

FORECAST OF UNCOMMITTED ASSETS AVAILABLE FOR GRANT APPROVALS

PURPOSE: This paper outlines the forecast of uncommitted assets to be available for grant approvals and commitments in 2011-2013. Following recent briefings to the FAC and Board, the paper provides an overview of the forecast of uncommitted assets until the end of the current replenishment period (2013). The paper shows the many assumptions and variables including the deteriorating economic climate, that impinge on the forecast, how the forecast has evolved over the past months, the main factors driving the changes and presents a risk adjusted forecast as a first response pending the review of the replenishment mechanism foreseen under the Consolidated Transformation Plan. This forecast will be updated in the first half of 2012.

EXECUTIVE SUMMARY

1. The forecast of uncommitted assets is an estimate of both the amount and the timing of contributions and commitments. To be able to approve the important level of financing in Technical Review Panel recommended proposals under Rounds 8, 9 and 10, the Board took various measures to reduce or defer commitments. These measures are already reflected in all the forecasts and necessitate a 3-year outlook rather than a 12-month forecast. To show the timing of commitments of all currently approved proposals (up to and including Round 10) the forecasts have also been extended to the next replenishment period (2014-2016).
2. The negative economic situation, the challenging political environment and the nature of the Global Fund's replenishment mechanism create uncertainties that are difficult to reflect in a longer-term forecast.
3. Therefore the current paper takes a new approach to the presentation of the forecast by (i) showing the factors that have led to a steep decline in the forecast since the Twenty-Third Board Meeting (Geneva, May 2011) and (ii) changing the methodology to reflect known risks on confirmed pledges.
4. Under the usual method of forecasting, the estimated level of uncommitted assets at the end of the current replenishment period (December 2013) has declined from an earlier expected US\$ 1.6 billion, to a shortfall (negative) of US\$ 0.1 billion (refer Table 1 in the report and Annex 3). The principal reasons for this reduction are the declining expectations in 2011 of the contributions and investment income to be received in the period 2011 - 2013, together with a more accurate reflection of the timing of receipt of several major pledges and an under-estimation of the level of operating expenses.
5. Under the newly proposed "risk-adjusted" forecast (refer Annex 4) the estimate further declines from US\$ (0.1) billion to US\$ (0.6) billion as significant known risks on confirmed pledges are taken into account. Importantly, all of the forecasts presented in this paper remain subject to further evolution of these risks, which could increase or decrease the estimate of uncommitted assets between now and December 2013 and beyond.
6. The timing of receipt of contributions is a critical element of the forecast. When presenting the forecast on a quarterly basis, the issue of contributions being skewed towards the end of the calendar year is highlighted. That is, forecasted deficits during the first three quarters of the year can reach very significant levels. Referring to Annex 5, there is a projected shortfall of US\$ 2.0 billion in the third quarter of 2013 (and the shortfall is then reduced in the fourth quarter). Significant quarterly fluctuations in available uncommitted assets could prevent the Global Fund from signing grant renewals when optimal from a program continuity perspective, giving rise to important risks in ongoing service delivery.

7. At the Twenty-Fourth Board meeting (Geneva, September 2011), the Board responded to the declining forecast by delaying the submission date of Round 11 proposals and setting up a working group to consider measures that could be applied to grant renewals and Round 11 proposals. Their report is contained in the paper titled 'Options For Modification Of The Application, Renewal And Approval Processes For New And Existing Investments' (GF/B25/8). As part of their deliberations, the working group considered some measures to increase the level and bring forward the availability of uncommitted assets.
8. Certain of the measures considered by that working group, and others that were considered by the Finance and Audit Committee at its 7- 9 November 2011 meeting, are estimated to increase the level of uncommitted assets by US\$ 1.2 billion by December 2013 (refer Annex 6). This amount would cover the estimated existing shortfall of US\$ 0.6 billion, and therefore make US\$ 0.6 billion available (refer Annex 7) to fund new grant proposals (Round 11 and/or any additional bridge funding/continuity of programs which would be approved).
9. The two measures that contribute most to the projected increase of uncommitted assets are: (i) apply current eligibility and counterpart financing policy to Phase 2 renewals from January 2012; and (ii) make financial commitments on grant renewals on an annual basis (rather than the current mechanism of a two-year commitment followed by a one-year commitment). Some of the working group members expressed reservations on particular measures, especially this second measure. These two measures require Board approval before their effect could be realized and it will be for the Board to decide on whether these measures are appropriate.
10. If no measures are taken, the estimated shortfall remains at US\$ 0.6 billion. In such circumstances, the Global Fund's Comprehensive Funding Policy requires that a 'Commitment Reserve' be established (refer Annex 9). This would require funds to be set aside to ensure that funding for the renewal of existing, signed grants, can be committed over the next three years (based on the annual forecast and including projected contributions). The practical effect of such a Commitment Reserve would be to delay the signing of the remaining Round 10 proposals, perhaps extending the signing period out to 2014 (refer Annex 11).
11. Any Commitment Reserve for existing signed grants would adjust for projected shortfalls on, only, an annual basis. That is, it would operate based on a projection of the funds required for grant renewals across a full calendar year, and not quarterly. As set out in paragraph 6 above, quarterly shortfalls do still present significant risks to the timely signature of grant renewals, and these risks are only partially addressed with the establishment of a Commitment Reserve in the current situation (refer Annex 10).
12. The information in this paper will be relevant to the Board's consideration of the paper titled 'Options For Modification Of The Application, Renewal And Approval Processes For New And Existing Investments' (GF/B25/8).

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Background

This paper provides an expanded analysis underpinning the updated forecast of uncommitted assets available for grant approvals and commitments during 2011-2013. It builds on information that was published as part of the deliberations held by the Finance and Audit Committee in October 2011.

PART 1: Funding of recent Rounds

1.1 Following the successful replenishment conference in Berlin in 2007 the focus of implementing countries, technical partners and the Global Fund was to ensure that the significantly increased resources were quickly used to respond to urgent needs. Thus while previous rounds had been approved at around US\$ 1 billion on average, the TRP recommendation for Round 8 was US\$ 3 billion. Round 9 (2009), including the first wave of National Strategy Applications ('NSAs'), was also large with US\$ 2.7 billion of demand. While the replenishment had been successful, the resources that were available were forecast to be insufficient to fully fund these two rounds. Following work by a Board Working Group the Board took various measures in order to be able to both approve the rounds and ensure sufficient funding for the large Phase 2 amounts they would generate. They included:

- Applying 10 percent efficiency reductions to the Phase 1 amounts;
- Committing the Phase 1 amount on a 90 percent/10 percent basis;
- Committing 3-year grants (Phase 2 and RCC) on a 2-year basis followed by a later 1-year commitment (previously the full amount of the 3-year commitment would be committed at the Trustee when signing the grant¹). This is also known as the "2+1" measure and increases uncommitted assets in the current replenishment period by deferring the same amount of commitments into the next replenishment period;
- Establishing the concept of a "Commitment Reserve" which looks forward 3 years to estimate the needs of grant renewals before new rounds are approved; and
- Applying a 75 percent funding limitation to the Phase 2 amounts (this was later modified to a 90 percent limitation).

1.2 At the New York replenishment meeting (October 2010) the confirmed pledges (gross amounts) and projected contributions were US\$ 11.7 billion (for the period 2011 – 2013) and this formed the basis for the forecast of assets presented at the Twenty-Third Board Meeting (Sofia, December 2010, GF/B22/17 Revision 1) to approve Round 10. At US\$ 1.7 billion, Round 10 was another substantial round and the forecast showed that, after approval of Round 10, there would only remain a negligible amount of US\$ 36 million for future rounds until the end of the replenishment period in 2013.

¹ Under the Comprehensive Funding Policy the Secretariat can only enter into legal obligations (sign a grant) with implementing countries if it has assets (cash or promissory notes) deposited in the Trustee account sufficient to cover the maximum allowable amount foreseen in the grant agreement. Entering into agreements for two years rather than three thus effectively frees up resources, which can be used to sign other grants. However, it is done at the "cost" of creating a future liability for the third year of activities for which new funds must be sought.

1.3 The Board recognized this fact and decided to refrain from capping Round 10 and to seek other measures to ensure that a Round 11 could nonetheless be launched. It felt it was important to make assets available to fund Round 11 as it would be the first Round in which a number of key improvements and additions to the Global Fund's operational model could be implemented at the country level. They included the new grant architecture (where all proposals would be consolidated into single streams of funding), the second wave of National Strategy Applications and the new Health Systems Funding Platform. The measures were:

- The Phase 2 amounts of Round 10 would be committed on a "1+1+1" basis, ie: a single year commitment for each of the 3 years. Similar to the "2+1" measure described above, this reduces commitments in the current replenishment period and increases them by the same amount in the next replenishment period; and
- A stricter application of performance-based funding on Phase 2 renewals to reduce the forecasted needs of grant renewals.
- At the same time, the 75 percent funding limitation on the Phase 2 amounts of Rounds 8 and 9 (and first wave of NSAs) was relaxed to a 90 percent funding limitation

1.4 These measures were forecasted to make approximately US\$ 1.6 billion available (assuming pledges and projected contributions would be received in full) and this was the basis for the forecast of assets presented to the Twenty-Third Board meeting (Geneva, May 2011, GF/B23/17).

PART 2: Forecasting assets in 2011

2.1 Throughout 2011, the forecast of uncommitted assets available for grant approvals and commitments during 2011-2013 has been influenced by the following key contextual factors:

1. Recent and on-going global and regional financial and economic crises adversely impacting on pledged and projected contributions. This is expected to continue for the foreseeable future.
2. Ensuing challenging domestic legislative circumstances for some donors.
3. Hesitation to make pledges or contributions pending the Independent High Level Review of the Global Fund's fiduciary and financial controls.
4. Non-binding nature of past and existing donor pledges.
5. Open-ended nature of certain pledges and funding uncertainties (both on the amount and the timing of the contribution) linked to the growing trend towards more donor-imposed conditionalities.
6. Downward pressure on returns on invested assets amidst a negative economic outlook.
7. Foreign exchange impact on contributions when forecast is presented in US\$ and 50 percent of contributions are received in non-US\$ currencies.
8. Global Fund's ethical obligation to continue supporting programs currently under implementation and present uncertainties linked to the nature and duration of such support.
9. The need to reflect all the measures taken on the funding of previous rounds.

10. The extended horizon for the forecast – previously the forecast would look forward 12 months but now, with the commitment reserve obligation and other measures, the forecast must extend over a much longer 3–year period.

2.2 In hindsight it is clear that while the Global Fund Replenishment mechanism has served its purpose admirably well in the first two replenishments in a more benign economic and Overseas Development Assistance (‘ODA’) climate, it has fared significantly less well in the context of a global economic downturn. In the 2001 to 2008 period the conversion rate from pledges to actual contributions was in fact marginally above 100 percent whereas the figure in 2010 (i.e. prior to the Associated Press news stories on the Inspector General findings) had dropped below 80 percent. This is significantly lower than the levels usually observed in other replenishment mechanisms. Under the Consolidated Transformation Plan there is therefore a proposal to review the replenishment mechanism and the rules and regulations that should underpin it in the future. The purpose would be to more closely align with practice in other institutions as regards both the predictability of the funding, the format of pledges and subsequent contribution agreements. The forecast of available assets and the underlying assumptions are in many ways dependent on the way in which the replenishment mechanism is structured and the rules governing it. As a consequence, any changes flowing from the review will have an impact for example on whether to discontinue the practice of including projections as part of replenishment tables. While the review will take until mid-2012 to conclude there is an immediate need to have a more informative approach to forecasting uncommitted assets available given all the considerations above and to explain how the materialization of these risks has impacted the forecast over the course of the year. This paper presents this more informative approach for the first time.

Changes to the forecast

2.3 The table below summaries the changes to the overall forecast of assets available as at the end of 2013 between May 2011 and November 2011:

<i>Description</i>	<i>Amount (US\$ bn)</i>	<i>Amount (US\$ bn)</i>
Forecast of uncommitted assets available at the end of 2013 reported in May 2011		1.6
Timing shift of contributions into next replenishment period (1)		(0.6)
Advancing of contributions into current replenishment period (2)		0.3
Reduction in projected contributions due to economic environment (3)	(0.7)	
Foreign exchange impact on non-USD contributions (4)	0.3	
		(0.4)
Changes in forecasted investment income and operating expenses (5)		(0.5)
Decommit unused money and other reductions in grants (6)		0.4

Forecast of uncommitted assets presented at September Board briefing and October FAC meeting		0.8
Foreign exchange impact on non-USD contributions (4)		(0.4)
Further reduction in projected contributions (3)		(0.4)
Provide for expected costs under Continuity of Services policy (7)		(0.1)
Forecast of uncommitted assets before consideration of additional risks		(0.1)

Table 1: Reconciliation of forecast of uncommitted assets between May and November 2011

- (1) Timing shift – previously the forecasting methodology would take a “pooled” approach to the totality of expected contributions. Timing differences which shifted contributions into future periods tended to cancel themselves out with increased or earlier contributions. Now a detailed donor-by-donor approach is taken to model the expected deferral of contributions based on past history of contribution patterns and discussions with the donors.
- (2) Advancing of contributions – this relates to a new financial instrument which enables part of the contribution for the next replenishment period to be advanced to this replenishment period.
- (3) Reduction in projected contributions – at the New York replenishment conference, the total amount contained estimates for (i) donors who were not able to pledge but were expected to pledge at a later time and (ii) other sources of income (eg: private sector, Debt2Health etc). As the economic situation remains negative, the conversion of projections into pledges and a detailed review of remaining projections have led to an overall net decrease. (Note: in the FAC presentation GF/FAC1708, the decrease of US\$ 0.7 billion was shown combined with the US\$ 0.3 billion exchange gain to show a net reduction of US\$ 0.4 billion).
- (4) Between May and August 2011 the non-US\$ currencies strengthened against the US\$ to create a foreign exchange gain of US\$ 0.3 billion. During the single month of September 2011 this gain was more than reversed.
- (5) Investment income was revised downwards by US\$ 0.3 billion over the 3-year period to reflect the rate of actual returns in the current environment. Operating expenses were revised upwards by US\$ 0.2 billion over the 3-year period to reflect expected actual costs.
- (6) Reflects amounts decommitted from existing grants (US\$ 0.3 billion) and expected reductions on Round 10 grants (US\$ 0.1 billion).
- (7) After discussion at the October 2011 FAC meeting, it was recommended that the forecast include the expected cost under the existing Continuity of Services policy (life-saving treatment is funded for up to 2 years after expiration of a grant – most of the cost is for continuing ARV treatment). This estimate is based on grants expiring between April 2012 and December 2013. Other relevant assumptions based on the current Continuity of Services policy include:
 - Six months duration for TB grants and up to 24 month duration for HIV grants; the estimate assumes the full six-month and 24-month duration for TB and HIV grants respectively

- Monthly cost based on approved/estimated costs under individual expiring grants
- Covers treatment and related activities and excludes prevention
- Excludes malaria grants
- Funding opportunities outside the Global Fund portfolio of existing grants have not been taken into account
- Is based on eligibility and other policies in effect
- Maintains treatment for existing patients and assumes no scale-up

2.4 Annex 3 shows the detail of the forecast described above by year based on confirmed and projected contributions. Under the assumptions stated for this forecast (general assumptions are described in Annex 1), the forecast shows a shortfall of US\$ 0.1 billion of uncommitted assets at the end of 2013.

2.5 Note: under the comprehensive funding policy the Board can only approve new grant proposals on the basis of confirmed pledges, ie: excluding projections. Normally, this is done on the basis of the forecast for the 12 months following the Board meeting which approves the proposals as new grants must be signed within 12 months. For information, Annex 2 (which shows a much longer period than 12 months) illustrates that the Board would be unable to approve new grants at the current time for the next 12 months. Obviously, as projected contributions are received, they become available for commitment and are included in the forecast over time.

PART 3: Forecasting the impact of risk

3.1 Historically, the forecasts have been built on standard assumptions (exchange rates at the time of the forecast, assumed reductions on Phase 2 amounts due to performance etc) and known events (reduction in projections based on discussions with donors). The forecasts did not take account of potential future risks.

3.2 When the revised forecast (showing net assets of US\$ 0.8 billion) was presented at the Board briefing in September 2011 and FAC meeting in October 2011, the US\$ 0.8 billion was still subject to a number of risks which were listed with an estimate of their potential impact. Since September 2011, a number of those risks have materialized bringing the forecast down to a shortfall of US\$ 0.1 billion at the end of 2013.

3.3 One of the largest risks that is not reflected in any of the forecasts to date is the risk that confirmed pledges will not be received at the full amount. Pending the review of the replenishment mechanism the Secretariat proposes to prepare a “risk-adjusted” forecast to demonstrate the impact of recognizing these types of risk in the forecast. Such a forecast is not normally produced in any international financial organization. It could be interpreted as questioning the good faith behind any pledges made and might also weaken the multilateral nature of a replenishment in that donors may see a forecast of a pledge not being fulfilled by another donor as a reason to cut their own contributions. As this would be done on the basis of a risk rather than an officially confirmed amendment of a pledge it could lead to other donors cutting their pledges “unnecessarily”. The Secretariat has nonetheless felt in light of the increased uncertainty and volatility in its revenues that it is most prudent and

conservative to provide a risk-adjusted forecast and would stress that it should not be interpreted as official confirmation by donors that they are renege on the commitments they have made.

3.4 The risk-adjusted forecast could also include events which increase the uncommitted assets. Therefore the amounts of decommitments on expiring grants which are expected in the future (2012 and 2013) are included. This is the first time that anticipated decommitments (as opposed to realized or processed decommitments) are being included in the forecast. The risk adjusted forecast is summarized below:

<i>Description</i>	<i>Amount US\$ bn</i>
Forecast of uncommitted assets before consideration of additional risks [Table 1]	(0.1)
Risk on pledged contributions (1)	(0.7)
Additional decommitments (2)	0.2
“Risk-adjusted” forecast of uncommitted assets as at end December 2013	(0.6)

Table 2: Adjustments for the risk-adjusted forecast as at end December 2013

- (1) If the donor commitments that announced pledges represent are not fulfilled, for whatever reason
- (2) Estimate of amounts to be decommitted in the future (2012 and 2013)

3.5 Annex 4 shows the detail of this risk-adjusted forecast with the estimated shortfall of US\$ 0.6 billion at the end of 2013.

Communicating the impact of further events

3.6 The problem with presenting forecast as tables in scenarios is that it risks giving a false sense of precision and permanence. It is still an estimate subject to both positive and negative events that can increase or decrease the assets that will be ultimately available when required. Even trying to express the available assets as a range (saying that the shortfall could be between US\$ 0.1 billion and US\$ 0.6 billion is misleading as the two points in the range are both subject to continuing risks and events that can significantly change both ends of the range.

3.7 Furthermore, it is important to realize that even the risk-adjusted forecast is still subject to further risks – instead of trying to guess the likelihood of future events (how likely are they, when would they occur, what would be the impact) which are many and overlapping, it can be useful to list the main sensitivities of the components which make up the forecast, eg:

Currently confirmed pledges (US\$ 8.38 billion, per risk-adjusted forecast) – a 5 percent change in the conversion rate of pledges would increase/decrease assets by US\$ 400 million.

Projected contributions (US\$ 1.47 billion) – a 10 percent change in the level of projections would increase/decrease assets by US\$ 150 million (assuming that all projections were converted to assets).

Investment income – if returns dropped to 0 percent in the future, the assets would be reduced by US\$ 70 million each year.

Commitments (US\$ 8.18 billion) – if the average performance-based reduction on grant renewals increased from 25 percent to 30 percent, the assets would increase by US\$ 150 million in 2012 and US\$ 300 million by the end of 2013 on a cumulative basis.

Currency exchange rates on future contributions – a change of 5 percent in the rate of the US\$ against the non-US\$ contributions would increase/decrease the assets by approximately US\$ 200 million.

PART 4: Timing Issues

4.1 The analysis above has focused mainly on the factors affecting the amounts of each element in the forecast and the annexes have presented the forecasts on an annual basis.

4.2 However, when the risk-adjusted forecast is shown on a quarterly basis (Annex 5) for the 3-year period 2012-2014 it shows that the variations across the quarter are significant. Based on discussions with donors and historical patterns, contributions per quarter range from US\$ 0.07 billion to US\$ 1.85 billion, with a heavy weighting to receipt of contributions in quarter 4 of the calendar year. However commitments (i.e. grant signings) per quarter are more evenly spread. In 2012 and 2013 they are projected to range from US\$ 0.37 billion to US\$ 1.00 billion per quarter. The forecast shows that the shortfall of assets needed to sign pending grants will cumulate to roughly US\$ 2.0 billion in Q3 of the year before being substantially reduced by an influx of contributions in Q4. This will seriously impact the Secretariat's ability to sign grant renewals on a timely basis.

4.3 To mitigate this problem, donors would need to commit to making contributions earlier in their fiscal or the calendar year and on a more regular quarterly basis. Failing that, it may be necessary to set up a quasi-permanent buffer of uncommitted assets (equivalent to a quarterly commitment reserve) to smooth over the peaks and troughs of each quarter.

Longer-term outlook

4.4 Both the FAC and the Round 11 Working Group expressed a wish to see the forecasts extended over a longer period. Therefore the forecasts have been extended to 2016. Each forecast assumes that contributions, operating expenses and investment income are the same in the next replenishment period as the forecast for the current replenishment period.

4.5 The forecasts show that as most of the large Round 8 and 9 proposals are renewed in the current replenishment period (commitments, excluding Round 10, are estimated at US\$

8.38 billion in this period), the renewal needs are much less in the next replenishment period (US\$ 1.61 billion for Rounds 8 and 9 and US\$ 1.77 billion for Round 10). Under, for example, the risk-adjusted forecast (Annex 4), there is an estimated US\$ 4.72 billion of assets at the end of 2016 before the approval of any new rounds after Round 10 (and before any additional measures and/or commitment reserve are applied).

PART 5: Possible measures to increase the level of uncommitted assets

5.1 At the Twenty-Fourth Board meeting (Geneva, September 2011), the Board decided to set up a working group to look at the issues surrounding the funding and modalities of Round 11. Their deliberations and recommendations are contained in Board report GF/B25/8.

5.2 Part of the discussions of the working group was to consider some measures to increase the level of uncommitted assets. Annex 6 sets out the measures that were presented to the FAC, including those considered by the working group (the main measures considered by the working group look at the funding of Phase 2 renewals and the possibility to defer commitments), and an estimate of the annual impact of these measures over the period to 2016. The cumulative impact of the measures is shown on the bottom line of Annex 6. Annex 7 then shows how the cumulative impact of the measures increases the forecasted uncommitted assets at the end of each calendar year. Annex 8 takes the 2012-2014 information from Annex 7 and shows the impact on a quarterly basis.

The individual measures are described below:

Measure 1 – Apply current eligibility and counterpart financing policy to Phase 2 renewals from January 2012

5.3 This measure is fully described in the Board paper prepared by the Round 11 working group (GF/B25/8) and would need Board approval. An estimate of the impact of applying these rules to Phase 2 renewals show that approximately an extra USD 230 million would be made available in 2012 and a further USD 190 million in 2013 (therefore a cumulative amount of USD 420 million in the current replenishment period). These estimates are based on a recommendation of the working group to rescind the one-year grace period for Upper-Middle Income countries while retaining a transition provision when implementing this measure (operational details to be determined).

Measure 2 – Make financial commitments on grant renewals using the “1+1+1” rule, ie one year at a time (in addition to Round 10 where it already applies)

5.4 As described in paragraph 1.3 the Board took the decision to make annual commitments for the Phase 2 grants of Round 10 only (the “1+1+1” rule). The decision point (GF/B22/DP25) contemplated that, subject to Board decision, the measure could be extended to other rounds to mitigate the impact of program interruption.

5.5 The advantages of the measure are that it frees up assets in the current replenishment period (a net amount of US\$ 400 million, being the sum of the annual

impacts in 2012 and 2013) and the biggest impact is felt in 2012 (annual impact of US\$ 700 million) so it also helps in addressing the timing issue. The disadvantages are that it defers commitments to the following replenishment period (US\$ 400 million in 2014) at a time of financial uncertainty and risk and it reduces the predictability of funding for implementing countries (annual commitments as opposed to a two-year commitment followed by a one-year commitment).

5.6 It is important to note that this measure was not endorsed by all members of the working group. Furthermore, this measure would also need Board approval.

Measure 3 – Round 10 grants not cleared for signing

5.7 Based on LFA and Secretariat reviews to-date of available documentation, there are likely to be grants which do not meet basic requirements in terms of having in place minimum implementation arrangements (in line with the High-Level Panel recommendation to more strictly enforce the Global Fund's minimum standards during PR assessments). A decision on which Round 10 grants will not be signed will probably be taken in February/March 2012 at the latest. Assuming some Round 10 grants will not be signed, the impact would include their Phase 1 (estimated at US\$ 100 million in 2011) as well as Phase 2 amounts (an additional US\$ 100 million in 2014).

5.8 It may be more appropriate to classify the fact the Secretariat may not sign some Round 10 proposals as an event under the "risk-adjusted" forecast rather than as a measure to increase the level of uncommitted assets. By moving this measure to the forecast it would decrease the shortfall of uncommitted assets by US\$ 100 million (as at the end of 2013) and decrease the impact of the measures by an equivalent amount. This will be reflected in future forecasts.

Measure 4 – Decommit funding from existing "stalled" grants

5.9 This would involve a review of existing grants which are showing an expenditure rate (against budget) of less than 50 percent (as reported in the Enhanced Financial Reporting system) and decommitting amounts which would not be used.

5.10 Similar to measure 3, this could also be reclassified within the risk-adjusted forecast.

Measures 5 and 6 – Targeted adjustments on Phase 2 renewal amounts

5.11 At the time of Phase 2 renewal the Secretariat would apply value-for-money principles to remove low-impact interventions and reduce the level of certain expenditure categories. As the grant renewal process is already expected to produce an average reduction of 25 percent (on top of the 90 percent funding limitation on Rounds 8 and 9), the amounts estimated for these measures are low on the assumption that most will already be removed through the funding limitation and performance-based reductions.

5.12 The cumulative impact of these measures until the end of the current replenishment period (2013) is an estimated increase of US\$ 1.19 billion in uncommitted assets (Annex 6). This amount would first be used to cover the estimated shortfall at the end of 2013 (US\$ 0.61

billion under the risk-adjusted forecast) which would leave an estimated balance of US\$ 0.58 billion (Annex 7) to fund Round 11 and/or additional needs under any additional bridge funding (continuity of programs) that the Board may approve. Despite the additional measures freeing up assets at the end of a calendar year, the proposed measures would not fully address the shortfalls expected on a quarterly basis (Annex 8) with the largest expected shortfall still remaining in the third quarter of 2013 (US\$ 0.7 billion).

Funding expiring grants

5.13 As the date at which Round 11 proposals could be funded slips back, the number of expiring grants with no previously-approved follow-on grants increases. When the launch and approval of Round 11 was postponed for 6 months, the Board authorized a bridge funding mechanism for affected grants which was estimated at US\$ 200 million. This was a 'safety mechanism' to allow grants to continue until the TRP would make a recommendation on Round 11 proposals. If successful, the bridge funding would continue until the grant was signed. If unsuccessful, the bridge funding would be terminated. As this mechanism has been previously approved by the Board, this amount (US\$ 200 million) is included in the forecasts since May 2011 and remains there. Also, now included in the forecast is an additional US\$ 100 million for Continuity of Services (ie: life-saving treatment) as recommended by the FAC during its October 2011 meeting.

5.14 Given that there is a risk that Round 11 proposals will be further delayed, a modelling exercise to estimate the needs for bridge funding/continuity of programs (continuing expiring grants at the same level of expenditure) estimated a minimum and maximum amount based on different assumptions. This looked at the needs until the end of the current replenishment period and even into the first half of 2014. One of the key assumptions is the TRP success rate. Normally if a proposal is not recommended for funding, the continuity of programs ('CoP') funding would stop shortly thereafter. Historically the TRP success rate has been around 50-55 percent. By assuming a 100 percent success rate (in the maximum scenario below), it assumes that all expiring grants are given CoP for up to 33 months. A restricted bridge funding decision (the minimum scenario below) estimates that only a small amount of incremental funding is needed in the forecast. A summary is shown below:

	Maximum	Minimum
Dates between which Grants Expire	30/09/2011 30/06/2014	01/04/2012 31/12/2013
Maximum Length of Continuity of Programs, months	33	20
Assumed TRP Success Rate	100%	50%
Eligibility and Other Rules Applied?	No	Yes

Updated Draft Estimate of Continuity of Program Needs	\$1.3bn	\$0.4bn
Already in Forecast:		
Continuity of Services	\$0.1bn	\$0.1bn
Other CoP (bridge funding)	\$0.2bn	\$0.2bn
Max/min CoP cost, incremental to forecast	\$1.0bn	\$0.1bn

Table 3: Modelling estimated needs for continuity of programs

Additional assumptions:

1. Any Continuity of Services is a sub-set of CoP
2. Total continuity of program costs are based on average monthly signed/estimated budget by grant multiplied by the number of months between the grant expiry date and the cut-off COP date.

5.15 No incremental amount of bridge funding/continuity of programs has been included in the forecast as the Board has not approved any extension to the current mechanism (ie: the US\$ 200 million already included in the forecast).

Impact of commitment reserve²

5.16 If no measures are taken to increase the level of uncommitted assets, a commitment reserve would need to be set up to ensure there was not a year with a projected lack of assets based on the annual forecast looking forward 3 years. Annex 9 shows that a commitment reserve of US\$ 0.52 billion would be needed at the end of 2011 to negate the forecasted shortfall of US\$ (0.61) billion at the end of 2013 in the risk-adjusted forecast (Annex 4). As Round 10 grants have a lower commitment priority than grant renewals the impact of the commitment reserve would, in theory, be to spread the funding of Round 10 proposals over a much longer period (up to 2014 for the Phase 1 grants and up to 2016 for the Phase 2 commitments, see Annex 11).

5.17 The commitment reserve addresses the problem of annual shortfalls in the forecast. The quarterly forecast for the 3-year period 2012-2014 (Annex 10) show that the application of the commitment reserve reduces the expected quarterly shortfalls to some extent (compare to Annex 5, eg: the quarterly shortfall for Q1 2012 is reduced from US\$ 740 million to US\$ 360 million). However, with no additional measures taken, the shortfalls remain

² As per Paragraph 3(d), Comprehensive Funding Policy: The Board may approve proposals and commit funds for the resulting financial commitments up to the cumulative uncommitted amount of assets that the Board determines will be available at the time the Secretariat commits the funds in the related grant agreements. When making this determination, the Board will set aside the amount of assets required to meet forecasted grant renewal needs in respect of the subsequent three years (a „Commitment Reserve“), taking into account projections regarding available donor contributions for the same three-year period provided by the Finance and Audit Committee with the support of the Secretariat

significant with the largest shortfalls (around US\$ 1.6 billion) in both Q3 2013 and Q1 2014. This again emphasizes the need for contributions to be advanced and spread evenly over the calendar year rather than heavily weighted to the last quarter of the calendar year.

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