



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

**Outline:** This report contains discussions, decisions and recommendations to the Board from the first meeting of the Monitoring, Evaluation, Finance and Audit (MEFA) Committee held in Geneva, Switzerland on 20 December 2002.

### Summary of Decision Points:

The MEFA Committee asks the Board to approve recommendations related to the following items, the specific recommendations enclosed in **Part I** of this report:

1. Approval of the 2003 Secretariat Work Plan and Budget and related MEFA Committee accountabilities
2. Approval of recommendations regarding the Global Fund Travel Policy related to class of air travel and funding for additional delegates
3. Approval of a proposed Secretariat Procurement Policy
4. Acknowledgement of an evaluation of Global Fund fiduciary arrangements and approval of related MEFA Committee accountabilities
5. Acknowledgement of a plan to complete a comprehensive Monitoring and Evaluation Plan and recommendations on the use of independent auditing methods

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

## **Table of contents**

Part I. Recommended Decisions for the Board

Part II. Proceedings of the Meeting of the Monitoring, Evaluation, Finance and  
Audit Committee Meeting Held on 20 December 2002

### Sections:

1. Preliminaries
2. Committee Terms of Reference
3. Committee Modus Operandi
4. 2003 Secretariat Work Plan and Budget Review
5. Travel Policy
6. Procurement by the Secretariat
7. Fiduciary Arrangements
8. Monitoring and Evaluation Methodologies
9. Closing

## **Annexes**

- I. Revised Agenda 20 December 2002
- II. Revised Terms of Reference
- III. Travel Policy Analysis
- IV. Proposed Global Fund Policy on Secretariat Procurement of Goods  
and Services
- V. Status of Fiduciary Arrangements

**Part I: Recommended Decisions for the Board:**

A. Regarding the 2003 Secretariat Work Plan and Budget (paragraphs 21 to 30 of this MEFA Committee Report and separate Board Document GF/B4/11: 2003 Secretariat Work Plan and Budget):

1. Recommend approval of the 2003 Secretariat Work Plan and Budget as presented in Board Document GF/B4/11: 2003 Secretariat Work Plan and Budget).
2. Recommend the Board direct the MEFA Committee to review the performance of the Secretariat on the 2003 Work Plan and Budget and report their findings at the June and October meetings of the Board in 2003.
3. Recommend the Board direct the MEFA Committee to review the trustee agreement and performance and direct the Secretariat to negotiate new terms and fees for the trustee based on the current scope of work.

B. Regarding Travel Policy (paragraphs 36 to 42 and Annex III):

4. Recommend that the current numbers of Board delegates from recipient countries, Southern NGO's and Communities Living With the Diseases funded by the Secretariat for travel be maintained.
5. Recommend that the class of air travel guided by the current Secretariat travel policy and consistent with the WHO policy on class of air travel be continued with emphasis placed on using the most economical available fares within those policies.

C. Regarding a Secretariat Procurement Policy (paragraphs 44 to 53 and Annex IV):

6. Recommend the Board approve the Secretariat Procurement Policy.

D. Regarding Fiduciary Arrangements (paragraphs 58 to 68 and Annex V)

7. Recommend the Board direct the MEFA Committee to continue to improve the Fund's fiduciary arrangements to include reviewing LFA performance and fees, developing a LFA conflict of interest policy and reporting on the results of the Round 2 LFA selection. These actions should be reported to the Board in June 2003.

E. Regarding Monitoring and Evaluation (paragraphs 78 to 82):

8. Recommend the Board direct the Secretariat to draft a Monitoring and Evaluation Plan, which is reviewed by the MEFA Committee and presented to the Board for approval by the June Board meeting.
9. Recommend the Board direct MEFA to select a qualified external auditor to audit the Global Fund's financial statements, review the findings of the audit and recommend to the Board any necessary actions to be taken as a result of the audit findings at the June 2003 meeting of the Board.
10. Recommend the Board direct MEFA to discuss the advantages and disadvantages of an independent Monitoring and Evaluation unit versus the use of external auditors to assure objective evaluation and recommend to the Board the preferred method for independent review.

**Part II:** Report of the Meeting Proceedings of the Monitoring, Evaluation, Finance and Audit Committee (MEFA) held on 20 December 2002 at the Ramada Hotel, Geneva

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**Present**

Dr. Anders Nordstrom (Chairman)  
Mr. Jerome Baconin  
Mr. Filippo Colombo (alternate)  
Mr. Paul Ehmer  
Dr. Ken Grant  
Mr. Shri Deepak Gupta  
Prof. Adetokunbo Lucas  
Dr. Peter Poore  
Dr. Jim Sherry  
Dr. Hao Yang (alternate)

**Absent**

Ms. Milly Katana (Vice Chairman)  
Dr. Wang Wenjie  
Ms. Natalia Quintavalle

**In attendance, as Secretariat support**

Ms. Dee Jay Mailer, Chief Operating Officer  
Mr. Barry Greene, Interim Finance and Administration Manager (Rapporteur)  
Dr. Vinand Nantulya, Director Strategy and Evaluation, Senior Health Advisor

For part of meeting:

Prof. Richard Feachem, Executive Director  
Mr. Pascal Bijleveld, Management Advisor  
Mr. Brad Herbert, Senior Portfolio Advisor  
Ms. Marie Rosencrantz, Fund Portfolio Advisor

**Section 1. PRELIMINARIES**

**Opening remarks**

- 1) The Chairman opened the meeting at 09:00 by welcoming those in attendance and inviting their introductions.

## **Adoption of Agenda (Annex I)**

- 2) The draft agenda was considered and was adopted with the following modifications:
  - a) Item 8: “Procurement by the Secretariat” to be considered in the morning session in conjunction with Items 3 & 4 (“Secretariat Work Plan and Budget” and “Travel Cost Analysis”).
  - b) The circumstances surrounding the execution of the Tanzania grant agreement to be added to discussion related to methods of monitoring and evaluation.
  - c) Item 6: “LFA Strategy to date” to be expanded to embrace the whole in-country fiduciary element of the Fund’s responsibilities.

## **Update by Executive Director**

- 3) In his introductory remarks, the Executive Director, Richard Feachem, observed that the speedy approval of Round 1 proposals — 55 components in 40 countries — had created huge expectations and consequent pressures. Nine agreements had been signed, and payment instructions for the first two disbursements had been issued to the Fund’s Trustee, the World Bank.
- 4) Round 2 proposals would be considered by the Board on January 2003 and, if all the TRP-recommended components were approved, would add 45 countries, bringing the total number of countries aided by the Fund to 85.
- 5) The Executive Director further commented that the Fund’s fiduciary architecture would be put to the test, including LFAs roles and performance and results-based disbursement. The work of MEFA in overseeing LFA performance and Monitoring and Evaluation becomes paramount
- 6) Regarding LFAs, the Executive Director is aware of the preference to have a larger menu of LFAs for countries to choose from and to improve the competitiveness of the selection process, He cautioned that a fully open competitive process might slow down the appointment of new LFAs, and hence disbursements, especially to new countries added by Round 2.
- 7) Finally Professor Feachem thanked the members for their attendance and anticipated work in this new committee, acknowledged Dr. Ehmer and Dr. Nordstrom as members of the founding fathers of the Fund and emphasized the critical outcomes this committee was destined to achieve.

## **Section 2. COMMITTEE TERMS OF REFERENCE (Annex II)**

### **Topic**

- 8) The committee to consider and adopt Terms of Reference.

### **Discussion**

- 9) The Chairman noted that the draft Terms of Reference reflected a scope that embraces both financial and programmatic aspects. There was acknowledgement of the Fund's role as a funding rather than an implementing entity and that in country work on proposal development and grant implementation was a matter for the Fund's development partners, rather than the Fund itself.
- 10) The evolution of the proposed name for the committee was recalled and it was noted that the committee should be referred to as the Monitoring, Evaluation, Finance and Audit Committee (MEFA), being consistent with the Board's instructions.
- 11) It was noted that while there would be some inevitable overlap between the work of MEFA and other Board committees, activities regarding contribution pledges would not be within the scope of MEFA (such as within the domain of the Resource Mobilization Committee). As it relates to funding, MEFA should focus on disbursement mechanisms. Thus the mention of 'funds flow' in the draft terms of reference should be deleted.
- 12) Further discussion included the desirability of achieving sustainability of funding for Fund aided projects and that MEFA should be concerned with this and the principle of additionality at country level. A central tool to operationalizing both principles are well functioning Country Coordinating Mechanisms (CCMs).

### **Decisions**

- 13) Name was confirmed as the Monitoring, Evaluation, Finance and Audit Committee, or MEFA.
- 14) Terms of Reference were agreed as drafted, with clause 5 modified to exclude reference to 'funds flow'.

### **Section 3. COMMITTEE MODUS OPERANDI**

#### **Topic**

15) The committee to consider and agree on its modus operandi.

#### **Discussion**

16) The Chairman proposed that for the first half of 2003, MEFA should meet:

- on 28 January (the day before the Board meeting for a short meeting),
- for 2 days in March or April (subsequently set for 3 & 4 April)
- for 1 day prior to the June Board meeting
- and via email between its physical meetings

This was agreed, as was the desirability of using electronic media, fixing dates early and providing information for MEFA consideration as early as possible.

17) The relationship between MEFA and the Secretariat was discussed, recognizing that the Secretariat should produce information for review by MEFA and on which MEFA would comment to the Secretariat and make recommendations to the Board. MEFA would also identify providers of technical input, as the need arose. The Secretariat could also draw on the technical expertise of MEFA members, as required.

18) There was discussion on the comparative utility of convening MEFA on the day before Board meetings (to consider matters to be brought before the Board and take account of output from other committees) or on the day after Board meetings (to consider and advise on matters arising from the Board). On balance, it was agreed that a meeting on the day before the Board meeting was more useful, though this should be a short meeting in view of Secretariat obligations for the Board meeting.

#### **Decisions**

19) MEFA would generally meet for a shorter meeting on the day before Board meetings and for two-day meetings between Board meetings, as well as ongoing functioning via email.

20) Dee Jay Mailer (working in close collaboration with Vinand Nantulya) would be MEFA's point of contact for work products and content within the Secretariat (with Philippa Dobree-Carey, Administrative Assistant, as the focal point for meeting and travel logistics).



**Section 4. 2003 SECRETARIAT WORK PLAN & BUDGET (Detailed Further in Board Report GF/B4/11)**

**Topic**

21) MEFA to review the draft Secretariat Work Plan and Budget 2003 with a view to making recommendations on its acceptance for consideration by the Board in January 2003.

**Discussion**

***Outline of Proposed Work Plan and Budget for 2003***

22) Background

The Chief Operating Officer (COO), Dee Jay Mailer, outlined the background to the Secretariat work plan and budget for 2003, referring to the October 2002 Board meeting deliberations. The Board, at that meeting, had approved the budget for 2002 and approved a revised budget for 2003, subject to: 1) the completion and report to the Board of a comprehensive work plan for the Secretariat, detailing priorities, activities, end products, timelines and resource requirements and 2) the review and recommendation of the proposed budget for LFA fees and travel costs. The Board asked MEFA to address these items.

23) Work Plan and Budget development process

The COO referred to the draft work plan and budget document that had been circulated to MEFA. The work plan was based on the broad Global Fund priorities derived from the Transitional Work Group and the Board, guided by developing partnerships in national and international communities and crystallized by current experiences by the Secretariat during its implementation of funding mechanisms in 2002. The budget was derived from estimating the resources required to execute each work plan activity, reflecting on, wherever available, the Secretariat's experience to date or guidance from external experts. A zero based budget approach was followed by each key functional area in the Secretariat, with final reconciliation and oversight being accomplished by the Secretariat's executive leadership team.

24) Summary of 2003 budget

The estimate of \$40.9 million (m) for 2003 expenditures presented to the Board in October 2002 had been reduced to \$37.5m through savings in LFA fees. After allowing for additional staff to manage project portfolios for the anticipated 85 countries covered by grant Rounds 1 & 2 and carrying delayed expenditures from 2002 over to 2003, the total 2003 budget presented to MEFA was \$42.0m. The combined expenditures for 2002 and 2003 were now estimated at \$55m, down \$6.8m from the October estimate.

***Overall comments and guidance***

25) The Chairman invited MEFA members to consider the format, level of detail, understandability and believability of the budget and work plan.

Feedback on format and presentation:

- a) The report and aligned presentation should be short and to the point, beginning with background information explaining the Board requests from the previous meeting, the process to address those requirements and an outline of the information being presented in the present report. The information provided in the body of the report should focus on high-level budget information and explanations, with supportive detail provided in attached annexes.
- b) Statements on budgeted dollars should be accompanied by a statement on the percentage of the budget represented by the dollar amounts.
- c) Team priorities should be described in more specific terms and their costs related to Fund-wide priorities as well.
- d) All assumptions related to budget projections should be presented in a consistent format and preferably in one place in the document for easy reference.
- e) The specific costs included in each expense category should be explicitly described. For instance, travel costs include airfare and per diems.
- f) Before reporting on 2003, provide a detailed comparison of the 2002 budget as estimated in October 2002 with the latest actual and forecasted expenditures for 2002.

Feedback on budget forecasting and management

- g) It would be useful to show expenditures as a percentage of anticipated grant disbursements to measure cost efficiency, however, the difficulty of predicting disbursement amounts in 2003 at such an early stage in the Fund's operations and the wide variation in comparators within the assistance industry would diminish the value of such calculations and cause more confusion than utility. It was decided to defer reporting on this indicator.

- h) To build credibility, budget projections should reflect best estimates that are refined by actual experience, which predictably improves over time. Budgets should remain flexible enough to allow for priority and activity changes and the Secretariat should be held accountable for adjusting its expenditures based on these changes.
- i) It was suggested that the 2003 budget might be overstated in reaction to crises or the nature of a start-up organization. Additionally, it was asserted that with greater experience, the budget demands might actually decline as better processes, skills and partnerships were gained. The Executive Director acknowledged the value of experience in creating efficiencies. He emphasized that the current 2003 projections were not crisis based. Rather they were extrapolated from real data and process improvements made to date. He opined that previous budget best estimates did not have the benefit of experience and thus may have been understated. All indications show that the volume of work for the Secretariat will only increase for 2003. He maintained that the budget should rise and fall based on volume and complexity of work and thus, should the Board not approve the TRP's recommendations for Round 2 or decide to tighten the eligibility criteria for future proposals, then staffing and other associated costs could be reduced.
- j) The Board should be asked for approval on the general work plan and aggregate budget for 2003 and encouraged to allow the Secretariat latitude to reallocate and make decisions on line item expenditures as needed and within the approved plan and budget. MEFA should be the oversight arm of the Board to assure that actual performance on the work plan and budget is aligned with expectations.
- k) Regarding staffing oversight, it was suggested that MEFA and the Board avoid setting staff quotas and rather monitor expenditures compared to budget and other reliable indicators of performance. Such indicators could be derived from the Secretariat end products defined in the work plan (e.g. components funded, countries served, contributions received, disbursements made, etc.). Secretariat staffing could also be compared to industry benchmarks. For example, comparisons with the International Fund for Agricultural Development (IFAD) reveal that IFAD has 200 staff with 44 engaged in portfolio management, handling \$2 billion in loans. While IFAD, like the Global Fund, is a funding mechanism, it funds loans versus grants. The scope of work included in IFAD portfolio management may also vary significantly with the same titled work at the Global Fund.

***Comments and guidance on specific budget requests by Secretariat Teams***

26) Office of the Chairman and Executive Director

- a) Resources should be allocated for the Chair and ED to build relationships in with regions

27) Portfolio Management Team

- a) **Clarification of Secretariat Roles versus other Stakeholders:** The language describing the role of portfolio teams should be revised to better reflect the key tasks of portfolio management including the design and screening and preparing proposals for review, selecting and orienting LFAs, facilitating the signing of grant agreements, working with LFAs and in country partners to get grant implementation started, assuring that appropriate monitoring and evaluation mechanisms are in place, triggering disbursements based on readiness and performance and managing LFA performance
- b) **Local Fund Agent (LFA) Fees and Customization:** The presentation could be improved by separating LFA fees (because of their magnitude) from portfolio management costs and describing in more detail the specific tasks they perform to justify their fees. Concerns were raised regarding the level of LFA fees and the need to adjust the LFA's role according to differing country competencies and adjust fees accordingly. It was noted that such points are emphasized under the separate report on Fiduciary Arrangements. **(See Annex V)**
- c) **Staff costs:** Questions were raised regarding justifying a sizable increase in portfolio management staff. It was suggested that staffing estimates for Portfolio Management might be overstated due to their reliance on grant approvals and the uncertainty of funding for proposal rounds 2 and 3.
- d) The Secretariat clarified that staffing estimates for 2003 are well founded, being based on actual experiences with Round 1 and expected approvals for Round 2. Round 3 requirements do not significantly contribute to the staffing projections in 2003.
- e) Questions were raised regarding the use of internal staff to perform tasks that should be accomplished by contracted LFAs, country CCMs or in country partners. Specific examples of tasks were provided to differentiate between Secretariat, LFA and partner accountabilities. It was recommended that further scrutiny be made on staff projections to assure divisions of labor were clear and misplaced accountabilities were avoided.

## 28) Operations Team

- a) **Administrative Service Unit (ASU):** Additions to administrative staffing were discussed, the largest increase being the implementation of the ASU. This action is being taken in collaboration with the WHO to improve administrative effectiveness for the Global Fund. The costs of running the ASU will be offset by reductions in the administrative fees paid to the WHO and thus, the net new cost to the Secretariat is zero.
- b) A question was raised as to whether the integration of the ASU with previously planned administrative staff might result in lower combined requirements. The possibility exists for a small reduction, however, without a complete analysis of the ASU requirements, the risks associated with underestimating these costs outweigh the benefits of a modest reduction. Rather, a variable approach to staffing was recommended, whereby temporary staff might be recruited for certain positions to allow for future staffing adjustments as identified.
- c) **Trustee Fee:** Discussion centered on the value for money derived from the present implementation of the Trustee agreement with the World Bank. At the time a trustee was being selected, two phases of work were envisaged: Phase I entailing the establishment of a trust fund and Phase II, the provision of fiduciary services by the trustee, including potential LFA services. Present services from the World Bank appear to be inconsistent with the current level of fees paid.
- d) A request was made to review the originally intended trustee services and review whether they still might address the Fund's fiduciary needs. Following that review, a new agreement should be negotiated with appropriate fees for 2003, including the possibility of inviting other bids for trustee services. It was recalled that many of the original reasons for selecting the World Bank as the Fund's trustee remain valid, including protection of Fund assets and the expressed wishes of certain donors. Caution was registered that it may be too early to assess the value of the relationship with the Bank or change trustees.
- e) The Chairman commented that it was within the scope of MEFA to review the Trustee agreement and performance, including identifying benchmarks upon which to base comparisons. Based on that assessment, a recommendation will be made to the Board regarding renegotiating the agreement or changing trustees as needed.

## 29) External Relations

- a) Regarding communications, it was suggested that the work plan should specify the audiences to whom communications would be directed. It was also reinforced that a comprehensive communications plan be developed

and shared with the Board at its next meeting. Communications is an agenda item for the January Board meeting.

- b) The need to partner with other organizations on raising awareness of issues was emphasized; the work plan should be clearer about whether advocacy would be directed at raising awareness of the issues or of the Fund itself.
- c) It was suggested that the budget for strengthening relations with international organizations (team priority 2) be strengthened.

### 30) Strategy & Evaluation

- a) A suggestion was made to move the oversight of procurement to the portfolio management team, allowing more emphasis in Strategy and Evaluation to developing systems for monitoring and evaluation.
- b) Regarding development of the Fund's strategic plan, it was requested that a plan and timeline be developed.
- c) It was suggested that the costs to support the TRP might be underestimated.
- d) It was felt that this report's text describing the role and function of the strategy and evaluation team needed to be refined.

### **Decisions**

31) The Secretariat work plan and budget 2003 should be revised and circulated to MEFA for further consideration in time to allow inclusion of MEFA's recommendations in the documentation for the January 2003 Board meeting.

**32) A (Board Decision 1) Recommend approval of the 2003 Secretariat and Budget as presented in a separate Board agenda report.**

**32) B (Board Decision 2) Recommend the Board direct the MEFA Committee to review the performance of the Secretariat on the 2003 Work Plan and Budget and report their findings at the June and October meetings of the Board in 2003.**

33) The Secretariat should consider variable staffing wherever there is uncertainty about future staffing requirements and where the work requirements allow for easy entry and exit of personnel.

**34) (Board Decision 3) Recommend the Board direct the MEFA Committee to review the trustee agreement and performance and direct the Secretariat to negotiate new terms and fees for the trustee based on the current scope of work.**

- 35) A comprehensive communication plan should be developed in coordination with the Global Fund work plan and reported to the Board at its January meeting.

## **Section 5 TRAVEL POLICY (Annex III)**

### **Funding of delegate travel**

#### **Topic**

- 36) MEFA to consider and make recommendations to the Board regarding the implications of funding the travel and subsistence costs of more delegates representing NGOs and recipient countries at meetings of the Board (6 additional funded delegates per Board meeting) and Board committees (2 additional funded delegates per committee). This is being suggested to encourage greater NGO and recipient country participation in Board activities.

#### **Discussion**

- 37) It was noted that cost estimates prepared by the Secretariat indicated that funding additional delegates would cost approximately \$158,000 per year, bringing the total costs borne by the Fund for Board delegate travel and subsistence to approximately \$576,000 per year (based on 3 Board meetings and 5 meetings of each of 4 committees per year).
- 38) The discussion ranged from a suggestion that all delegates bear their own costs to a continuation of the current funding policy.

#### **Decision**

- 39) (Board Decision 4) Recommend that the current numbers of Board delegates from recipient countries, Southern NGO's and Communities Living With the Diseases funded by the Secretariat for travel be maintained.**

### **Class of Travel for long distance flights**

#### **Topic**

- 40) MEFA to consider and make recommendations to the Board regarding the implications of removing the entitlements of Board members and Secretariat staff to travel in business class on long distance flights (as allowed under the currently applied WHO travel policy).

## Discussion

- 41) The COO advised MEFA that based on an analysis of Board and Secretariat travel costs for the 2003 budget (totaling US\$2.3 million), savings of approximately \$431,000 annually could be made if business class fares were replaced with non-changeable economy fares, or \$169,000 if replaced with full economy changeable fares. Against that, the diminished flexibility of the lower fare classes and their lesser suitability for in-flight work or sleep had negative implications for productivity, travel efficiency and health risks, and would give rise to fees for itinerary changes, fees for stopovers and lengths of stays and the cost of replacement tickets if itineraries could not be changed with short notice.
- 42) It was generally expressed that the WHO rules were reasonable, with opinions shared on the utility of comparisons to discounted economy fares that would restrict flexibility needed for frequent travelers. It was acknowledged that the issue of traveling business class may be less of a financial issue and more an issue of a potentially adverse image for the Global Fund. It was agreed that the Board should be appraised of all the implications, financial and non-financial, of eliminating business class travel for long distance flights. It was also agreed that the Secretariat continue to look for the most economical fares available while using the WHO travel policies.

## Decision

- 43)(Board Decision 5) Recommend that the class of air travel guided by the current Secretariat travel policy and consistent with the WHO policy on class of air travel be continued with emphasis placed on using the most economical available fares within those policies.**

## **Section 6. PROCUREMENT BY THE SECRETARIAT (Annex IV)**

### Topic

- 44) MEFA to review and make recommendations to the Board on the draft policy on procurement of goods and services by the Secretariat, as set out in the document prepared by the Secretariat.

### Discussion

#### General Procurement Policy considerations

- 45) Several questions about Secretariat procurement practices have been raised by the Board. The policy and its practice should be transparent, should be



consistent with other procurement policies approved by the Board and used in international settings (e.g. the WHO procurement policy) and be flexible enough to allow for rapid and specialized procurement if needed.

- 46) It was suggested that, even in the near term, transparency could be served by posting information on the Fund's website about contracts up for bid and awarded.
- 47) Regarding potential conflicts of interest, it was felt that something more than self-supervision was necessary, and that specific rules should be set, possibly with a designated officer within the Secretariat charged with supervising compliance. MEFA members were advised that a Conflict of Interest policy and declaration form were being reviewed and recommended in the Board's committee on Governance and Partnership. This policy should be the foundation from which other more specific policies should be designed to address circumstances such as potential LFA conflicts of interest with principle recipients.
- 48) The dollar threshold at which some level of competitive bidding must be performed and an adjudication report be provided was questioned. It was felt that the threshold should result in 90% of procurement being subject to competition. Attention should be paid to avoiding circumvention by mechanisms such as sequential, lower value contracts being used instead of a single larger value contract. The Secretariat should revise the thresholds in the policy accordingly.

#### Inquiry into specific procurement matters

- 49) The Chairman updated MEFA on two procurement cases that the Board had asked the Committee to inquire into and report on. Each concerned the process followed by the Fund in awarding consulting contracts in the initial months of the Fund's operations, to McKinsey & Co. and to an individual consultant.
- 50) Regarding the McKinsey contract, there had already been reviews, discussions and reports on this contract, including explanations by the Executive Director and MEFA's Chairman to the Board via email. McKinsey's contract was ending by January end.
- 51) The independent contract in questions had been concluded many months ago, and the Chairman had examined the circumstances in detail with Secretariat personnel.
- 52) His conclusion was that a different process might be followed today, however, due to a great urgency to establish the Fund in earlier days and the special skills immediately required, the measures taken to secure these contracts

served the interests of the Fund. His recommendation to the Board would be to regard these two matters as history.

- 53) However, because the Chairman had performed an executive role for the Fund while these matters were current, it was agreed that definitive closure would best be served by a sub-group of MEFA to review the matters and report back to MEFA on their findings and recommendations, which would be subsequently relayed to the Board.

### **Decisions**

- 54) The Secretariat should revise the draft policy on procurement by the Secretariat so as to ensure that 90% of goods and services procured by the Secretariat would be subject to a competitive process.

- 55) The Secretariat should add language to the policy that prevents low value sequential contracts from circumventing thresholds, which would trigger a competitive selection.

### **56) (Board Decision 6) Recommend the Board approve the Secretariat Procurement Policy.**

- 57) A sub-group of MEFA, comprised of members Baconin, Lucas and Sherry, should review both inquiry matters raised by individual Board members and report to MEFA on their findings and recommendations.

## **Section 7. Fiduciary Arrangements (Annex V)**

### **Topic**

- 58) MEFA to consider the Fund's fiduciary arrangements including the role, selection process, current progress and fees for Local Fund Agents (LFAs) and make recommendations to the Board.

### **Discussion**

- 59) The Chairman underlined the need to continually realize the principles and vision of acknowledging, using and building in-country capacity when designing and implementing sound fiduciary policies and practices at the Global Fund. This reminder is needed especially in response to recent criticisms that the Fund was imposing standards and processes that were misaligned with country priorities and working mechanisms.

- 60) **LFA Role:** The Senior Fund Portfolio Advisor synopsized the role of the LFA being the "eyes and ears of the Global Fund" on principle recipient (PR)

capacity and performance in country. The Fund depends on the LFA to fulfill its fiduciary responsibility to donors. Accordingly, high quality and credible LFAs are essential. He explained that the LFA carries out critical assessments at various stages of the Fund's relationship with the PR to assure donor funds are appropriately used:

- a) An initial PR assessment, including evaluation of its capacity to manage four key elements: grant operations, financial transactions and reporting, procurement practices, and monitoring and evaluation practices.
- b) Implementation assessments, including reports on PR performance on milestones and quarterly financial reports to the Fund. These assessments form the basis for ongoing disbursements.
- c) End of grant assessment, typically done at the end of 2 years, this PR assessment and report is required by the Fund to approve new funding.
- d) In the process of these assessments, PR capacity or performance gaps should be reported to the Fund by the LFA, along with agreed to corrective actions by the PRs, CCMs and in country development partners. The LFA and the Fund are not involved in closing these gaps; they are concerned with monitoring to assure critical progress is made.
- e) The Chairman cautioned that this role can create resentment in country if it is carried out without country participation in problem analysis and resolution. It was emphasized that existing country capacity and systems should be used as much as possible to avoid new and unnecessary requirements that serve to distract versus support capacity development. Recent criticisms about Global Fund interactions in Tanzania were points of discussion.

61) **Oversight Alternatives, LFA Competence and Selection** : Controversy arose about whether oversight is best performed by an entity selected by the Global Fund or the CCMs. Points were made that oversight must be objective and unbiased, thus the argument for Global Fund selection. Other points were made that oversight must be experienced, relevant and contributing to improved performance, thus the argument for CCM or country selection of an oversight mechanism. It was emphasized that Global Fund donors would see a major conflict in delegating oversight or the selection of an oversight entity to CCMs.

62) It was recalled that the LFA concept was originally seen as a short-term solution during phase 1 of the World Bank's role as Trustee, when it was envisaged that the Bank would fulfill the oversight role under phase 2 of the Trustee agreement.

- 63) The Senior Fund Portfolio Advisor affirmed that it was the Fund's fiduciary responsibility to ensure reliable oversight and therefore, the Secretariat was responsible for appointing the LFA and monitoring its performance, as is the current practice. Variants of this practice were suggested:
- a) That the CCM propose the LFA to the Secretariat, which could accept or reject the proposal.
  - b) That the Secretariat maintain a panel of suitable LFAs, from which country specific selections will be made with approval of the CCM and while considering potential conflicts of interest.
- 64) Discussion on new options for LFA's ensued. IFAD was cited as successfully using oversight entities such as UNOPS and regional development banks to fulfill a similar LFA-like role for their loans.
- 65) Fair competition, cost effectiveness and transparency were emphasized for the future selection of LFAs. Private as well as public sector entities may come forward as LFA candidates, and will be evaluated by the Secretariat based on the LFA selection criteria. The intention is to conclude global LFA Framework Contracts with a limited number of LFA candidates to provide a "menu" of potential options, with final LFA selections for each grant based on potential conflicts of interest, CCM preferences, the quality of local presence, cost proposals, and other aspects related to the specific country context. In some cases the grant is part of a scale-up of activities already funded by another major donor with in country presence. Arrangements may be concluded with that donor to ensure accountability also for the Global Fund grant, if deemed appropriate by the CCM. In case a CCM has an alternative suggestion for a more suitable local entity to assume the LFA role, this suggestion will be evaluated by the Secretariat based on the LFA selection criteria.
- 66) There was discussion about whether the currently identified LFAs can be effective overseers of both the financial and non-financial aspects of PR performance and whether they are competent to recommend renewed funding. When a LFA does not have the capacity to perform a portion of the scope of work, it has subcontracted for that expertise. It was questioned on how effective this has been since many of these experts are unwilling to be subcontractors. It was suggested that public sector mechanisms be considered as alternative solutions.
- 67) **Conflicts of Interest:** Questions were raised as to how to prevent contracting with LFAs who have a conflict of interest in country. The selection of the LFA in Haiti was discussed as a relevant example. Contractual provisions have been made to mitigate any potential conflicts in Haiti and this approach will be used for any other such occurrences in other countries. It was acknowledged that potential conflicts of interest were unavoidable however their mitigation is critical.

68) It was recommended that a current draft of a conflict of interest policy for LFAs be reviewed in a subsequent meeting of MEFA.

### **Decisions**

- 69) The Fiduciary Arrangement document should set the vision for fiduciary oversight in country.
- 70) As part of that oversight, the Secretariat will document the functioning of CCMs and promote their strengthening.
- 71) The Secretariat should broaden and provide CCMs with a panel of qualified LFAs from which to choose and be open to evaluating other LFAs for their suitability as time and circumstances permit
- 72) The competence of potential LFAs should be assessed against the defined requirements of the LFA role
- 73) The Secretariat should negotiate umbrella agreements with qualified LFAs including the World Bank, UNOPS, regional development banks, auditing firms and other private sector organizations, etc.
- 74) The Secretariat will take the necessary steps to initiate a competitive procedure to contract LFAs for future rounds.
- 75) The next MEFA Committee meeting will discuss key elements of the Global Fund's fiduciary arrangements based on lessons learned, including a policy on conflicts of interest.
- 76) Regarding LFA fees, the Secretariat will minimize LFA costs as much as possible using price caps, price comparisons and cost proposals from LFA candidates. Discounts from the private sector will be sought.
- 77) (Board Decision 7) Recommend the Board direct the MEFA Committee to continue to improve the Fund's fiduciary arrangements to include reviewing LFA performance and fees, developing a LFA conflict of interest policy and reporting on the results of the Round 2 LFA selection. These actions should be reported to the Board in June 2003.**

## **Section 8. MONITORING AND EVALUATION METHODOLOGIES**

### **Topic**

- 78) MEFA to consider methods of assuring objective evaluation of Global Fund performance.
- 79) MEFA to consider the use of an independent Monitoring and Evaluation unit or external auditors.

## **Discussion**

- 80) Given the time constraints for discussion and the need to take action on securing an objective review of the Fund's finances, it was agreed to defer the full discussion on M&E methods (as supported by a paper distributed by the Secretariat) and recommend the selection of an external audit entity for the Global Fund financial statements.
- 81) MEFA was suggested as the forum to guide a competitive bidding process to select an external auditor of the Fund's financial statements. It was emphasized that a financial audit should be completed for yearend 2002 and reported to the Board in June since the Fund has been existence for a year and has not completed such an audit.
- 82) Questions were raised about the content and timing of the Global Fund's annual report. This topic should be considered by MEFA in its April 2003 meeting.

## **Decisions**

- 83)(Board Decision 8) Recommend the Board direct the Secretariat to draft a Monitoring and Evaluation Plan, which is reviewed by the MEFA Committee and presented to the Board for approval by the June Board meeting.**
- 84)(Board Decision 9) Recommend the Board direct MEFA to select a qualified external auditor to audit the Global Fund's financial statements, review the findings of the audit and recommend to the Board any necessary actions to be taken as a result of the audit findings at the June 2003 meeting of the Board.**
- 85)(Board Decision 10) Recommend the Board direct MEFA to discuss the advantages and disadvantages of an independent Monitoring and Evaluation unit versus the use of external auditors to assure objective evaluation and recommend to the Board the preferred method for independent review.**

## **Section 9. CLOSING**

- 86) The Chairman thanked the meeting participants for their candid and productive discussions and their progress on important issues. He also acknowledged that much work needed to be completed in preparation for the upcoming Board meeting in January. He asked for the following measures to be taken in preparation for the meeting:

- a) MEFA members should receive the following from the Secretariat by 6 January:
    - i) Revised Secretariat work plan and budget for 2003
    - ii) Revised LFA strategy
    - iii) Revised procurement policy
    - iv) Draft report of this meeting
  - b) MEFA should review and comment to the Secretariat on these documents within 24 hours, so that the final versions can be circulated to the Board in compliance with pre-Board meeting document deadlines.
  - c) The MEFA members asked to review the consultant cases should report their findings, with sensitivity to confidentiality, to the committee members via email and these findings should be included in the Committee's report to the Board.
  - d) The Secretariat will provide the MEFA members reviewing the consultant cases with the necessary documents to complete their review.
  - e) The Secretariat will also provide MEFA members with updated information on Round 1 and 2 proposals, including information on LFAs and CCMs, according to a format produced by the Chairman. Information on Round 2 proposals should be available by CD Rom shortly via the Secretariat.
- 87) The next meeting of MEFA will be on 28 January 2003, from 09h00 to 12h00 in Geneva. An agenda will be circulated for member input by the Chairman. The following meeting of MEFA will be held on 3 & 4 April 2003 in Geneva.
- 88) The Chairman declared the meeting closed at 18:00.

**Revised Agenda 20 December 2002**  
**Monitoring, Evaluation, Finance and Audit Committee (M.E.F.A.)**  
**Ramada Hotel**

**9.00 – 12.00**

1. **Introduction and Welcome of Members** 30 mins
2. **Terms of Reference for M.E.F.A.** (Review and approve) 30 mins
3. **Modus Operandi for M.E.F.A** (Discuss and agree) 20 mins.
4. **2003 Secretariat work plan and budget** (Review and recommend plan and budget) 60 mins.
5. **Travel Cost Analysis for Board delegates and Secretariat** (Review and recommend policy) 30 mins
6. **Procurement by the Secretariat** (Review cases, recommend policy) 30 mins.

**13.00 – 15.30**

7. **LFA and In-Country Fiduciary Strategy to date** (including existing LFA role, capacity, fees, conflicts of interest, the general LFA selection process, the use of in country alternatives and overall in-country fiduciary considerations - Review and recommend a plan to oversee and improve future LFA performance); 90 mins
8. **Monitoring, Evaluation and Reporting Plan** (Discussions on Strategy, Methods and Work Plan; Respond to Board requests to evaluate methods to assure independent evaluation; recent experience in Tanzania) 60 mins

**16.00-18.00**

9. **Next meeting** 20 mins



**Revised Terms of Reference for the Monitoring, Evaluation,  
Finance and Audit Committee  
(Adopted 20 Dec 2002)**

The Monitoring, Evaluation, Finance and Audit Committee **will review and make recommendations** to the Board on:

1. The Global Fund's **financial and programmatic performance** at global and country levels, ultimately measuring its impact on mitigating the burden caused by HIV/AIDS, tuberculosis and malaria in developing countries.
2. **Monitoring and evaluating mechanisms**, including performance indicators, reporting requirements and improvement plans to measure grantee and Fund performance.
3. The **effectiveness of "results based disbursement"** as a model to reward results and sanction misuse of funds.
4. **Secretariat budget** development and budget performance
5. **Use of financial resources**, including grant disbursements and other expenditures, as well as Trustee performance.
6. **Independent audit** methods, scope of work, timing and sources as well as report to the Board on independent audit findings and corrective action plans for the general Fund.

In addition it will address ***these specific tasks for the Board meeting in January 2003:***

- **Review and recommend** 2003 Secretariat workplan and budget;
- **Review** the results of the Fund's LFA strategy to date (including existing LFA's capacity, fees, contracts and responses to conflicts of interest, the general LFA selection process and the use of in country alternatives) and **recommend** a plan to oversee and improve future LFA performance;
- **Review and recommend** a method for independent auditing/monitoring and evaluation of general Fund performance and spot checks on in country fiduciary arrangements (e.g. timing and sourcing of audits);
- **Review and recommend** a plan for M&E, incorporating decision points on M&E taken at October Board meeting;

- **Review and report** to the Board on current concerns on the procurement of certain consultant arrangements and **recommend** a general policy for Secretariat procurement practices;
- **Review and report** to the Board the results of an analysis of Board delegate and Secretariat air travel costs, comparing the costs of current travel policies with a) all economy travel; b) adding travel coverage for additional NGO and developing country delegates.

## Travel Policy Analysis

### **Class of travel on long distance flights: Review of implications of removing the entitlements of Board members and Secretariat staff to travel in business class on long distance flights.**

January 2003

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#### **1 Background**

At its October 2002 meeting, the Board requested the Secretariat to analyze the implications of removing the entitlements of Board members and Secretariat staff to travel in business class on long distance flights, as allowed under the WHO travel policy which is currently applied by the Global Fund.

#### **2 Recommendations of MEFA**

At its December 2002 meeting, the Monitoring, Evaluation, Finance and Audit committee (MEFA) reviewed a travel analysis prepared by the Secretariat.

The analysis indicated that within the proposed Secretariat budget for 2003, which included travel costs of US\$2.1 million, savings of approximately US\$431,000 could be achieved if business class fares were replaced with (non-changeable) economy fares, or US\$169,000 if replaced with (changeable) full economy fares.

Against the larger amount of savings with non-changeable economy fares, the diminished flexibility of the lower fares and their lesser suitability for in-flight work or sleep had negative implications for productivity, travel efficiency and health risks, and would give rise to fees for itinerary changes, fees for stopovers and lengths of stays and the cost of replacement tickets if itineraries needed to be changed at short notice.

MEFA concluded that, taking account of the financial and non-financial implications, the WHO travel rules were reasonable. Accordingly, MEFA will recommend to the Board that the WHO rules should continue to be applied, while strongly encouraging Board members and Secretariat staff to make economies on travel costs wherever possible.

### 3 Financial implications

The Secretariat analyzed the travel plans reflected in the proposed budget for 2003 and calculated the savings which would arise if travel budgeted at business class fares was replaced with economy fares (full economy and discount economy), for long distance flights. (Short flights are always at economy fares, under the WHO rules.)

Annual cost of air travel (based on travel budget 2003)	Under current policy	If business class fares were replaced by:	
		Full economy	Economy
	US\$'000	US\$'000	US\$'000
Secretariat air travel	1,160	1,048	887
Board air travel	366	308	208
<b>Total air travel cost</b>	<b>1,526</b>	<b>1,356</b>	<b>1,094</b>
<b>Potential saving</b>		<b>169</b>	<b>431</b>

As indicated by this table, savings of approximately US\$ 431,000 could be achieved if business class fares were replaced with (non-changeable) economy fares, or US\$169,000 if replaced with (changeable) full economy fares. (See Appendix 1 for detailed calculations.)

Global Fund business often necessitates itinerary changes after travel has commenced. Where itinerary changes are required, economy ticketing would give rise to additional costs, ranging from change fees to the cost of replacement tickets. Additionally, depending on the restrictions associated with the ticket, the changed ticket may result in additional overnight stays where economy fares are unavailable at short notice.

### 4 Non-financial implications

Undertaking long distance travel in economy rather than business class offers less opportunity for work or sleep and hence has negative implications for productivity, travel efficiency and health risks:

Productivity: Global Fund travel generally involves going direct from a flight to a meeting and/or traveling again immediately after a meeting. Hence, on long distance missions, the flight is generally an essential time for work and sleep and this is rarely possible when traveling in economy class, hence eroding productive time.

Travel efficiency: If the traveler is unable to work or sleep in-flight, travel schedules may need to be extended with overnight stays before and/or after meetings, giving rise to additional per diem costs.

Health risks: In addition to specific health risks and discomfort for travelers with particular conditions, there is the general health risk posed by extended travel in confined seating.

## Appendix 1: Calculations on Travel (Airfare) Costs

Table 1

Annual cost of air travel (based on travel budget 2003)	Under current policy	If business class fares were replaced by:	
		Full economy	Economy
Secretariat air travel (Table 2)	US\$'000 1,160	US\$'000 1,048	US\$'000 887
Board air travel (Table 3)	366	308	208
<b>Total air travel cost</b>	<b>1,526</b>	<b>1,356</b>	<b>1,094</b>
<b>Potential saving</b>		<b>169</b>	<b>431</b>

Note:	US\$'000
Cost of air travel, per above	1,526
Subsistence costs, etc.	594
Total travel costs per draft budget 2003	<u>2,120</u>

Table 2

Summary of Secretariat air travel costs					Assumed to be at:		Total annual cost US\$
Fare	Number of trips			Cost	Non-business class fares	Business class fares	
US\$	Staff	Other	Total	US\$	US\$	US\$	
750	63	3	66	49,500	49,500		
1,000	20	15	35	35,000	35,000		
1,500	82	20	102	153,000	153,000		
various				71,000	71,000		
2,000	116	85	201	402,000	201,000	201,000	
2,500	64	0	64	160,000		160,000	
3,000	62	18	80	240,000		240,000	
3,500	4	10	14	49,000		49,000	
	411	151	562	<u>1,159,500</u>	<u>509,500</u>	<u>650,000</u>	
<b>Cost under current policy (as above)</b>					509,500	650,000	<b>1,159,500</b>
<b>Cost if business fares are replaced with Full economy fares</b>					509,500	538,571	<b>1,048,071</b>
<b>Cost if business fares are replaced with Economy fares</b>					509,500	377,000	<b>886,500</b>

**Table 3**

<b>Summary of Board air travel costs</b>		<b>If journeys longer than nine hours are at:</b>					
		<b>Business fares</b>		<b>Full Economy Fares</b>		<b>Economy Fares</b>	
	Number of funded delegates	Fare US\$	Cost US\$	Fare US\$	Cost US\$	Fare US\$	Cost US\$
<b>Cost per Board meeting</b>							
Flights less than 3 hours	4	750	3,000	750	3,000	750	3,000
Flights 3 to 9 hours	2	1,000	2,000	1,000	2,000	1,000	2,000
Flights more than 9 hours	12	3,500	42,000	2,900	34,800	1,850	22,200
Total flight costs, per meeting			47,000		39,800		27,200
<b>Cost per Committee meeting</b>							
Flights less than 3 hours	1	750	750	750	750	750	750
Flights more than 9 hours	3	3,500	10,500	2,900	8,700	1,850	5,550
Total flight costs, per meeting			11,250		9,450		6,300
<b>Annual cost</b>							
Board, 3 meetings			141,000		119,400		81,600
Committee, 5 meetings x 4 committees			225,000		189,000		126,000
<b>Total annual cost of Board air travel</b>			<b>366,000</b>		<b>308,400</b>		<b>207,600</b>

**Table 4**

<b>Air Fares (as quoted for January 2003)</b>			
<b>Long distance flights (to Geneva and return)</b>	<b>Business US\$</b>	<b>Full</b>	
		<b>Economy US\$</b>	<b>Economy US\$</b>
Beijing	4,600	3,810	
Bangkok	2,790	2,430	
Santiago	4,860	3,530	1,890
Brasilia	4,170	3,600	
Entebbe	3,330	2,680	
Pretoria	2,760	2,120	990
Johannesburg	2,760	2,120	990
Milwaukee	3,610	3,610	2,550
Hartford	3,300	3,300	2,550
Kampala	3,330	2,680	2,410
Islamabad	2,350	2,050	
Washington	3,100	3,100	2,490
Tokyo	4,820		830
	45,780	35,030	14,700
<b>Average per return journey</b>	3,522	2,919	1,838
<b>Figure used in cost estimations</b>	<b>3,500</b>	<b>2,900</b>	<b>1,850</b>
% reduction on business fare		17%	30%

**(PROPOSAL)**

**GLOBAL FUND POLICY**

**ON SECRETARIAT PROCUREMENT OF GOODS AND SERVICES**

**Guiding Principles**

1. In carrying out procurement of behalf of the Global Fund, Global Fund personnel should keep in mind that the Global Fund seeks to:
  - a. focus on greatest needs, streamlined processes, innovation, accountability, results and transparency; use the competitive process to maximize value
  - b. make use of existing international mechanisms wherever possible;
  - c. promote public/private partnerships at all levels in the Global Fund;
  - d. enter into mutually beneficial contracts that ensure maximal contractual performance; and
  - e. carry out its functions and programs with international law and agreements.

**General Requirements**

2. The following principles and rules apply to procurement practices for the Secretariat at the Global Fund. In consideration of the Global Fund's agreement with WHO to provide certain administrative services, including assistance with administrative procurement, the application of the following rules will be, to the greatest extent possible, consistent with the applicable rules of the World Health Organization.

**Code of Conduct**

3. The following standards of conduct shall govern the performance of personnel of the Global Fund engaged in the award and administration of contracts:
  - a. No employee, officer, Board member, or agent (including the Technical Review Panel) shall participate in the selection, award, or administration of a contract or grant awarded by or



on behalf of the Global Fund if a real or apparent conflict of interest would be involved. Such conflict would arise when the employee, officer, Board members or agent, or any member of such person's spouse, domestic partner, minor children, business partner or associate, or an organization which employs or is about to employ and of the parties indicated herein, has a financial or other interest in the firm selected for an award.

- b. The officers, employees, Board members and agent of the Global Fund shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or grantees of the Global Fund, provided, however, this prohibition shall not apply to a give that is an unsolicited item of nominal value.
- c. Disciplinary action may be applied for violations of such standards by employees. Violation for such standards by members of the Board will be addressed by the Chair or Vice Chair in the Chair's absence. Violations by agents may result in contract terminations or legal action.

### **Competitive Contracting**

4. All procurement transactions shall be conducted in a competitive manner, to the extent appropriate to the circumstances. Several options are available to build competition into a procurement process:
  - a. "Open competition" – **the preferred method of competition, when time and specialist expertise are not limiters.** An open competition begins with a request for proposal (RFP) for a certain scope of work, with clearly articulated selection criteria and a response deadline that all bidders must comply with. The RFP is sent to a broad distribution of potentially qualified vendors and is often accompanied with a bidders' conference to which all vendors are invited to seek clarification to the RFP.
  - b. "Selective competition" – defined as a process by which a group of known and qualified vendors is asked to bid on a particular scope of work (e.g. short listed vendors). This is often done to meet short timelines that an open competition cannot accommodate or specialty expertise that a broad distribution would not immediately capture. A selective competition often includes vendors who have been previously qualified for a "short list" from an earlier open competition.

- c. "Sole source selection" - defined as the selection of one vendor that fully meets the requirements of a scope of work and has not gone through an open competition. Sole source vendors should only be used for work when time does not allow for an open or selective competition or the vendor is the only one qualified for the scope of work.
5. Open competition is the preferred method for procurement practices at the Global Fund. However, the Global Fund may award a contract to an entity on the basis of other than open competition under the following circumstances:
  - a) The dollar value of the contract is less than \$70,000 for the life of the contract
  - b) A contract is awarded under circumstances of compelling urgency
  - c) The expertise and skills needed for the scope of work can only be fulfilled by one or a few vendors
  - d) A recent competitive process has yielded an acceptable short list of vendors to select from
  - e) The contract is awarded to a qualified United Nations organization, public international organization or governmental entity that is competitive in skills and costs
  - f) A qualified vendor is willing to do pro bono or in-kind work that meets the scope of work requirements
6. Under the circumstances stated above, the cognizant Global Fund officer shall prepare a memorandum (aka. adjudication report) setting forth the rationale for the noncompetitive contract award, including the identification of the compelling urgency, the special expertise and skills needed and the vendor(s)' unique qualifications to meet the requirements, the ability of the pro bono vendor to do the requested scope of work and/or the open competition leading to a short list of vendors and the vendors' ongoing qualifications to perform the work. The memorandum shall be submitted to the Executive Director or the Chief Operating Officer of the Global Fund for approval in writing.
7. Even when these rules permit the Global Fund to award a contract on a noncompetitive basis, the Global Fund should, if possible and appropriate, consider more than one source. In the event of serial contract awards to one vendor, the aggregate amount of the awards will apply to the threshold as listed in Section 2a.

## **Conflicts of Interest**

8. Global Fund personnel shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict competition. Global Fund personnel shall comply with the organization's general conflict of interest policy covering individual and institutional conflicts, whereby personnel who will potentially receive a financial benefit from the selection of a particular vendor may not participate in any part of the procurement process, from independently defining the scope of work to defining the bidder distribution list or evaluation of bidders.
9. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, invitations for bids, or requests for proposals shall generally be excluded from competing for such procurements, unless the Global Fund determines otherwise.

## **Procurement Principles and Processes**

10. At a minimum, Global Fund procurement shall be conducted in the following manner:

### **a. Contract Awards**

- i. Solicitations to bidders shall clearly establish the requirements that the bidder shall fulfill in order to be evaluated by the Global Fund. These solicitations should include the following:
  1. A clear and accurate description of the technical requirements for the material, product or service to be procured. In competitive procurements, such a description shall not contain features which unduly restrict competition.
  2. Minimum requirements which the bidder must fulfill and all other factors to be used in evaluating bids or proposals. Relative weights will be attached to the requirements to signify their importance in the selection process.
  3. The specific features of "brand name or equal" descriptions that bidders are required to meet when such items are included in the solicitation.
- ii. Offers or bids will be judged on the degree to which they fulfill the stated requirements.

- iii. Contracts shall be made to the bidder whose offer is responsive to the solicitation and is most advantageous to the Global Fund, price, quality, and other factors considered. In addition to having the requisite capacity to perform and a competitive price, such matters as contractor integrity, record of past performance, financial and technical resources, or accessibility to other necessary resources are factors that the Global Fund will consider in contract awards.
- iv. Contract awards for greater than \$120,000 must be reviewed by a selection panel, comprised of finance, legal and a subject matter expert. The panel must recommend the best vendor to the COO with documentation on the how each bidder met or did not meet the bid specifications and the reasons for the panel's recommendation.
- v. A price or cost analysis shall be performed for each awarded contract. Price analyses may be accomplished in various ways, including the comparison of price quotations submitted, comparisons to market prices, historical price trends and the costs of alternate solutions.
- vi. The Global Fund will determine the type of reimbursement instruments used (e.g. fixed-priced contracts, cost-reimbursable contracts, incentive contracts, pro bono/in-kind provisions). The reimbursement instrument must be appropriate for the particular procurement and for promoting the best interests of the Global Fund or the particular program involved.
- vii. Any and all offers may be rejected when it is in the Global Fund's interest to do so.

#### **b. Documentation and Administration**

- i. Procurement records and files for purchases in excess of \$120,000 must include the following at a minimum:
  - 1. The basis for the contractor selection, including how it rated compared to other vendors;
  - 2. The justification for a lack of competition when competitive bids or offers are not obtained; and
  - 3. The basis for the award cost or price, including the appropriate price comparisons.
- ii. A system for contract administration shall be maintained to ensure contractor conformance with terms, conditions, and specifications of the contract and to ensure accurate and timely follow up of all purchases or services rendered.

Recipients shall evaluate contractor performance and document, as appropriate, whether contractors have met the terms, conditions, and specifications of the contract.

### **Specific Contract Terms**

11. Upon selection of the best vendor and awarding of the contract, Global Fund personnel shall ensure that the following provisions are incorporated in all contracts and subcontracts:
  - a. Contracts in excess of \$120,000 must contain contractual provisions or conditions that allow for administrative, contractual, or other remedies (including arbitration where appropriate) in instances in which a contractor violates or breaches the contract terms, and provide for such remedial actions as may be appropriate.
  - b. Contracts in excess of \$120,000 shall contain suitable provisions for termination by the Global Fund, including the manner by which termination will be effected and the basis for settlement. In addition, such contracts shall describe conditions under which the contract may be terminated for default as well as conditions where the contract may be terminated because of circumstances beyond the control of the contractor.
  - c. In all contracts for construction or facility improvement awarded for more than \$120,000, the Global Fund must require the contractor to observe generally accepted bonding requirements.

### **Authority to Execute Contracts**

12. Contracts awarded by the Global Fund will be signed by the Executive Director of the Global Fund or the Chief Operating Officer.

### **Waivers**

13. The Executive Director of the Global Fund, on an exceptional basis, may waive any of the requirements of this policy where adhering to the requirements would impair the Global Fund's ability to achieve significant policy or programmatic objectives. The Executive Director will document for the record the basis for waiving the requirements in question.

## STATUS OF FIDUCIARY ARRANGEMENTS

### **Table of Contents**

1. Introduction
2. The Global Fund's fiduciary arrangements and architecture
  - a) Fiduciary principles
  - b) Parties to the Global Fund's fiduciary architecture
  - c) Assessment of Principal Recipients (PRs)
  - d) Results based disbursements and reporting
3. Contracting of Local Fund Agents (LFAs)
  - a) LFA responsibilities
  - b) LFA selection criteria
  - c) Conflicts of interest in LFA contracting
  - d) Progress with LFA arrangements for first round grants
  - e) Proposed arrangements to select LFAs for future rounds
  - f) LFA fee arrangements and estimated budget for 2003
4. Next Steps

### **Annexes**

1. Overview of the Global Fund's reporting guidelines for Principal Recipients

### **Acronyms**

PR	Principal Recipient
LFA	Local Fund Agent
CCM	Country Coordinating Mechanism
MEFA	Monitoring and Evaluation, Finance and Audit Committee

## 1. Introduction

1. Since the October 2002 Board meeting, the Secretariat has worked to fine-tune the Global Fund's fiduciary approach and arranged for workable solutions to initiate disbursements to Round 1 countries. This note describes the Global Fund's fiduciary arrangements, the approach to contract Local Fund Agents (LFAs), and next steps. As stressed during the December 2002 meeting of the Board Committee on Monitoring and Evaluation, Finance and Audit (MEFA), fiduciary arrangements for each grant recipient should be based on the specific country context and in line with donor harmonization efforts. Key items covered in this note will continue to be discussed, as appropriate, during the next meeting of the MEFA Committee.
2. The Global Fund's refined fiduciary approach includes: (i) guidelines to assess that Principal Recipients (PRs) of Global Fund grants have the minimum systems and capacities, as relevant to each CCM proposal, needed for financial management, procurement, and monitoring and evaluation; (ii) Terms of Reference for LFAs; and (iii) a framework for monitoring and evaluation and results-based disbursements, including guidelines for PR reporting.<sup>1</sup> Additional draft documents on these items will be distributed for discussions during the next meeting of MEFA. With guidance from MEFA and lessons learnt from the Round 1, the Secretariat aims to continuously improve upon and fine-tune the Global Fund's fiduciary arrangements.

## 2. The Global Fund's fiduciary arrangements and architecture

### a) Fiduciary Principles

#### *The Global Fund's Fiduciary Principles*

The Global Fund is a financial instrument, not an implementing entity, and aims to provide result-based funding to fight the three diseases. The Fund will:

- Rely on CCM partners at country level for implementation of programs
- Promote rapid release of funds to target populations
- Establish robust and reliable systems for monitoring of financial and programmatic accountability built, to the degree possible, on existing standards and requirements in grant recipient countries
- Monitor and evaluate program effectiveness and make decisions for future funding based on results

3. The Global Fund contributes to countries fighting HIV/AIDS, tuberculosis and malaria by raising additional financial resources, disbursing funds to effective country owned programs, and monitoring the impact these funds have as measured by results towards agreed-upon indicators and milestones. As a new

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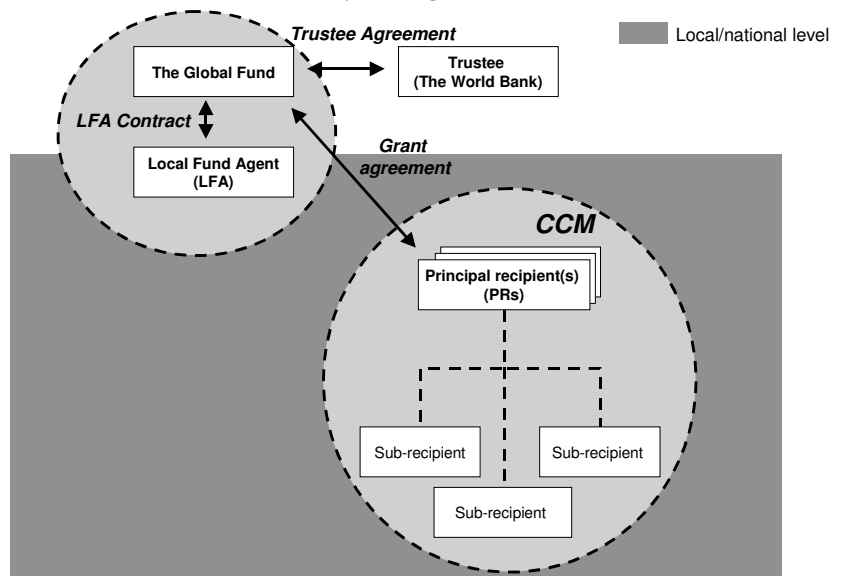
<sup>1</sup> Key features of the Global Fund's reporting framework is based on donor harmonization efforts, in particular the OECD DAC Task Force on Donor Practices *Good Practice Reference Paper on Reporting on Financial Aspects and Auditing*

financing mechanism, the Global Fund needs an accountability system to ensure that grant proceeds are used for the intended purposes without imposing unnecessary new burdensome requirements on grant recipients. It is the intention of the Global Fund that its fiduciary arrangements should be responsive to country specific contexts and, as far as possible, support sustainable local organizational development. The Global Fund's arrangements for monitoring and evaluation of programmatic results and financial accountability should be in line with donor harmonization efforts and, to the degree possible, build on existing systems in grant recipient countries. To achieve its fiduciary objectives, the Global Fund will rely on local in-country stakeholders for the design and implementation of programs and, to the extent required, arrange for independent in-country advise on results achieved and accountability for its continuous funding decisions.

## b) Parties to the Global Fund's fiduciary architecture

4. **Country Coordinating Mechanisms (CCMs)**, with the participation of stakeholders from the public and private sector, civil society and development partners, design and submit proposals for funding to the Global Fund. Throughout the implementation of approved

Parties to the Global Fund's fiduciary arrangements



proposals, respective CCM members will assume different roles, as appropriate to ensure efficient achievement of results towards programmatic targets and milestones.

5. As CCMs are not legal entities, they cannot be held accountable for Global Fund grants. Therefore, CCM members should nominate one or more suitable **Principal Recipients (PRs)** among themselves to enter into the grant agreement with the Global Fund and to be responsible for programmatic results and financial accountability, including arrangements for disbursement of funds to sub-recipients, procurement and monitoring and evaluation. PRs are normally expected to be local entities from the public or private sector or civil society. Each PR may be responsible for several sub-recipients, as decided by the CCM. These sub-recipients will in turn receive funds for specific program activities.



6. As far as possible, the Global Fund intends to leverage existing development partnerships in country to promote the successful implementation of programs to fight the three diseases. Local offices of **development partners** can play key roles to assist with the development of proposals, to ensure PRs and sub-recipients receive support for capacity building and promote the successful functioning of CCMs.
7. In its role as a financing mechanism, the Global Fund does not have the intention to establish its own local presence in grant recipient countries to assure the appropriate and productive use of grant proceeds. Rather, the Fund intends to rely on assistance as required from suitable in country experts: **Local Fund Agents (LFAs)**. In order to avoid potential conflicts of interests with PRs, the LFAs should be independent from the design and implementation of the funded programs and selected by the Global Fund.
8. With the agreement of national CCMs, the Global Fund normally expects to contract with one LFA per grant receiving country to assist with an up-front assessment of the capacities of the nominated PR(s) as well as monitor the PR(s)' on-going performance with grant implementation. The level of work required for each LFA will depend on the specific country context and PR competence and is expected to decline as PRs demonstrate results and financial accountability.

### c) Assessments of Principal Recipients

9. In order to successfully implement approved proposals, PRs need certain minimum capacities and systems. For each grant, the LFA in country will make a recommendation to the Global Fund on the adequacy of the capacities and systems of each nominated PR against defined Required Minimum Capacities (RMCs) and in relation to the approved CCM proposal. The objectives of the PR assessment are to:
  - Determine if each PR is ready to begin managing and implementing the CCM proposed activities, and
  - Identify critical functional gaps that may need to be closed in the short- and long-term to enhance the efficiency and effectiveness of the implementation of the

***What makes a Global Fund assessment different?***

- Principal Recipients are empowered to make decisions that reinforce their accountability. The PR's financial management and disbursement arrangements will be assessed against required minimum capacities that are relevant to the CCM's proposal; the Global Fund does not prescribe PR financial management and disbursement arrangements.
- A Global Fund assessment relies on the PR's performance record with other donor-financed projects. Original assessments will be performed by the LFA only on those areas in which the PR does not have a proven performance record or there is a need to validate certain capacities.
- The PR's existing systems are relied upon, to the extent that they can provide adequate accountability over the Global Fund grant proceeds and ensure efficient flow of funds to sub-recipients.

CCM proposal.

10. The PR assessment will correspond to Required Minimum Capacities, as defined by the Global Fund, for successful proposal implementation in four different areas:
  - i. Financial Management and Systems
  - ii. Institutional and Programmatic
  - iii. Procurement and Supply Management and
  - iv. Monitoring and Evaluation.
11. The LFA's recommendation should, as far as possible, rely on each PR's performance record with other donor-financed projects. Original assessments will be performed by the LFA only in those areas in which the PR does not have a proven track record or there is a need to validate certain capacities. CCMs will be encouraged to present existing assessments to the Global Fund to avoid duplication of efforts.
12. The need to speed up the disbursement process for Round 1 grants must be balanced against accountability risks and the need for CCMs to more fully develop implementation arrangements. Therefore, a two-step process has been designed for Round 1 whereby the assessment of the Financial Management and Systems of each PR must be complete before signing the grant agreement and disbursing the first advance of funds. Other parts of the assessment should be completed within the first six months after grant signing. Before funds may be used to procure medical products,<sup>2</sup> the Procurement and Supply Management assessment must be completed. For the second and subsequent proposal rounds, the intention is to complete all four components of the PR assessment before signing grant agreements.

#### **d) Results based disbursement and reporting**

13. The Global Fund aims to link disbursements of funds to achievements of programmatic results and demonstrated financial accountability. The results based disbursement approach should enable optimal use of Global Fund resources worldwide to maximize impact on epidemics and provide a tool for early success/warning signs for rapid decision-making.
14. It is the responsibility of PRs to periodically report on programmatic results and financial accountability, request additional disbursements, and receive funds from the Global Fund's Trustee, the World Bank. PRs should also ensure efficient disbursements of funds to sub-recipients, as decided by the CCM, and ensure that reporting requirements for sub-recipients are aligned with the Global Fund's overall reporting approach.

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<sup>2</sup> Including pharmaceuticals, diagnostic tests, bed nets, insecticides, sprays for malaria, other products for prevention (such as condoms) or laboratory equipments and supportive products (microscopes, reagents, etc.)

15. The Global Fund's framework for PR reporting is designed to:
- Provide information for periodic monitoring of program results, including cost effectiveness, and identifying areas in which success has been achieved or in which assistance may be required to make programs more effective;
  - Promote the use of the PRs' existing reporting systems as tools for the PRs' own management of its program and reporting to the Global Fund;
  - Provide progress reports on program results to the Global Fund to support disbursement and financing decisions;
  - Support PRs in the creation and operation of their reporting systems to monitor sub-recipient performance; and
  - Be in line with and supportive of donor harmonization efforts.<sup>3</sup>
16. An overview of the Global Fund's draft guidelines for PR reporting are provided in Appendix 1, and will be discussed during the next MEFA Committee meeting.
17. LFAs will monitor programmatic progress and financial accountability for the Global Fund grants based on the reporting of the PRs. LFAs are to receive and review the PRs' reports, perform ad hoc field verifications as appropriate, and submit to the Global Fund a validation of the content of the report and a recommendation on the appropriateness of the request for additional funds. In its recommendations, LFAs will highlight key achievements and potential issues, and suggest possible actions to address performance gaps. The level of work involved for LFAs in this process will depend on each PR's demonstrated track record and assessed needs for capacity strengthening.
18. CCM members should receive copies of the PR reports as well as the recommendations from the LFA to the Global Fund on additional disbursements and/or other actions. From this information, CCMs will get feedback about successful efforts and areas for improvement in grant performance. CCMs and PRs can acquire support from their development partners to assist with closing performance gaps and strengthening capacities.

### **3. Contracting of LFAs**

19. The purpose of the LFA arrangement is to allow the Global Fund to (i) ensure that Principal Recipients have the necessary capacities and systems to successfully implement approved CCM proposals and (ii) throughout program implementation, monitor the use of grant proceeds for accountability.
20. As confirmed by the December 2002 MEFA Committee meeting, it is the responsibility of the Secretariat to select and contract LFAs in view of country contexts and after consultation with CCMs.

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<sup>3</sup> The key features of the OECD DAC Task Force on Donor Practices Good Practice *Reference Paper on Reporting on Financial Aspects and Auditing* form the foundation of the Global Fund's reporting framework.

### **a) LFA responsibilities**

21. The level of work required for LFAs depends on the specific country context and the track-records of the PRs selected by the CCMs. The scope of LFA responsibilities includes:

- Up-front assistance with grant negotiations preparations by:
  - providing recommendations to the Global Fund on PR capacity;
  - identifying needs for capacity strengthening;
  - assisting as needed with preparations for grant agreement negotiations, including facilitating an agreement between the Global Fund and the PRs on periodic program milestones and associated budgets for monitoring purposes.
  
- Throughout the program, oversight of the PR's progress with implementation and financial accountability by:
  - periodically (e.g., each quarter) receiving and reviewing financial and non-financial progress reports from the PRs and making recommendations on requested additional disbursements and/or other actions to the Global Fund;
  - performing ad-hoc field visits for verification purposes;
  - reviewing annual independent annual audit reports of the PRs.
  
- At the end of the two years, approval of additional funding by:
  - analyzing financial audits and evaluations;
  - preparing a completion report;
  - recommending future funding of the program to the Global Fund.

22. To avoid conflicts of interest, it is not the role of the LFAs to be actively involved in the implementation of the approved proposal. Programmatic responsibilities rest solely with the PRs and the support of other CCM members. Further, it is not the role of the LFA to assist the PRs or other members of the CCM with capacity building. Rather, development partners have a key role to assist in strengthening the capacities of PRs and other CCM members as required for successful implementation of programs.

### **b) LFA selection criteria**

23. The selection criteria for LFAs should reflect the expertise required to successfully assume LFA responsibilities and minimize costs for the Global Fund. In order to reduce costs, leverage economies of scale for LFAs and

minimize the time requirements for the Secretariat to screen and contract potential LFA candidates, the total number of LFAs should be limited.

24. Based on the LFAs' responsibilities and feedback from the December 2002 MEFA Committee meeting, the list of criteria in the following table will be used for LFA selections:

<b>LFA criteria:</b>
<u>Independence</u> , in order to avoid potential conflict of interests with CCMs and PRs
<u>Relevant expertise</u> , including: <ul style="list-style-type: none"><li>• Overall quality consulting</li><li>• Financial management expertise</li><li>• Programmatic management expertise</li><li>• Health expertise</li><li>• Procurement expertise</li><li>• Expertise in Monitoring and Evaluation</li><li>• Familiarity with broader development cooperation processes and actors</li></ul>
<u>Responsiveness</u> to the Global Fund's needs, including ability to mobilize quickly
<u>Proven track record</u> , including comparable assignments and key staff members
<u>Wide geographic coverage</u>
<u>Competitive prices</u>

25. Based on the Secretariat's research and discussions to-date with potential LFA candidates from both the private and public sector, it was deemed necessary to prioritize among different desirable areas of expertise in the selection of LFAs.
- For the PR assessments, experiences from Round 1 demonstrate that expertise including procurement and monitoring and evaluation can be successfully sub-contracted by LFAs, if necessary.
  - For the ongoing monitoring of the PRs' progress with implementation, expertise related to financial accountability is judged to be of higher priority than e.g., technical health expertise, as it is not the primary role of the LFAs to assist with programmatic improvements.

### **c) Conflicts of interest for LFA contracting**

26. In order to provide the required advice on grant accountability and avoid potential conflicts of interests with PRs, the LFA should be independent from the design and implementation of the proposal. The Secretariat is aware of the need to specifically define the activities in each country, in relation to their relationships with local PRs and CCMs, which might constitute conflicts of interest for the LFAs, including e.g., procurement and capacity building. The Governance and Partnership Committee will provide overall guidance on conflicts of interests for the Global Fund. A proposed policy specifically for LFA conflicts of interest will be prepared by the Secretariat for the next the MEFA Committee meeting.

### **d) Progress with LFA arrangements for Round 1**

27. During the summer of 2002, the Secretariat considered a wide range of firms and public institutions as LFA candidates. Based on desk research and meetings with a large number of potential public and private sector LFA candidates, four entities were deemed as the most suitable among those that made themselves available for the LFA role: PriceWaterhouseCooper (PWC), KPMG, Crown Agents and UNOPS. Non-country specific Memorandums of Understanding for the LFA role were concluded with these four LFA candidates.

28. In order to fine-tune the disbursement approach for Round 1, LFAs were subsequently contracted for four “start-up” countries to assist with pre-grant signing work: PriceWaterhouseCooper for Ghana, Sri Lanka and Tanzania, and KPMG for Haiti. The contracts were concluded between the Global Fund and PriceWaterhouseCooper and KPMG Geneva, respectively. However, the actual work in country was undertaken by the local PWC and KPMG offices, using mostly national staff. UNOPS was contracted in October as LFA for China. Based on experiences in the “start-up” countries, and taking into account the opinions expressed by Board members during its October 2002 meeting, the Secretariat refined the disbursement approach for Round 1, as well as the specific Terms of Reference for LFAs.

29. For all remaining Round 1 countries, Regional Portfolio Managers performed research to evaluate which LFA contractor would be most appropriate for each particular country context and PRs, specifically looking at potential conflicts of interest, relevant in-country experience and expertise, and cost proposals. After receiving input from CCMs on their preferred LFA option, the Secretariat proceeded to conclude fee negotiations, standardized by fee caps and commitment from LFAs that the rates paid by the Global Fund would not exceed those paid by other donors for similar work in each grant recipient country. Most Round 1 CCMs have confirmed their acceptance of one of the above-mentioned four LFA candidates. For a small number of countries, alternative solutions are being investigated as requested by the national CCM.

#### **e) Proposed arrangements to select LFAs for future rounds**

30. In order to promote fair competition, cost effectiveness and transparency, a competitive procedure should precede the selection of LFAs. Private as well as public sector entities may come forward as LFA candidates, and will be evaluated by the Secretariat based on the LFA selection criteria. The intention is to conclude global LFA Framework Contracts with a limited number of LFA candidates to provide a "menu" of potential options, with final LFA selections for each grant based on the specific country context.
31. A suitable LFA for each grant receiving country is normally expected to be selected by the Secretariat among the entities with which the Global Fund has concluded a Framework Contract, taking into account potential conflicts of interest, CCM preferences, the quality of local presence, cost proposals, and other aspects related to the specific country context. In the case where the program to be funded by the Global Fund is a scale-up of activities already funded by another major donor with in-country presence for monitoring purposes, arrangements may be concluded with that donor to ensure accountability also for the Global Fund grant, if deemed appropriate by the CCM. In case a CCM has an alternative suggestion for a more suitable local entity to assume the LFA role, this suggestion will be evaluated by the Secretariat based on the LFA selection criteria.
32. The Secretariat intends to advertise an open competitive procedure to conclude global LFA Framework Contracts. Additional LFA candidates will be expected to present their qualifications based on the selection criteria, including the possibility for more than one entity to form a consortium and jointly offer the full range of expertise required to successfully fulfill the LFA role.

#### **f) LFA fee arrangements and estimated budget for 2003**

33. The fee arrangements for each LFA are to be based on the specific country context, a fee cap and negotiated cost proposals from LFA candidates. Given the difference between PR capacities and track records, country contexts and the complexity of proposals, LFA costs are expected to differ between grant receiving countries. Based on the Secretariat's preliminary estimates of the required professional staff and time needed to fulfill the LFA responsibilities, as well as the limited number of cost proposals from LFA candidates received to-date, the assessment of the PRs is expected to cost about *USD 75.000 per PR*, and the oversight work of the LFA is expected to cost about *USD 100.000 per component per year* for most countries.

34. The total LFA budget for 2003 is estimated to be USD 16,425,000 million based on the following assumptions:

<b>Estimated LFA Fees for 2003</b>		
<b>1. PR Assessments</b>		
	Round 1	Round 2 (pending Board approval)
Number of countries	40	63 <sup>4</sup>
Number of PRs expected to be assessed in 2003	39 <sup>5</sup>	78 <sup>6</sup>
Average fee per PR assessment	\$75.000	
<b>Total cost</b>	<b>USD 8.825 million</b>	
<b>2. LFA oversight work</b>		
	Round 1	Round 2 (pending Board approval)
Number of components	58 <sup>7</sup>	98 <sup>8</sup>
Average annual oversight fee per component	\$100.000 for single components, \$50.000 for incremental components	
Average fraction of year required for LFA oversight work <sup>9</sup>	80%	50%
<b>Total cost</b>	<b>USD 7.6 million</b>	

35. The Secretariat will update these assumptions at the next MEFA Committee meeting as additional LFA contracts are finalized for Round 1. The potential to receive price discounts from private sector LFA candidates will also be further explored. LFA costs, including the costs of Secretariat preparation and oversight,

<sup>4</sup> 16 "repeat" countries, that submitted approved proposals in Round 1, and 47 "new" countries

<sup>5</sup> For Round 1 approved proposals, 29 CCMs have nominated one PR, four have nominated two PRs, one has nominated three PRs, and six PR nominations are still pending. Seven PR assessments have already been completed for Round 1, including for two countries with two PRs each.

<sup>6</sup> With very limited information on PRs for Round 2 currently available, the estimated number of PRs is based on the following assumptions: half of the 16 "repeat" countries will nominate one additional PR for the Round 2 grant and half of the 47 "new" countries will nominate two PRs.

<sup>7</sup> 18 of the 58 components are incremental, i.e., countries had more than one proposal approved in Round 1.

<sup>8</sup> 50 of the 98 components are incremental, i.e., additional approved proposals from countries with other approved proposals.

<sup>9</sup> Since the PR assessments and grant negotiation preparations will take a certain time to complete, the average number of months remaining in 2003 after grant agreements have been signed is expected to be nine for Round 1 countries and six for Round 2 countries.



will be further discussed at the next MEFA Committee meeting. As appropriate, the LFA budget will be revised based on new information.

#### **4. Next Steps**

36. The Secretariat aims to finalize grant negotiations with as many Round 1 grant recipients as possible before the January Board meeting. One LFA for each country will normally be contracted to assist with this process.
37. The Secretariat will attempt to minimize LFA costs as far as possible, and negotiate LFA fees based on a price cap and cost proposals from LFA candidates. Discounts from private sector firms will be sought.
38. The Secretariat will take the necessary steps to initiate a competitive procedure to contract LFAs for future rounds.
39. The Secretariat will document the functioning of CCMs and promote the strengthening of CCMs through sharing of best practices and lessons learnt between countries.
40. The next MEFA Committee meeting will discuss key elements of the Global Fund's fiduciary arrangements based on lessons learnt, including a policy for conflicts of interest for LFA contracting.
41. The subsequent MEFA Committee meeting will review the LFA budget based on additional available information.
42. Board members are invited to suggest means to strengthen CCMs, facilitate the work of the LFAs, and build synergies with already existing efforts in countries. The Secretariat especially encourages sharing of information between development partners in country and the local LFAs, including providing already completed assessments of PRs to LFAs to avoid duplication of efforts.

**Appendix 1:**

**Principal Recipient Reporting Guidelines: Draft for discussion at the next meeting of the MEFA Committee**

**1. Introduction and Objective**

43. The objective of the Global Fund's Principal Recipient (PR) reporting framework is to:

- Furnish information for monitoring program results, including cost effectiveness, and identifying areas in which success has been achieved or in which assistance may be required to make programs more effective
- Promote the use of PRs' own reporting systems not only as tools for the PRs' own management of the program, but also for reporting to the Global Fund,
- Provide progress reports on PR program results to the Global Fund for making necessary disbursement and financing decisions,
- Support PRs in the creation and operation of their reporting systems to monitor sub-recipient performance, and
- Be in line with and supportive of donor harmonization efforts.

44. The key features of the *Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) Task Force on Donor Practices Good Practice Reference Paper on Reporting on Financial Aspects and Auditing* form the foundation of the Global Fund's reporting framework; these features include:

- *Fiscal Year* – The PR's fiscal year defines its reporting period.
- *Use of PR Systems* – To the extent possible, PR's own systems are used to manage and report on the program implementation and results.
- *Currency of Reporting* – Expenditure reports and annual audited financial statements are in the PR's reporting currency.
- *Format and Content of Expenditure Statements* – The line items for the budget and expenditure reports adequate to manage and monitor the program are agreed with the PR, based on the line items the PR normally uses for management of the program; the Global Fund does not prescribe standard formats or line items. Where PR accounting standards are in conformity with applicable international standards or differ in insignificant ways, the PR's accounting standards are accepted. The periodic expenditure report included with the Disbursement Request and the annual audited financial statement should preferably be in the same format.
- *Audit Requirements* -- There is a single audit report for the program, using the Terms of Reference developed by the OECD DAC harmonization work; where there is joint financing of a program, a single audit report is acceptable. Audit reports are due within six months of the end of the PR's fiscal year. While applicable international audit standards should be used for conducting the audit,

national standards are acceptable where these are consistent with the international standards in all material respects.

45. The *Guides and Tools for Grant Agreements: Results-Based Disbursement Framework* provides an overview of the entire results-based disbursement approach; the reporting guidelines are in support of this approach and provide more detailed guidance on making the results-based disbursements an operational reality.

## **2. Global Fund Guiding Principles**

46. The Global Fund guiding principles provide background to the overall work of the Global Fund and an essential foundation for the approach and philosophy of the reporting framework. An understanding of these guiding principles and how they translate into the operational realities of reporting is critical to the effective and efficient implementation of the reporting framework. These principles also provide the framework for what is different about the Global Fund's reporting framework.

### ***What makes Global Fund reporting different?***

- Integrated quarterly and annual programmatic and financial reporting focusing on results, not just on inputs.
- Quarterly reports are used for both monitoring implementation progress and making disbursement decisions.
- The PR's existing systems are relied upon, to the extent that they can provide adequate reporting on results and accountability over the Global Fund grant proceeds.
- The framework is strategic in defining reporting requirements, while empowering Principal Recipients to make decisions reinforcing their accountability.

## **3. Disbursement Request and Quarterly Reporting**

47. The quarterly Disbursement Request is used to (a) monitor and report on the programmatic and financial progress of the PR's implementation and (b) request additional disbursements from the Global Fund. The Disbursement Request, due within 45 days after the end of the PR fiscal quarter, is used for both purposes; no additional periodic reports are required. This integrated reporting format focuses on results (i.e., achievement of milestones and improvement on indicators with demonstrated accountable use of the Grant proceeds), rather than on inputs.

48. In the Disbursement Request, the PR will estimate its cash requirements for the next two reporting periods (i.e., quarters) and, taking into account the cash on hand, calculate the disbursement required from the Global Fund. In addition, the PR reports on progress towards achieving agreed milestones and planned indicators. This integrated approach enables the PR to always have an adequate balance of cash on hand to meet program expenditures, while making the Global Fund's disbursements responsive to actual program results. Based on demonstrated results and accountable use of the Grant funds, PRs can request additional disbursements outside of the normal quarterly disbursements; the Disbursement Request format would be used for such additional disbursement requests.
49. The Disbursement Request should be submitted every quarter, even if the PR does not plan to request a disbursement from the Global Fund. Regular reporting facilitates a continuous focus on results and open communication so that early signs of successes and challenges can be identified. When the Grant starts in the midst of a PR's fiscal quarter, the first quarterly Disbursement Report can cover either a shorter (i.e., the remaining portion of the quarter) or longer (i.e., combine the remaining portion of the quarter with the next quarter) period, as agreed with the PR.

***Quarterly Disbursement Request Contents***

**A. Cover Page** – Summary data concerning the status of the Grant, PR's USD-equivalent expenditures and USD disbursement request

**B. Cash Reconciliation and Cash Request** – Calculation of the USD disbursement requested from the Global Fund

**C. Programmatic Progress** – Identification of the PR's actual milestones achieved and progress made on indicators, compared to the agreed plans; an explanation of key issues, risks and resolutions for mitigating risks is also included

**Appendix 1: Sources and Uses of Funds** – Actual versus planned program expenditures, using the currency in which the PR maintains its accounts; the expenditure line items should be the same as in the approved program budget in the Grant Agreement.

50. Where the PR makes grants to sub-recipients, the PR will have appropriate systems in place to monitor sub-recipient implementation, including reporting and audit requirements similar to those of the Global Fund. The PR expenditure reports in the quarterly Disbursement Request are not meant to be a consolidation of the sub-recipient expenditures and activities with those of the PR. This approach streamlines the quarterly reporting, ensuring that accountabilities remain with the appropriate parties.

51. PR expenditures are defined as the payments made by the PR to suppliers, sub-recipients and others. Payments to sub-recipients will typically be tranches or periodic payments in accordance with the financing agreement between the PR and the sub-recipient.

#### 4. Annual Reporting

52. The PR's Annual Report, due within 60 days after the end of the PR fiscal year, covers results for the entire program (i.e., the consolidated financial and programmatic results of the PR and sub-recipients). The Annual Report is additive to the normal quarterly Disbursement Request submitted by the PR after the end of the fourth quarter. The Annual Report has the same form and content as a usual Disbursement Request. If the financial and programmatic contents are reported by the PR in other annual reports, then these reports can be used for the purposes of the Global Fund to avoid duplicate reporting.

<b>Annual Report Contents: Financial</b>	
<ul style="list-style-type: none"> <li>➤ The cost per unit of public health products procured under the Grant</li> <li>➤ The portion of the Grant that supported each of the following program areas:</li> </ul>	
<ul style="list-style-type: none"> <li>○ Prevention</li> <li>○ Treatment</li> <li>○ Care</li> </ul>	<ul style="list-style-type: none"> <li>○ Capacity Building</li> <li>○ Program Administration</li> </ul>
<ul style="list-style-type: none"> <li>➤ The portion of the Grant implemented by each of the following types of entities:</li> </ul>	
<ul style="list-style-type: none"> <li>○ Community Based Organizations (CBO)</li> <li>○ National NGOs</li> <li>○ International NGOs</li> <li>○ Public Sector</li> </ul>	<ul style="list-style-type: none"> <li>○ Private Sector</li> <li>○ Educational Institutions</li> <li>○ International Organizations</li> </ul>

53. The financial information in the Annual Report should not require complex reporting systems. The information should be easily obtained from normal PR records. For example: if the entire program is implemented by a National NGO PR, which purchases goods and provides services, then 100% of the grant would be reported as having been implemented by a National NGO. If the Public Sector PR implements 30% of the program and the remaining 70% is implemented by CBO sub-recipients, then 30% of the grant would be reported as having been implemented by the public sector and 70% by CBOs. A similar approach would be used to derive the portion of the grant supporting the specific program areas.

54. In addition, The PR's program financial statements will be audited on an annual basis; the audit report is due within six months after the end of the PR fiscal year. A separate note provides additional guidance on the PR audit arrangements.

***Annual Report Contents: Programmatic***

- Status of the epidemic (HIV, Malaria, TB) in the region as it relates to the program
- Status of the national epidemic, including drivers and barriers outside of the PR's control
- PR's response in preventing further spread of the disease(s) and mitigating its/their effects, focusing on results achieved
- Unexpected results and lessons learned
- Agreed program-specific information for qualitative analysis

## ***5. Roles and Responsibilities***

55. The **Principal Recipient** is responsible for preparing the reports. The Global Fund's preference is for a reporting approach that facilitates and supports a self-assessment by the PR. The self-assessment could include the PR and CCM identifying successes, weaknesses, risk areas, and solutions for effective programmatic and financial management of the program.
56. The **Local Fund Agent (LFA)** reviews and validates the report contents, in accordance with the LFA Terms of Reference. In addition, the LFA makes a recommendation to the Global Fund Secretariat regarding the PR's disbursement request. The LFA forwards the main body of the Disbursement Request and its recommendation to the Secretariat, keeping the Appendix 1 for ongoing monitoring purposes.
57. The **Global Fund Secretariat** reviews the LFA recommendation, decides on the disbursement request and requests the Trustee to disburse to the PR.

## ***6. Ideas for the Future***

58. **Frequency of Reporting and Disbursing** – Quarterly progress reporting and disbursements are expected to be the norm during the initial two-year Grant period. Based on successful implementation and effective and accountable monitoring and reporting during the first two years of a Grant, the Global Fund may decide that a PR can change to six month reporting and disbursements during the final three years of the program.