



**REPORT OF THE MONITORING, EVALUATION, FINANCE AND AUDIT
COMMITTEE**

Outline: This report, with its 12 Annexes, summarises the deliberations of the MEFA Committee at its meetings on 11-12 December 2003 and 23-24 February 2004 with regard to those matters that it wishes to bring to the attention of the Board. Apart from the agreed decision points presented here for Board approval, the report of the 23-24 February meeting is not final, but subject to review and approval of MEFA members.

Summary of Decision Points:

The MEFA Committee recommends that:

1. The Board adopt the four decisions on the Phase 2 Grant Renewals as outlined in Annex 4.
2. The Board confirms the shortlist of nominations for the TERG as presented by the Selection Committee (Annex 7).
3. The Board approves the 2003 Financial Statements of the Global Fund which have been audited by Ernst & Young (Annex 8).
4. The Board mandates MEFA to propose a policy regarding the timeframe from approval to signature of Grant Agreements.
5. The Board adopts the decision points regarding the 2004 Operating Expense Budget and Work Plan (Annex 10).
6. The Board adopts the decision points regarding Protecting Grant Funds from the Impact of Exchange Rate Fluctuations (Annex 11).
7. The Board adopts the decision point on the Criteria for Considering Promissory Notes as Assets (Annex 12).

Part 1: Introduction

1. This report, with its 12 Annexes, summarises the deliberations of the MEFA Committee at its meetings on 11-12 December 2003 and 23-24 February 2004 with regard to those matters that it wishes to bring to the attention of the Board. It is not a complete record of those meetings.

Part 2: Phase 2 Grant Renewals

1. At the 12 December 2003 MEFA meeting, it was agreed that the Committee should continue to discuss the phase 2 grant renewal policies and procedures based on further work by the Secretariat.

2. For the 23-24 February 2004 meeting, the Secretariat had prepared a document with policy recommendations and options for MEFA's consideration: *Policy to Continue Grant Funding beyond the Initially Committed Two Years (Phase 2 Grant Funding)*. This document covered the following issues:

1. Policy background
2. Overview of the recommended phase 2 grant renewal process
 - I Timing of the phase 2 grant renewal decision
 - II Information on which to base the decision
 - III The phase 2 grant renewal decision
 - A Decision categories and criteria
 - B Grant performance rating
 - C Contextual considerations and partner involvement
 - D Phase 2 budget, objectives and targets
 - IV Review and decision process
 - V Resource considerations
3. Treatment of Rounds 1 and 2 grants

The document included annexes with further details on specific topics including:

1. Justification for proposed time-line for phase 2 decision
2. Issues and options for phase 1 time extensions
3. Grant performance rating
4. Issues and options for phase 2 grant commitment

5. Review and decision process: implications for Secretariat capacity
 6. Unspent funds
 7. Treatment of Rounds 1 and 2 grants
 8. Overview of Global Fund's current grant commitments for phase 2 policy
 9. Overview of policy issues to consider in situations of limited resources
3. Prior to the MEFA 23-24 February meeting, a process for involving PMPC in the phase 2 grant renewal policy preparation work had been agreed between the MEFA and PMPC Chairs and Vice Chairs. According to this agreement, the background documents were sent to PMPC at the same time as to MEFA and the PMPC Chair and Vice Chair participated in the MEFA meeting on behalf of the Committee. The full PMPC learnt about the outcomes of the MEFA meeting and provided their feedback at the PMPC meeting on 25-26 February.
4. At the MEFA meeting on 23-24 February, MEFA and the Chair and Vice Chair of PMPC discussed the above-mentioned issues and reached consensus agreements as per the document attached here as Annex 4.
5. At the PMPC meeting on 25-26 February, the MEFA and PMPC Chairs presented the outcomes of the MEFA meeting. PMPC broadly agreed with the MEFA consensus recommendations for Board decisions. Several PMPC members noted the importance of technical assistance to strengthen implementation capacities and further work on this issue was requested.

Decision Points:

The MEFA Committee recommends that the Board decide that:

1. ***Phase 2 grant renewal decisions will be made according to clear criteria for satisfactory grant performance and contextual considerations, subject to Global Fund resource availability. The decision will be based on systematically collected information, which will be made transparently available by the Global Fund through Grant Fact Sheets and Grant Score Cards.***
2. ***A CCM Request for Continued Funding, up to a maximum of the original approved Proposal less funds spent during the initial grant period (years 1-2), will be reviewed and may be adjusted for reasonableness. Program objectives for phase 2 are expected to be broadly consistent with the original approved Proposal, with reprogramming subject to review.***

3. ***The Board delegates to the Secretariat the authority to make phase 2 reviews and grant commitments according to the policies set forth in this document. The Board will confirm all decisions to discontinue funding based on reviews by the Secretariat and the TRP. The Board will receive regular reports on phase 2 grant commitments from the PMPC Chair. The Technical Evaluation Reference Group (TERG) will regularly review and report on the soundness of the phase 2 review and decision process to the Board through MEFA. Phase 2 decisions will be taken 20 month after the start date for grant programs with exceptions for force majeure situations. The decision may be taken earlier in cases of (i) accelerated implementation; or (ii) severe exchange rate fluctuations.***

Part 3: Monitoring and Evaluation

M&E Operations Plan

1. MEFA took note of the M&E Operations Plan (Annex 5) which reflects the revisions made by the Secretariat based on comments from the MEFA meeting in December 2004. The Secretariat will distribute the document to the Board at the Seventh Board Meeting for information together with a presentation on progress made.

TERG

2. During the Sixth Board Meeting in October 2003, the Board confirmed the establishment of a Technical Evaluation Reference Group (TERG). The Terms of Reference for the TERG (Annex 6) was finalized by MEFA in January 2003 and the Board members were invited to nominate a maximum of four candidates each.
3. The Secretariat received 39 nominations for TERG membership. The four ex officio members, who include the Chair of MEFA, the Chair of the UNAIDS Monitoring and Evaluation Reference Group (MERG), the Chair of the Monitoring and Evaluation Reference Group (MERG) for Malaria, and the Chair of StopTB Strategic and Technical Advisory Group (STAG), also confirmed their membership for the TERG.
4. An independent external evaluation of all the nominees and an assessment and classification performed by the Secretariat were presented to MEFA during its February 2004 meeting to facilitate the discussion and selection process.
5. Based on the criteria set forth in the Terms of Reference for the TERG, MEFA selected a shortlist of 8 candidates and 4 alternates. The shortlist was forwarded to the selection committee, which includes the Chair and Vice Chair of MEFA and the Executive Director of the Secretariat.

6. The selection committee will present the shortlist (Annex 7) to the Board for confirmation during the Seventh Board Meeting.

Decision Points:

The MEFA Committee recommends that the Board:

- 4. Confirm the shortlist of nominations for the TERG as presented by the Selection Committee.**

Part 4: Draft Audited Financial Statements 2003

1. The MEFA Committee reviewed the draft Audited Financial Statements 2003 and the Report of the Independent Auditor expressing an unqualified opinion thereon.
2. The Ernst & Young partner in charge of the audit attended the Committee and answered MEFA Members' queries and requests for further explanation on the draft financial statements.
3. Ernst & Young presented its Management Letter which consisted of two suggestions of moderate priority and two suggestions of low priority. Ernst & Young explained that these were recommended enhancements to the existing internal processes and controls rather than weaknesses or concerns, adding that none merited the attention of the Board.
4. MEFA agreed to recommend that the Board approve the 2003 audited financial statements of the Global Fund as set out in Annex 8.

Decision Points:

The MEFA Committee recommends that the Board:

- 5. Approves the 2003 Financial Statements of the Global Fund which have been audited by Ernst & Young.**

Part 5: Performance on 2003 Operating Expense Budget & Work Plan

1. MEFA reviewed the Secretariat's financial report on Operating Expenses in 2003 as compared to budget, and the report on Operational Performance which outlined performance on the priorities set out in the Work Plan for 2003 (Annex 9).
2. MEFA advises the Board that:

- a. Almost all end-products of the Work Plan in respect of each of the Organizational Priorities for 2003 were substantially achieved.
- b. MEFA commends the Fund's ability to operate below budgeted costs, noting that expenditure on LFA fees was 38% less than budgeted and expenditure on Secretariat Expenses was, in total, 3% less than budgeted, with over-spending on some functions offset by under-spending on others.
- c. MEFA expressed its concern for the Round 1 and Round 2 Grant Agreements that remain unsigned more than one year after their approval by the Board,
- d. MEFA decided to ask the Board that it be mandated to propose a policy and timeframe from approval to signature of Grant Agreements

Decision Points:

The MEFA Committee recommends that the Board:

6. ***Mandates MEFA to propose a policy regarding the timeframe from approval to signature of Grant Agreements.***

Part 6: 2004 Operating Expense Budget & Work Plan (Proposed)

1. MEFA reviewed in December 2003 the proposed Operating Budget for 2004 totalling US\$ 52.7 million (after MEFA approved adjustments in February 2004) and the related Work Plan as set out in Annex 10, which it agreed to recommend for approval by the Board.
2. With regard to Secretariat flexibility to transfer budget between functions and expense types within the overall budget, MEFA agreed to recommended that the following rules should apply:
 - a) Maintain the separation between the budget for LFA Fees and that for Secretariat Expenses. No transfers are allowed between these two items.
 - b) Within the budget for Secretariat Expenses, allow transfers between the following five groups of functions (Portfolio Management and TRP; Strategy, Evaluation and Program Support; External Relations; Executive Director and Board Relations; and Operations) subject to the approval of MEFA.
 - c) Within the budget for each functional grouping, allow unlimited transfers between expense lines.
 - d) That MEFA should review and, if considered necessary, adjust this policy in the light of experience during 2004.

3. MEFA noted Secretariat concerns expressed in February 2004 regarding anticipated additional costs not fully covered by the proposed budget. These costs relate to the Phase 2 Grant Renewal process for which the detailed architecture was recently developed (Annex 4) and proposals to strengthen portfolio management activities in the light of recent experience.

4. MEFA approved an adjustment to the proposed budget of \$0.7 million in respect of these additional costs and urged the Secretariat to accommodate the remainder, estimated at \$2.7 million, within the previously proposed budget of US\$ 52.7 by re-examining priorities for 2004 and by reallocating resources where appropriate. It invited the Secretariat to raise the issue later in the year if actual cost experience in the interim indicated a budgetary problem.

5. The Secretariat advised MEFA that in 2004 it will undertake an analysis of the Secretariat structure and resources needed to support an increasing number of grants in the coming years, leading to the identification of longer term staffing levels. MEFA emphasised the need for such an analysis which should address staffing levels and skills mix, including the mix of fixed and temporary staff and staff ceilings, with the view to identifying the profile of a 'mature secretariat', noting that this analysis would be an important input to the 2005 budget process.

Decision Points:

The MEFA Committee recommends that the Board:

- 7. Approves the 2004 Operating Expense Budget in the amount of US\$ 52,668,000 as set out in Annex 10.**
- 8. Approves that, with regard to Secretariat flexibility to transfer budget between functions and expense types within the overall budget, the following rules shall apply :**
 - a) Maintain the separation between the budget for LFA Fees and that for Secretariat Expenses. No transfers are allowed between these two items.**
 - b) Within the budget for Secretariat Expenses, allow transfers between the following five groups of functions (Portfolio Management and TRP; Strategy, Evaluation and Program Support; External Relations; Executive Director and Board Relations; and Operations) subject to the approval of MEFA.**
 - c) Within the budget for each functional grouping, allow unlimited transfers between expense lines.**
 - d) That MEFA shall review and, if considered necessary, adjust this policy in the light of experience during 2004.**

Part 7: Protecting Grants from the Impact of Exchange Rate Fluctuations

1. MEFA reviewed the paper prepared by the Secretariat in response to MEFA's request to examine options for protecting grants from the impact of exchange rate fluctuations.
2. This is against the background of the US dollar depreciating against many other currencies in the period since during which the Global Fund has invited grant proposals and made grants in US dollars. In cases where a significant element of the grant recipient's expenditure is in currencies other than the dollar, grants have been depleted as a result, leading to potential funding shortfalls in some circumstances
3. The Secretariat paper analyzing the issue and proposing solutions, and incorporating MEFA's feedback, is set out in Annex 11.

Decision Points:

The MEFA Committee recommends that the Board decide:

9. ***That in cases where a funding shortfall caused by an adverse currency fluctuation is jeopardising the viability of the grant-supported program, the CCM may apply for Phase 2 funding on an accelerated basis in order to permit the program to continue uninterrupted without curtailing program activity.***
10. ***To direct the Secretariat to evaluate the implications of the Global Fund offering top-up grants and multi-currency denominated grants as further means of protecting grants from the impact of exchange rate fluctuations and to present its analysis and recommendations to the Board in June 2004.***

Part 8: Criteria for Considering Promissory Notes as Assets

1. Following on the decision of the Sixth Board meeting that both cash and demand public promissory notes should be considered as assets for the purposes of signing Grant Agreements, the Secretariat was instructed to work with the Trustee and the MEFA Committee to determine the specific criteria on promissory notes to be considered as assets, to be presented to the Board at its Seventh meeting.
2. MEFA has reviewed the criteria proposed by the Secretariat as outlined in Annex 12 which reflect the advice of the Trustee.

3. The criteria proposed are consistent with proposals of the Resource Mobilization and Communications Committee for implementation of the Voluntary Replenishment Mechanism.

Decision Points:

The MEFA Committee recommends that the Board decide that:

- 11. The Global Fund shall consider as assets for the purposes of entering into grant agreements, promissory notes or similar obligations issued by the government of a sovereign state (or its designated depository) which shall be non-negotiable, non-interest bearing and payable at par value to the account of the Fund in the designated depository on demand or in accordance with an encashment schedule agreed between the contributor and the Secretariat.***

**MONITORING, EVALUATION, FINANCE AND AUDIT COMMITTEE (MEFA)
8th COMMITTEE MEETING**

11-12 December 2003
Global Fund Offices, Geneva, Switzerland

AGENDA

Thursday, 11 December

09:00 – 12:00

- I. 2003 Budget Performance - Q3 and Yearend Forecast
- II. 2004 Budget:
 - Review of Secretariat requirements for 2004 and resources available
 - Recommendation on 2004 Budget
- III. Financial Performance Indicators

13:30 – 17:00

- IV. 2003 Financial Audit Planning
- V. M&E Operational Plan
- VI. Technical Evaluation Reference Group (TERG)
- VII. Coordination of External Studies
 - CCM (w/ PMPC, GPC)
 - Others

Friday, 12 December (with PMPC member representatives)

08:30 – 12:30

- I. Phase 2: Grant Renewal Process
 - Extension of 2-year grants
 - Approval Process & Criteria for Phase II Renewals
- II. Other Updates
 - Forecasting Global Demand
 - Additionality

**MONITORING, EVALUATION, FINANCE AND AUDIT COMMITTEE (MEFA)
9th MEFA Committee Meeting**

**23-24 February 2004
Global Fund Offices, Geneva, Switzerland**

AGENDA

Monday 23 February 2004

- I. Phase 2 Renewals
- II. Monitoring & Evaluation:
 - TERG Member Recommendations
 - Additionality
 - Forecasting Global Demand
 - Report on status of 2004 Operational Plan
- III. CCM Review

Tuesday February 24 2004

- IV. Audit of 2003 Financial Statements
- V. 2003 Budget and Work Plan Performance
- VI. 2004 Budget and Work Plan (pending discussions):
 - Contingency Fund Management
 - 2004 Work Plan
 - Future Staffing Projections
- VII. Exchange Rate Impact on Grants and Secretariat expenses
- VII. Replenishment Funding Mechanism: Update from RMC

MONITORING, EVALUATION, FINANCE AND AUDIT COMMITTEE (MEFA)

ATTENDANCE

8th MEFA COMMITTEE MEETING, 11-12 December 2003

Committee Members

Mr. Jerome Baconin
Mr. Massimo Barra
Dr. Paul De Lay
Mr. Paul Ehmer
Dr. Maurice Fezeu
Dr. Xia Gang
Mr. Anurag Goel
Ms. Milly Katana (Vice Chair)
Ms. Kyung Hee Kim (WB)
Mr. Keith Jay (WB)
Ms. Sigrun Møgedal (Chair)
Mr. Jerry O'Dwyer
Mr. Kris Paneels
Mr. Alastair Robb
Mr. Massimo Tommasoli

Representing PMPC (For the
Phase 2 Grant Renewal discussion)
Ms. Kate Hankins (PMPC)
Ms. Kate Taylor (PMPC Vice-Chair)

Secretariat

Mr. Houtan Afkhami
Mr. David Ball
Mr. Ruwan De Mel
Prof. Richard Feachem
Mr. Barry Greene
Ms. Dee Jay Mailer (Focal Point)
Ms. Purnima Mane
Ms. Marie Rosencrantz
Dr. Bernhard Schwartzlander

9th MEFA COMMITTEE MEETING, 23-24 February 2004

Committee Members

Mr. Jérôme Baconin
Dr. Massimo Barra
Dr. Paul de Lay
Mr. Paul Ehmer
Dr. Maurice Fezeu
Ms. Melissa Harrold
Ms. Milly Katana (Vice-Chair)
Ms. Kyung Hee Kim
Ms. Sigrun Møgedal (Chair)
Mr. Jerry O'Dwyer
Dr. Carole Presern
Dr. Guglielmo Riva
Prof. Wim van Damme
Dr. Dongbao Yu

Representing PMPC (For the
Phase 2 Grant Renewal discussion)
Prof. Francis Omaswa (PMPC Chair)
Ms. Kate Taylor (PMPC Vice-Chair)

Secretariat

Mr. Houtan Afkhami
Mr. David Ball
Mr. Ruwan De Mel
Mr. Barry Greene (Focal Point)
Mr. Brad Herbert
Ms. Purnima Mane
Ms. Marie Rosencrantz
Dr. Bernhard Schwartzlander

Further annexes as separate documents:

- Annex 4 Policy to Continue Grant Funding beyond the Initially Committed Two Years (Phase 2 Grant Renewals)
- Annex 5 Monitoring and Evaluation Operations Plan for GFATM 2004
- Annex 6 TERG Terms of Reference, Membership and Procedures
- Annex 7 Shortlist of Candidates for TERG
- Annex 8 Draft Audited Financial Statements 2003
- Annex 9 Performance on 2003 Operating Budget & Work Plan
- Annex 10 2004 Operating Budget & Work Plan (Proposed)
- Annex 11 Protecting Grants from the Impact of Exchange Rate Fluctuations
- Annex 12 Criteria for Considering Promissory Notes as Assets