draft 2005 Budget & Workplan													7-8 Oct		
c. Revise budget based on MEFA advice											Poss. MEFA budget mtg		22 Oct		
d. Final Budget recommendation sent to Board													22-Oct		
e. Present to 9th Board for decision														18-19 Nov	
7. Forecast Future Staffing Requirements															
Identify 'mature' staffing profile															
a. Review staffing assumptions			11-Dec												
b. Initial feedback/info to Board															
c. MEFA to consider Secretariat's review of staffing structure and projection of future needs												Poss. MEFA budget mtg	7-8 Oct		
8. Promissory Note Clarification (World Bank/RMC)	Completed														
Determine specific criteria on promissory notes to be considered as assets	Barry Greene														
a. Follow-up by Secretariat w/ WB															
b. Draft paper to MEFA				30-Jan											
c. Revised paper to MEFA/Board as draft				20-Feb											
b. Present to MEFA after RMC review					23-Feb										
d. 7th Board pre-documents as needed															
e. Present to 7th Board						18-Mar									
						(completed)									

	Secretariat Focal Points	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sept-04	Oct-04	Nov-04	Dec-04
9. Protecting Grants From Exchange Rate Variations															
Determine exchange rate impact and policy on grant budgets	Barry Greene														
a. Draft analysis for MEFA				30-Jan											
b. MEFA review and recommendation					23-Feb										
c. Paper to Board (if needed)					27-Feb										
d. Present to 7th Board						18-Mar									
e. Review proposals for top-up grants and multi-currency grants								10-11 May							
f. MEFA recommendation sent to Board									5-Jun						
g. Present to 8th Board for decision									28-Jun						
10. Performance Indicators for GF Financial Policies	Completed														
Identify a set of indicators for assessing the performance of the GF's financial policies.	Bernhard Schwartlander														
a. Secretariat follow up on previous suggestions by MEFA															
b. Options paper to MEFA		20-Nov													
c. MEFA reviews			11-Dec												
d. Secretariat redrafts with MEFA's input				20-Jan											
e. Paper to Board					20-Feb										
f. Present to 7th Board						18-Mar									
g. Review selection of Key Performance Indicators								10-11 May	(completed)						
11. M&E Operational Plan	Completed														
Receive approval for the M&E operational plan	Bernhard Schwartlander														
a. Secretariat sends draft to MEFA		20-Nov													
b. MEFA sends input to Secretariat		27-Nov													
c. Present to MEFA for approval				11-Dec	(completed)										

	Secretariat Focal Points	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sept-04	Oct-04	Nov-04	Dec-04
12. Technical Evaluation Reference Group (TERG)	Completed														
Define TORs for TERG	Bernhard Schwartlander														
a. Secretariat drafts TORs for TERG															
b. Draft TORs out to MEFA for input		20-Nov													
c. Receive input from MEFA		27-Nov													
d. Present to MEFA for approval			11-Dec												
e. Invite nominees for panel				early Jan											
f. MEFA approval of recommended members					23-Feb										
g. Board approval of TOR and panel members						18-Mar (completed)									
13. Operationalizing TERG	Bernhard Schwartlander														
a. Initial TERG meeting													5-6 Oct		
b. Report to MEFA and priorities definition													7-8 Oct		
14. External Studies on Global Fund															
Define external study guidance	Bernhard Schwartlander														
a. MEFA reviews			11-Dec												
b. Draft guidance to MEFA				30-Jan											
c. MEFA approval w/ PMPC input					23-Feb										
d. Review findings of LFA study													7-8 Oct		
15. Phase 2 Renewals	(Recurring)														
Review operation of Phase 2 Renewal process	Brad Herbert														
a. Review Secretariat reports on Renewals													7-8 Oct		
b. Review TERG reports on renewal process													7-8 Oct		
c. MEFA report sent to Board													22-Oct		
d. Present to Board for information														18-19 Nov	

	Secretariat Focal Points	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sept-04	Oct-04	Nov-04	Dec-04
16. Delays in Grant Signings															
Recommend timeframe and policies for signing grant agreements	Brad Herbert														
a. Consider Secretariat proposals								10-11 May							
b. MEFA recommendation sent to Board									5-Jun						
c. Present to 8th Board for decision									28-Jun						
17. 2004 Budget Performance															
Monitor performance against 2004 Budget & Workplan	Barry Greene														
a. Review Operating Expenses Jan-Mar								10-11 May							
b. Review Operating Expenses Jan-Jun												7-8 Oct			
c. Consider Secretariat requests for internal budget transfers												7-8 Oct			
d. Review Workplan performance Jan-Jun												7-8 Oct			
e. Report sent to Board on Budget & Workplan performance Jan-Jun												22-Oct			
f. Present to 9th Board for information													18-19 Nov		
18. Finance & Audit															
Miscellaneous Finance & Audit tasks	Barry Greene														
a. Agree procedures for operation of Secretariat bank accounts								10-11 May							
b. Review Ernst & Young review of external audit reports of selected PRs												7-8 Oct			
c. Identify any areas for specific audit focus by external auditors												7-8 Oct			
19. Review of "critical issues", e.g. Ukraine	Brad Herbert														
a. Feedback to MEFA												7-8 Oct			
b. Possible update to Board												7-8 Oct	18-19 Nov		
20. World Bank	John Burke														
a. MEFA briefed on investment guidelines change								10-11 May				7-8 Oct			
b. Information to Board													18-19 Nov		

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

The Seventh Board agreed on a policy for continuation of grant funding beyond the initially committed two years. The Board requested further consideration of safeguards against over-commitment of funds. At the close of the meeting, the Board Chair noted the need to come back to the aspects of the policy that relates to the Board responsibility in the decision process.

In response to this, the MEFA Committee presents further measures and safeguards to the Eighth Board.

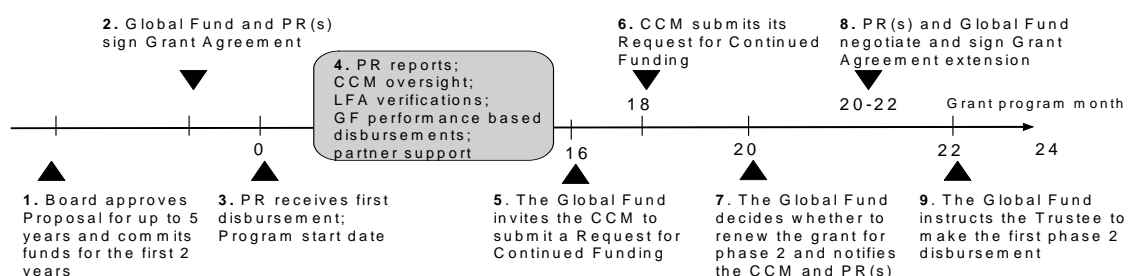
The US constituency, not in a policy position to pursue the issue of an alternate recommendation at the MEFA meeting itself, has subsequently arrived at a revised Phase 2 renewal policy recommendation for consideration by the Board.

The key element in this recommendation concerns the delegation of decision making to the Secretariat. Dealing with this recommendation requires reopening the decisions on the Phase 2 policy approved by the Seventh Board, as well as amendment of Bylaws and Board Operating Procedures as proposed by the US constituency as part of this document.

In understanding with the chair of MEFA, the required revisions in the Board approved procedures to accommodate the US proposal have been identified.

In the approved policy, the only need for revision applies to step 7 in the timeline below.

Overview of the first two years of a grant and the phase 2 renewal process



This means that all elements in the policy already approved by the Board up to part 6 and after part 6 in the policy document on phase 2 renewals approved at the Seventh Board Meeting stands as already approved.

In part 6, the required changes in the policy, to accommodate the US proposal is marked in bold and the text that is replaced is bracketed:

Part 6: Review and decision process

28. The Board **decisions on** [~~delegates the majority of~~] the phase 2 grant renewal **will build on a process of review and rating of program performance by** [~~decision work to~~] the Secretariat according to the policies and criteria set forth in this document.

29. The Secretariat will:

- i. Review relevant information for the phase 2 grant renewal;
- ii. At its discretion, request the TRP to perform a second review of CCM Requests that involve significant reprogramming from the original approved Proposal;
- iii. ~~[Commit]~~ **Make recommendations to the Board on commitments of** grants for the phase 2 period **for the grants rated as “go”**
- iv. **Make recommendations for Board decision on the grants rated as “no go”**
- v. **Undertake the necessary work to bring grants rated as “conditional go” to a clear conclusion and recommendation to the Board as a go or no-go decision**
- vi. **For Board-approved grants**, negotiate grant agreement extensions with PRs including performance targets for phase 2;
- vii. Regularly report to MEFA and PMPC on the results of phase 2 grant renewal reviews and decisions.

30. The Board will:

- i. **Make the decision on grant renewal based on the outcome of Secretariat review as they become ready for a go or no-go assessment and recommendation of commitments**
- ii. **To facilitate such decisions throughout the year, the Board will make such decisions through a special procedure, set out in the Board Operating Procedures, section 5A**
- iii. Establish and periodically review the policies and procedures for phase 2 grant renewals;
- iv. ~~[Through its Chair and Vice Chair decide to discontinue grants based on reviews by the Secretariat and the TRP;]~~
- v. ~~[At each Board meeting receive reports from the PMPC Chair on phase 2 grant renewal decisions.]~~

31. Further details are provided in the operational policy note *Phase 2 review and decision process* (attachment 4)

United States Proposal for Phase Two Renewals Bylaw Amendments

Amendment to Bylaws 7.7: Revise the Bylaw to read “The Board may conduct business in person only when a majority of Board Members of each of the two voting groups defined in Article 7.6 are present.”

Amendment to Board Operating Procedures, proposed new Section 5A, “Phase II renewals meetings”: Pursuant to the authority and the purpose of the fourth paragraph of Bylaw 7.6 of the Foundation, the following special procedure shall apply when the Chair calls a meeting of the Foundation Board to take place electronically for the limited and express purpose of the Board’s considering proposals for renewals of or modifications to grants previously approved by the Board (hereinafter, “Phase II renewals”).

Upon application by the Secretariat to the Chair, but in any case not more frequently than once per calendar month or less frequently than once per calendar quarter, the Chair shall call a meeting of the Board to take place by email for the limited and express purpose of considering Phase II renewals (hereinafter, “Phase II renewals meeting”). The Chair shall forward to Board members information developed by the Secretariat with respect to proposals for renewals of funding. Board Members shall have one week to review the materials, after which voting may begin.

Decisions on renewals of funding in a Phase II renewal meeting shall be taken by a no objection basis. If any three members of the Foundation Board object to a decision as recommended by the Secretariat, the grant shall be subject to further clarification, with a mind towards resolution at an ensuing Phase II renewal meeting or, at the discretion of the Chair and Vice-chair, referred to the next regular meeting of the Foundation Board.

In cases where the Secretariat’s normal application to the Chair for a Phase II renewals meeting would occur less than 15 days prior to a regular meeting of the Foundation Board, the Chair may defer the application to the next regular meeting of the Foundation Board, and the Phase II renewals to be considered shall be the first item of business to be considered by the Foundation Board, except in cases where the election of a Chair and/or Vice Chair under Article 17 is necessary.

No other business shall be germane during a Phase II renewals meeting.