Investing in our future
The Global Fund
To Fight AIDS, Tuberculosis and Malaria

Ninth Board Meeting
Arusha, 18-19 November 2004

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

Outline: This report from MEFA and its eleven annexes summarizes the deliberations of the MEFA Committee Meeting on 12-13 October 2004 and offers a number of recommendations for decision by the Board.

Summary of Decision Points

The MEFA Committee recommends that:

1. The Board adopts decision points 1 – 2 (pages 4 and 5) relating to the Phase 2 decision process (joint recommendation with PMPC);

2. The Board approves the 2005 Secretariat budget (Annex 6 to this report) and the related decision point 3 (page 12);

3. The Board confirms MEFA's interpretation and clarification of the operational policy aspects of making grants available in either dollars or euros (decision point 4 on page 13 of this report) and takes note of the associated operational implications set out in Annex 7.

Part 1: Introduction

1. This report summarizes the deliberations of the MEFA Committee at its meeting on 12-13 October 2004 and highlights the decision points which it recommends to the Board for action. The meeting agenda, participants list and 2004 – 2005 MEFA work plan are attached as Annexes 9-11.

Part 2: Phase 2 Renewal Decision-Making

1. At the Eighth Board Meeting, the Board revisited the Seventh Board Meeting decision that delegated the authority to make Phase 2 commitments to the Secretariat. The Board asked the MEFA Committee and PMPC to "explore options for incorporating in the agreed Phase 2 renewal process provision for the exercise by the Board of an appropriate decision making role that meets legal and fiduciary policy requirements of Board constituencies and make recommendations to the Ninth Board Meeting." In keeping with the practice in the initial development of the Phase 2 process, the MEFA Committee took the lead in developing the recommendations for the Board.

2. In line with the Board request, the MEFA Committee did not rediscuss the entire Phase 2 process, but rather focused its discussion on the question of the decision-making process. The committee's discussion began with a clarification – based on an external legal opinion obtained by the Secretariat, included in Attachment 2 to Annex 1 – on the nature of the decision required in the Phase 2 renewal process and on the possibilities of delegation, as articulated in the Bylaws of the Global Fund.

3. As covered in more detail in Annex 1, the major issue of discussion dealt with the Comprehensive Funding Policy, and in particular the split introduced therein between proposal approval and funding commitment. The legal opinion clarified that the Board initially approves a proposal for its entire duration (up to five years), but only makes a financial commitment for the first two years. This means that a further funding decision is needed to commit resources for Phase 2 renewals.

4. The Committee then examined whether this authority to make funding decisions could be delegated. The legal opinion clarified that the Bylaws permit the Board to delegate authority to make funding decisions (including to the Secretariat), and that therefore the question was whether or not the Board felt that such a delegation was appropriate.

5. The Committee discussed two options for decision-making: one that returned to the Seventh Board Meeting decision, delegating authority to make funding decisions for Phase 2 renewals to the Secretariat, and a second that retained at the Board the authority to make funding decisions. The Secretariat discussion paper included as Annex 1 provides more detail about these two options.

6. The majority of Committee members favored the first option, preferring to delegate authority to make funding decisions to the Secretariat, primarily on the grounds that this would be a more effective and efficient process given the expected large volume of renewal requests and the limited time available to consider them. However, most members also expressed a desire to reach a compromise position that would be acceptable to all Board constituencies.

7. Two delegations in particular strongly favored the second option, based on their conviction that for policy and standard division of proper financial oversight reasons, the Board must retain the direct authority to approve financial commitments on behalf of the Global Fund. They further explained that discussions with policy makers and financial experts in their respective governments indicated that their future ability to garner political and financial support for the Global Fund would be hindered by a decision to delegate Phase 2 decision-making authority to the Secretariat. They noted that they felt that delegating authority would not be sound governance, as making funding decisions was a core function of a Board. In light of these strongly-held positions, the Committee primarily discussed the second option, seeking ways to ensure that it could be made to work as rapidly and smoothly as possible.

8. Several basic features of the second option were readily agreed to, including that formal voting was necessary to record a Board decision, but that it could occur by email in a no-objection manner, so that Board constituencies could agree with a Secretariat recommendation without needing to formally communicate such a vote. It was also agreed that funding decisions by the Board would (at least initially) be based on Secretariat recommendations for Phase 2 funding based on the Board-approved renewal process, and thus not revisiting the "proposal approval" made at the time of the Phase 1 funding commitment.

9. The steps in the proposed Board decision-making process are depicted in Annex 2. The process could have up to three discrete steps (although the Committee recognized that in all likelihood, it would be necessary to use all three steps only very infrequently). The Committee considered the possibility of a two step process, but recommended the three step approach because having a second Board email vote after the Secretariat had addressed any clarifications requested might resolve Board concerns more quickly, than waiting for the next Board Meeting (meaning that the proposed three step approach could actually be more rapid than the two step approach).

10. A key discussion point was how to have an initial vote that could simultaneously commit funds (in the event of the Secretariat recommending further commitment and the Board agreeing) and act as a trigger to seek further clarifications. Of particular concern was the desire to establish a system that would provide Board members the opportunity to ask for clarifications, raise issues and questions, or voice specific concerns without having to categorically reject a proposal. Although some discussion occurred on amending the Bylaws to introduce a new voting process specific to the Phase 2 funding decision to expedite this, the Committee ultimately decided to recommend continuing to use the current voting system (with the addition of the no-objection procedure when done by email). Thus a Board vote in favor of a Secretariat recommendation either (a) to commit additional resources or (b) to discontinue support to a proposal by virtue of not providing further funding would register a formal Board decision, while a vote that was not in favor of the Secretariat recommendation would have the effect of deferring a final decision on the further funding commitment, triggering a period for the Secretariat to gather additional information to address Board member concerns.

11. If a second Board decision of this type was again not in favor of a Secretariat recommendation, the matter would immediately be tabled at the next Board Meeting. The vote at the Board Meeting would be making an the additional funding commitment for the proposal, rather than on a Secretariat recommendation (although the Committee indicated that the Secretariat would be expected to continue trying to work with the applicant to resolve any concerns and present further information to the Board Meeting).

12. The recommended Phase 2 process preserves the current the double two-thirds majority rule, as four members of one voting group can block Board approval of a Secretariat recommendation. If this occurs twice, in the resulting vote at a Board Meeting a double two-thirds majority would be needed to commit additional resources to a proposal (meaning that four members of either voting block could combine to discontinue a proposal by virtue of not voting in favor of committing additional resources).

13. Because this process could result in recipients running out of Phase 1 resources before the Board made a decision about committing additional Phase 2 resources, the Committees recommended that the Secretariat have the ability to provide bridge funding in the event that Phase 1 resources were insufficient to ensure continuity of services until a Board decision could be operationalized. The Committee recognized the fact that in all likelihood such provisions would rarely be utilized, but nonetheless felt that it was an important part of the process.

14. The Committee ultimately reached a consensus position in favor of the second option. However, it was agreed that this option would have a trial period, with the Board needing to reconsider the Phase 2 decision-making process at the Thirteenth Board Meeting (by which time at least a year's experience with the system would have been accumulated), based on a review by the MEFA Committee. These Committees would have the opportunity to either endorse the system suggest modifications, or propose another alternative, based on an analysis of actual experience at that time. In the event that the Board neither reapproved this system nor agreed upon an alternative, the Committee recommended that the Seventh Board Meeting decision delegating authority to the Secretariat be reinstated.

15. It was appreciated that the probability of this happening was small, but some of the constituencies that were in favor of the first option (of delegating authority to the Secretariat) felt that it would be an appropriate compromise, so as to avoid establishing the second option as a default position in the future in the absence of further consensus. Some constituencies clearly stated that a trial period with a reversion to the Seventh Board Meeting in the absence of the reapproval of the second option or an alternative was a prerequisite for supporting the second option.

16. Subsequent to the MEFA Committee meeting, the Secretariat developed amendments to the Bylaws and Board Operating Procedures necessary to implement the Phase 2 approval processes recommended by the Committee.

17. The issue of whether a Phase 2 decision could be appealed was briefly discussed by the Committee. However, the Committee felt that it would be more appropriate for the Portfolio Management and Procurement Committee – which had designed the Internal Appeals Mechanism for Phase 1 appeals – to take this matter up, so no recommendation was presented on this.

18. Finally, the Committees agreed to recommend a further safeguard to the process (based on recommendations presented by the MEFA Committee and PMPC to the Eighth Board Meeting, but not discussed there), whereby the Board would approve in the final Board Meeting of each year a maximum amount of Phase 2 commitments to be made in the subsequent calendar year. Additionally, the Secretariat would report back at every Board Meeting on Phase 2 decisions taken since the last Board Meeting, thus updating the Board at each meeting on the cumulative commitments agreed compared to the approved ceiling.

The MEFA Committee and PMPC recommend that the Board adopt the following decisions:

<u>Decision Point 1:</u>

1.1 The Board revokes, until the Thirteenth Board meeting or Decision 3 of Agenda Item 5 of the Seventh Board Meeting (reference GF/B8/2), and decides that Phase 2 decisions shall be made by the Board in accordance with the processes and subject to the policies set out in Annex 3 to Board Document GF/B9/8.

1.2 The Board approves, until the Thirteenth Board meeting, the amendments to the Bylaws and Board Operating Procedures set out in Annex 4 to Board Document GF/B9/8.

<u>Budgetary implications for this decision point:</u>

The additional cost of this decision point is estimated at US$140,000, reflecting assumptions around the need for a) some level of periodic Fund Portfolio Manager effort to work with CCMs and grant recipients to answer questions and provide clarifications to the Board in response to situations where the Board does not endorse Secretariat recommendations for Phase 2 funding; and b) costs incurred to handle the communications protocol described above, including the development of the web pages to hold the Phase 2 materials, the compilation and posting of all materials in a timely manner, and the correspondence with Board constituencies as required by the process.

<u>Decision Point 2:</u>

2.1 The Board approves, at the final Board Meeting of each year, a maximum amount for Phase 2 commitments during the next calendar year; and

2.2 The Board asks the Secretariat to report back to the Board at every Board Meeting on the Phase 2 decisions taken since the previous Board Meeting, including the cumulative amount approved to date in the current calendar year.

<u>There are no material budgetary implications for this decision point.</u>

Part 3: Continuity of Services

1. At the Eighth Board Meeting, the Board "request[ed] the Secretariat urgently to explore internal mechanisms and to work with partners to develop options for the continuity of services through broader country partnerships associated with common national strategic framework[s] for the three diseases. The Board request[ed] the Secretariat to report back to MEFA, PMPC, and the Ethics Committee on these issues in time for the development of recommendations by the Ninth Board Meeting."

2. In discussions with the Chairs of the Committees, PMPC was identified as the most appropriate Committee to lead this work. It discussed the subject at its meeting of 27 – 28 September 2004 and prepared two recommendations to the Board. The MEFA Committee discussed these recommendations and agreed with them, making minor amendments to clarify the text in two places. The recommendations as well as the summary of the discussion of all three committees are contained in GF/B9/9, Report of the Portfolio Management and Procurement Committee.

Part 4: Review of Operating Expenses 2004: Actuals for January – June 2004 & Forecast for Year

1. MEFA considered the above review, attached as Annex 5 to this report. The paper gives an overview of financial performance in the first half of 2004 and forecasts the outcome for the year, with an analysis of variances on the budget for operating expenses. It also outlines performance of the Secretariat work plan in the first half of 2004. Finally, as previously requested by MEFA as a standing agenda item, the paper advises MEFA of transactions on the Fund's Credit Suisse bank account during the first half of 2004.

2. In the first half of 2004, operating expenses totaling $20.1m reached 38% of the annual (revised) budget of $52.8m. As grant activity continues to increase in the second half of 2004, the outlook for the whole year forecasts that 2004 operating expenses will amount to 95% of the 2004 budget.

3. Actual LFA services were 18% less than budgeted in the first half-year due mainly to Round 3 grant signings occurring later than originally envisaged. As a result, fewer LFA assessments occurred in that period and grant monitoring spanned fewer months than had been budgeted. Based on anticipated grant activity for the remainder of the year, LFA services are forecast to consume 90% of the revised 2004 budget for the whole year (as revised at the Eighth Board meeting).

4. In the first half-year, overspending on communications materials (mainly for translation of grant proposals) and office infrastructure (mainly for additional rented office space and telecommunications costs) was offset by under-spending on professional fees (mainly in Corporate Strategy and Performance Measurement).

5. These offsetting effects are expected to continue through year-end, ensuring overall that costs remain within total budget for the year.

6. The overall position is summarized in the table below, with additional detail in the attached Annex 5.

Operating Expenses	Budget 2004 (Year)	Six months ended 30 June 2004						Forecast for 2004 (whole year)					
		Actual (6 months)	As % of annual budget	Budget (6 months)	Variance (6 months)	As % of six-month budget		Forecast (year)	As % of annual budget	Budget (year)	Variance (year)	As % of year's budget	
Secretariat Expenses	32,338	14,035	43%	14,868	833	6%		31,752	98%	32,338	586	2%	
LFA Services	20,478	6,067	30%	7,378	1,311	18%		18,400	90%	20,478	2,078	10%	
Total Operating Expenses	**52,816**	**20,102**	**38%**	**22,246**	**2,144**	**10%**		**50,152**	**95%**	**52,816**	**2,664**	**5%**	
Secretariat expenses by Function	**32,338**	**14,035**	**43%**	**14,868**	**833**	**6%**		**31,752**	**98%**	**32,338**	**586**	**2%**	
Fund Portfolio Operations	10,651	4,358	41%	4,785	427	9%		10,706	101%	10,651	(55)	(1%)	
Corp.Strat. & Perform.Measurem't	2,968	820	28%	1,122	302	27%		2,597	87%	2,968	371	13%	
External Relations	6,349	3,458	54%	3,695	237	6%		6,055	95%	6,349	294	5%	
Office of the Executive Director	2,074	738	36%	797	59	7%		1,930	93%	2,074	144	7%	
Business Services	9,746	4,661	48%	4,469	(192)	(4%)		10,314	106%	9,746	(568)	(6%)	
Contingency fund	550							150	27%	550	400		
Secretariat expenses by Type	**32,338**	**14,035**	**43%**	**14,868**	**833**	**6%**		**31,752**	**98%**	**32,338**	**586**	**2%**	
Staff	15,666	6,822	44%	7,122	300	4%		15,803	101%	15,666	(137)	(1%)	
Professional fees	7,343	2,675	36%	3,260	585	18%		6,371	87%	7,343	972	13%	
Travel & meetings	5,065	2,584	51%	2,765	182	7%		5,165	102%	5,065	(101)	(2%)	
Office infrastructure	2,572	1,245	48%	1,086	(159)	(15%)	x	2,897	113%	2,572	(325)	(13%)	x
Communications materials	1,143	711	62%	635	(75)	(12%)	x	1,366	119%	1,143	(223)	(19%)	x
Contingency fund	550							150	27%	550	400	73%	

Variances are computed as budget minus actual expenditure. Hence, positive amounts are favourable, since expenditure is less than budgeted.
Unfavourable variances of more than $10'000 and 10% of budget are flagged for further attention (X).

Part 5: Secretariat Budget 2005

1. At the Eighth Board meeting in June 2004, the Secretariat laid out some of the short-term risks associated with the accelerating workload over the balance of 2004. These included ensuring Round 3 grant signings were completed before the mid-October deadline and accelerating the initial disbursements; completing Round 4 assessments, negotiations and signings for about 70 components (recalling there is now a six month target signing time); processing Round 4 appeals; dealing with some 30 grant agreements for Phase 2 renewals (a completely new process) – as well as concluding some 30 ACT reprogramming tasks and preparing for Round 5.

2. The Board was responsive in approving an increase in Operations staffing, moving the Secretariat up to a total of 118 approved positions by year-end. This was achieved by transferring $1.7 million from the LFA budget to the Secretariat section of our 2004 budget and accessing $ 0.3m of the contingency reserve.

3. But the June discussions also noted important related questions: Where are we going? Where does the staffing and budget growth end? What is the medium-term and longer-term outlook? These appropriate questions came in addition to earlier questions raised by the Board (at the Seventh meeting in March 2004) relating to the most appropriate Secretariat structure and staffing levels, in particular relating to numbers, levels, salaries and skill mix.

4. The Secretariat endeavored to address in detail all of the questions raised by MEFA and the Board to date. An initial MEFA "pre-meeting" was held on 14 - 15 September 2004 and valuable input and guidance was received (in terms of both content and presentation) on the Secretariat's initial thinking for the 2005 budget proposal and 2006 – 2007 outlook. This then resulted in a series of options being brought to this 12 – 13 October 2004 MEFA meeting.

5. In developing a range of budgetary options for MEFA's consideration, a Secretariat presentation recalled that the original concept of the Global Fund envisaged a lean and efficient Secretariat. While this still holds, it was flagged that experience has shown that initial thinking may have underestimated the minimum functional and structural requirements of the Secretariat.

6. The Secretariat described the four most significant objectives underpinning the budget scenarios presented to MEFA:

6.1 Ensuring a sufficiently resourced Secretariat that can carry out its current responsibilities with the required speed, quality and risk-management. Based on the anticipated deliverables for 2005, this involves:

- Consolidation of the Operations team to achieve the necessary level of grant management capability including the establishment and integration of operations services and support capacity – particularly in the areas of operational partnerships and country level support;
- Ensuring M&E work is developed to the required minimum standards to underpin true performance-based funding - including ensuring information management and technology for any level of data capture and manipulation is in place;
- Eliminating potential bottlenecks in areas such as legal, contracting and finance, by ensuring that these teams can cope with the currently-projected level of throughput;
- Addressing the most critical identified but as yet unmet needs: these include, for example, provision for funding some form of strengthened independent inspectorate / audit function (e.g. an independent office reporting directly to the Board, overseeing grant process integrity, implementation, monitoring and evaluation), enhanced risk management and investigative capability, and a strategic planning capability.

6.2. Positioning the Secretariat to be able to respond to adjustments in future grant volumes - as well as mandated activities - in a flexible and adaptable manner. The budget "building blocks" described in Part 3 below break out those elements which are linked to specific Board and/or constituency mandates or requests: e.g. the establishment of a Replenishment Mechanism with associated Conferences, various M&E related activities (the TERG), the appointment of a Deputy Executive Director, as well as those which are more directly volume-driven: i.e. those cost elements – such as TRP costs – which are not incurred until future rounds are launched.

6.3. Underpinning the budget and associated workplans with a well-defined process of establishing measurable corporate objectives and strategic priorities. Starting at the Executive Director level, these have been developed, challenged internally and cascaded down through the Secretariat. The output is an interlocking set of workplans and targets, which have fed directly into the budget development process.

6.4. Identifying and targeting specific areas for cost savings and/or efficiency gains, and cross-checking wherever possible via external bench-marking. A number of initiatives are either already underway or will be refined and launched in the immediate future. Objective is to ensure maximum efforts are focused against driving costs down over time relative to workload. While bench-marking such an unusual organization as the Global Fund Secretariat is challenging, focus in particular has been placed against similar grant-making organizations and foundations.

7. The above considerations laid the base for the initial 2005 budget package and set of options for discussion with MEFA, seeking to clearly identify the range of choices available to MEFA and the Board and to lay a solid base for a well-grounded (if still indicative) 2006 – 2007 outlook.

8. In constructing 2005 budget options for discussion, the start point was the "rolled forward" 2004 baseline, adjusted to carve out costs directly associated with Round 4, to ensure a comparable baseline, irrespective of round impacts. A series of budget "modules" was then constructed, to allow MEFA to clearly identify the choices and implications of each proposed level of expenditure.

9. These modules consisted of firstly, a scenario which consisted of continuing only with existing commitments. Secondly, the costs of those activities mandated by the Board were specified separately. Thirdly, a number of what were positioned by the Secretariat as "essential improvements" were elaborated: these were heavily based on making sure that the Fund Portfolio Operations, Monitoring and Evaluation and associated support requirements were provided for at a level required to ensure a minimum level of competence. Finally, a series of "recommended enhancements" were described, proposals and investments which the Secretariat felt would be required to ensure optimization of activities.

10. Importantly, the budgetary implications of additional rounds – in particular Rounds 5 and 6 – were carved out within the modular presentation and highlighted separately.

11. In developing the budget scenarios and options, great emphasis was placed on maximizing transparency as to required staffing levels and the appropriate mix of grades/remuneration, previously a focus of attention of the Board and MEFA.

12. Following MEFA discussions, the maximum level of staffing envisaged under the proposed 2005 scenario, takes fixed-term Secretariat positions from 118 at the end of 2004 to 150 in 2005. Based on guidance from MEFA, the key driver is Operations (+ 16 positions over 2004, in addition to the + 23 added in the second half of 2004, i.e. 39 new positions added in total). Performance Evaluation and Program Policy also adds 3 additional positions in 2005, consistent with the emphasis placed on ensuring that grant management capability and performance-based funding take a major share of resource allocation.

13. In planning staff evolution, under all modules, particular attention has been taken to avoid "grade creep". Although the cumulative scenario implies a total potential + 27% increase in headcount (118 to 150), no additional Director level positions are created, with the exception of a Deputy Executive Director. The majority of additional positions are at the mid-professional (P3/P4) level and the support level (P2/Gs), consistent with the need to further strengthen the Fund Portfolio Operations team and to cope with the additional supporting workload. This will drive down the average cost per employee each year.

14. An additional area of focus in developing the 2005 budget is in identifying and targeting specific areas to capture efficiencies and synergies, as well to set specific cost savings objectives. Each Unit has reviewed their budget structure to consider the optimum mix of resource allocation between internal management and outsourcing.

15. **The outcome of the MEFA discussions is a consensus recommendation to approve the 2005 Secretariat budget as attached in Annex 6 to this report.** The overview is summarized in the following table :

Table 1. Result of MEFA deliberations

US$m	Proposed by Secretariat	Recommended by MEFA	
Budget 2004			
Secretariat Expenses	32.3		
Annualization of additional 29 positions approved at 8th Board	2.7		
less: Round 4 costs	-0.9		
	34.1	34.1	
LFA Services	20.5	20.1	
Budget 2004, as adjusted	**54.6**	54.2	
Board mandated tasks	1.2	1.1	
Continuation of existing commitments	4.3	3.2	
Essential improvements	4.5	3.0	
Recommended enhancements	2.7	0.6	
Contingency	1.0	0.5	
Budget 2005, before new Rounds	**68.2**	**62.6**	
less: Efficiency Target		-1.6	
Net of Efficiency Target		**61.0**	
Increase on Budget 2004, as adjusted		*6.4*	*11.8%*
Increment for new Rounds*	**8.3**	**(A)**	

* Additional direct costs (Secretariat & LFA) of new Rounds

(A) See Annex 6, paragraph 5

16. Beyond the focus on core business (Operations and Performance Management / M&E) highlighted above, MEFA discussions emphasized **firstly** that all Units should continually and aggressively pursue efficiency opportunities to implement the established business model more cost-effectively. One example is the creation of a capability focusing on the **early identification of potential problem grants**, to catch and fix issues that might otherwise absorb large amounts of staff time at a later stage – a second is the proposed investment in developing **more flexible and powerful information management tools**, to speed internal processes and reduce error risks, implement high-standard monitoring and performance evaluation, as well as increase accessibility and transparency to external constituencies.

17. **Secondly**, specific cost savings objectives have been built into the overall budget projections. Not all of these are as yet fully identified and articulated, but each Unit will be given a specific objective linked to the size of their overall spending. In the 2005 budget as developed to date, it is proposed to include an objective of 2.5% of total costs, equivalent to $ 1.6m. Particular attention will be focused against travel, meetings and consultants' and LFA fees, where some significant savings are expected via improved negotiation and smarter work planning.

18. **Third,** each Unit has considered and analyzed the extent to which optimum use may be made of outsourcing. Hence, for example, provision for some form of independent inspectorate / audit function has been budgeted for without encumbering Secretariat direct hire positions to carry out this new function.

19. **Additionally,** it is worth noting that any possible more fundamental changes to the Global Fund existing business model have not been factored into the budget development process. Such would need to be done in the context of an adequate development and consultation process to produce a detailed plan endorsed and actively supported by the Board. In advance of this, such an exercise would be unduly speculative, with financial impacts impossible to usefully quantify without clear definition of what the changes would be, and a detailed model of how they would be implemented.

20. The resultant 2005 budget recommended by MEFA is summarized in the table below and is further outlined in Annex 6.

Table 2 Summary of proposed 2005 budget
(with Secretariat's indicative amounts for 2006 & 2007, for information)

In US$m	2004	2004	2005	2006	2007
	Budget	Forecast	Draft	Indicative	
Secretariat Expenses	32.3	31.8	42.4	51.6	52.8
LFA Services	20.5	18.4	20.2	18.4	14.4
Total Operating Expenses (before new Rounds after Round 4)	**52.8**	**50.2**	**62.6**	**70.1**	**67.2**
less: Efficiency Target			-1.6	-1.8	-1.7
Net of Efficiency Target			61.0	68.3	65.5
Staffing (fixed-term positions)	118.0	118	**150**	168	179

21. **Finally,** MEFA also discussed and agreed that, with regard to Secretariat flexibility to transfer budget between functions and expense types within the overall budget, the following shall apply :

a. No transfers are allowed between the budget for LFA Fees and that for Secretariat Expenses.
b. Within the budget for Secretariat Expenses, transfers between the following four groups of functions (Fund Portfolio Operations; Corporate Strategy and Performance Measurement; External Relations and Executive Director's Office including Deputy Executive Director; and Business Services) are allowed - 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 2005.

Decision Point 3:

3.1 The Board approves the 2005 Secretariat Budget and associated Secretariat staffing as attached in Annex 6 to the report of the October 12 – 13 MEFA meeting and as informed by that report.

3.2 The Board takes note that the additional budgetary costs associated with any new rounds of proposals are excluded from the base 2005 budget and are highlighted separately.

3.3 The Board approves that the agreed costs associated with Rounds 5 and 6 will be treated by the Board as an integral part of the decision to launch the relevant Round.

Part 6: The Operational Implications of Offering Grants in Euros and Dollars

1. To date all proposals to the Global Fund and grants approved have been denominated in US Dollars. From 2005 onwards, proposals and grant agreements can be denominated in either US Dollars or Euro at the choice of the recipient, in accordance with the following decision of the 8^{th} Board meeting:

- *"From 2005, proposals submitted to the Global Fund may be denominated in USD as well as in Euro.*
- *Grant agreements may be signed in USD or Euro, depending on a recipient's preference. Disbursements will be made in the denominated currency of the grant agreement.*
- *The Board requests the Trustee to incorporate in its data processing system for the Global Fund, the capacity to cater for grants denominated in USD as well as Euro.*
- *The Board authorizes the Secretariat to incur costs not exceeding USD 150,000 for this purpose. The Secretariat may use the contingency to cover this expenditure.*
- *The Board mandates the MEFA Committee with the Secretariat to prepare the operational implications for the Ninth Board Meeting."*

2. MEFA considered a paper prepared by the Secretariat in response to the above, which identifies the operational implications of the above decision. This paper, prepared in consultation with the World Bank, is attached as Annex 6 to this report.

3. The change to dual-currency grant funding has several important operational and financial implications which were discussed in the MEFA meeting under the following headings:

- Interpretation and confirmation of aspects of the Board decision
- Risk management – mitigation of the risks inherent in an environment where dual currency grants may be funded by promissory notes in various currencies
- Updating proposal forms and guidelines for dual currency grants
- Trustee IT systems upgrades to allow for dual currency grants.

4. The last three items within 3. above concern operational implications of dual currency grants which were reviewed and endorsed by MEFA.

5. Board confirmation is sought for the interpretation of the Eighth Board decision point. MEFA reviewed the proposed interpretation set out in the attached paper (Annex 6) and endorsed this interpretation. West and Central Africa and South East Asia constituencies requested that they not be associated with this interpretation.

Decision Point 4:

4.1 The choice of currency will apply only to <u>new</u> proposals submitted after 1 January 2005. Specifically:

4.1.1 Grants approved in Rounds 1 through 4 which have not been signed by 1 January 2005 will continue to be denominated in USD (i.e. the currency choice applies from Round 5 onwards)

4.1.2 Phase 2 renewals are not regarded as new proposals and hence will continue to be denominated in the currency chosen for Phase 1.

4.2 The currency choice must be made at the time of submission of the Proposal. Specifically, the applicant cannot change its chosen currency at any time after submission of the Proposal (including during implementation).

<u>Budgetary Impact of the Operational Implications</u>:

The operational implications of implementing the dual currency grant option in tandem with a potentially greater use of promissory notes in various currencies as described and recommended will necessitate additional finance personnel at the Secretariat and/or additional services from the Trustee for both the set-up phase and ongoing implementation. Provisional costing would allow for one additional P4/P5 staff member or outsourced consultant (approximate cost $165,000 per year) plus Trustee costs to be determined, arising partially in 2005.

Part 7: Briefing on World Bank Change in Investment Guidelines

1. The Committee heard with interest a presentation on investment management from the Trustee. This was provided for information and no decision is required from MEFA at this time.

2. In order to respond to the Global Fund Board comments at the 8th Board meeting on investment returns, the Trustee will make a similar presentation on investment management at the 9th Board meeting.

3. In discussions, MEFA concluded that it intends to put this subject on MEFA's agenda in the future and will look at this in the context of overall financial risk management, including currency risk management, and the risk tolerance and returns of the investment portfolio. MEFA will then report back to the Board with recommendations, if any, including continuing with the current arrangements.

Part 8: Update / Status Report on Board Committee Structure Report

1. The consultants working on the Committee Review, Booz Allen, gave an update to the Committee on the status of their review and the process they have followed to date. They explained that the review had encompassed an assessment of the current committee structure, especially their effectiveness in facilitating Board decision-making. A survey had been conducted and interviews completed with Board members and others in leadership roles. They noted that some of the members around the table had been interviewed and that they would welcome the opportunity to obtain more inputs over the course of the MEFA meeting.

2. After an exchange with Committee members, Booz Allen confirmed that In terms of next steps, a detailed presentation would be provided to the Ninth Board meeting, including an executive summary together with their detailed findings and recommendations. This material would also cover the background and approach taken during the study, and provide options going forward.

Part 9: Summary Report from the Inaugural Meeting of the Technical Evaluation Review Group (TERG)

1. The Chair of the TERG reported on the First TERG meeting, and presented its report (Annex 8). The TERG had reviewed and discussed the proposed measurement framework for the Global Fund. It welcomed the framework and the substantial progress made, including the development of the Executive Dashboard. The TERG suggested refinements which are incorporated into the final framework and emphasized the need to strengthen impact measures. As requested by MEFA, particular focus was given to the review and discussion of definitions and measures for the systems effects of the Fund. The discussion built on the work undertaken by the Secretariat with the support of a number of consultants and the outcomes of a series of special consultations. TERG recommended a short list of core indicators to be included in the overall measurement framework, while additional indicators are available and recommended for use if available or if special studies are planned.

2. TERG also reviewed a proposal on Quality Assurance for Grant Reviews (Phase 2). TERG advised on the further development which shall involve elements of a regular self assessment by CCMs and PRs as well as more in depth external evaluations of a sample of grants. Work had started involving relevant partners to finalize the methodology by the end of 2004 with field testing and roll out in early 2005.

3. The TERG was also requested to review and finalize methodologies and measures to evaluate composition and functioning of the Country Coordinating Mechanism (CCM). TERG discussed and agreed on refinements of the proposed CCM checklist which is based on the requirements and recommendations included in the CCM guidelines. The checklist will be used both for external audits and regular self assessments of CCMs. The checklist as well as the proposed methodologies for its application had subsequently been discussed by GPC. GPC suggested a number of changes and additions in line with the latest deliberations of the group. These had been included and agreed by both the TERG and GPC prior to the presentation to MEFA.

4. Finally the TERG chair presented the review of the Strategic Information and Evaluation (SIE) work plan and budget. The TERG warmly welcomed the work plan, budget and the priorities set, while highlighting additional priority areas for external evaluations which would require additional budget. Work had started in developing these with TERG members and partners.

5. MEFA warmly welcomed the TERG report and supported the outcomes, in particular the propose measurement framework for the Fund and the measures for composition and functioning of the CCMs. MEFA also raised the importance of the TERG as an independent expert panel to advise MEFA and the Board on the progress made by the Secretariat in the area of Monitoring and Evaluation, with particular attention to its role in performance-based disbursement and reviews of the Secretariat's evaluation and recommendation of Phase 2 funding requests. A special focus during the deliberations was on the importance of qualitative evaluations in general, and in particular around the functioning of the CCMs. The Chair of the TERG was requested to consider options to strengthen qualitative evaluations during future meetings of the group.

Part 10: Impact of the Global Fund's Comprehensive Funding Policy

1. MEFA was informed of the recommendation from RMCC that a background study be commissioned on the options and choices available to the Global Fund in its fiscal management structure and processes. MEFA took note of the issues presented in the discussion paper circulated by the Developed NGO delegation at the meeting, as well as the RMCC recommendation, and agreed to put the question on the agenda at its next meeting, based on preparatory work of the Secretariat to advise on the timing, scope and framing of such a study.

Part 11: MEFA Workplan and Dates for Next Meeting

1. The Committee only briefly reviewed the attached MEFA workplan (Annex 9) and the associated timelines and deliverables. The Chair requested Committee members to feedback directly to the secretariat any comments or inputs to the plan for consideration.

2. The dates of Wednesday 16 and Thursday 17 February 2005 were proposed for the next MEFA meeting.

Annexes:

Annex 1: Discussion Paper on Phase 2 Decision-Making
Attachment 1: Budgetary Implications
Attachment 2: External legal opinion
Annex 2: Decision Making Flowcharts
Annex 3: Phase 2 Decision-Making Policies & Procedures
Annex 4: Amendments to Bylaws and Board Operating Procedures
Annex 5: Review of Operating Expenses 2004
Annex 6: Proposed 2005 Secretariat Budget
Attachment 1: Changes from Budget 2004 to 2005
Attachment 2: Fees for Local Fund Agent Services
Annex 7: Dual Currency Grants – Operational Implications
Annex 8: TERG Report
Annex 9: Work plan 2004-2005
Annex 10: Agenda
Annex 11: List of Participants

DISCUSSION PAPER ON PHASE 2 DECISION-MAKING

Outline: At the Eighth Board Meeting, the Board revisited the Phase 2 decision-making process and asked the MEFA Committee in cooperation with the PMPC to develop recommendations for the Ninth Board Meeting. This discussion paper presents further analysis carried out to underpin the development of possible recommendations on the decision-making process, and develops two possible options.

I. Background

1. At its Eighth Meeting, the Board of the Global Fund decided to "revisit the issue of approval authority of the agreed procedure for decision making on Phase 2 renewals," in light of "legal concerns and fiduciary policy constraints raised by some Board Constituencies."

2. In particular, several Board constituencies had raised concerns about the extent to which the Board had delegated authority to the Secretariat in the Seventh Board Meeting decision on Phase 2: "The Board delegates the authority to make Phase 2 grant commitments to the Secretariat according to the policies and review and decision process set forth in this document" (Report of the Seventh Board Meeting, GF/B8/2, p. 7).

3. In the accompanying text, the Secretariat was tasked with making Phase 2 financial commitments for proposals that fell into three of the four categories that were developed to classify the performance of proposals in Phase 1: the "Go," "Conditional Go," and "Revised Go" categories. The Board retained the authority to confirm the Secretariat's decision to stop financing proposals (the "No-Go" category).

4. This paper revisits the decision-making process, beginning with a review of two issues that have been raised with regard to the decision at the Seventh Board Meeting to delegate authority to Secretariat: the question of the nature of the decision that must be made at Phase 2 (which is a matter of interpretation of the Comprehensive Funding Policy) and the ability of the Board to delegate such decisions to the Secretariat. The paper then continues with discussion of two options for Phase 2 decision-making. It does not reopen the entire set of Phase 2 policies that have been approved at the Seventh and Eighth Board Meetings, instead focusing on the specific request of the Eighth Board Meeting.

II. The nature of the Phase 2 decision and Board delegation of authority

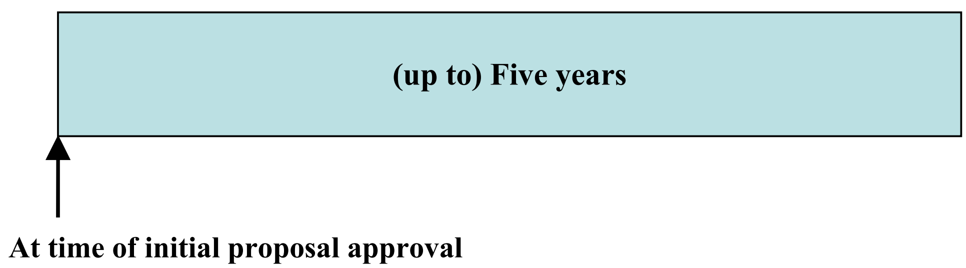
5. To facilitate the discussion, the Secretariat commissioned an external legal opinion to help clarify the questions that had emerged around the nature of the Phase 2 decision and the Board's ability to delegate authority. This opinion is included as Attachment 2.

6. The question about the nature of the Phase 2 decision has its roots in the Comprehensive Funding Policy's distinction between proposal approval and financial commitment:

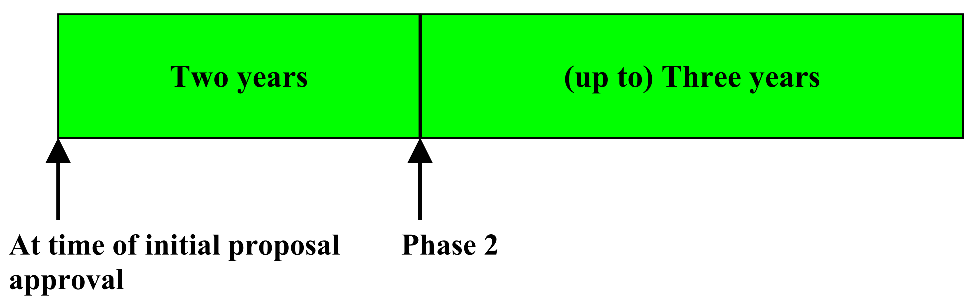
   "Proposals are approved for the entire term of the proposal (up to five years) with a financial commitment for the initial two years with the possibility of renewal for up to an additional three years…" (GF/B7/2, p. 6)

7. Thus while proposals are approved for their entire duration, there is no automatic extension of the financial commitment from Phase 1 to Phase 2. Instead, a further financial commitment is required to move from Phase 1 to Phase 2, as shown in the below.

Proposal approval



Financial commitment



8. In the language of the Bylaws of the Board of the Global Fund, this additional financial commitment would constitute a "funding decision," which is a power that the Bylaws ascribes to the Board, rather than the Secretariat:

   "In accordance with the Board decision quoted above [from the Comprehensive Funding Policy], the financial commitment is a time-limited one (for nominally two years only). A further commitment beyond Phase I of a given grant would require another step to be taken – an additional commitment of funds. Making such a commitment goes beyond the powers granted to the Secretariat in the Bylaws – in particular the power to 'negotiate and execute grant agreements.' Accordingly, a further commitment beyond Phase I of a given grant would require a specific decision by the Board – consistent with the power of the Board to 'make funding decisions.' This is consistent with the structure of the Board decision quoted above, where as a first step the Board approves a given proposal as a predicate to the second step of committing funds for two years." (Attachment 2, at para. 17)

9. In contrast, the decision to approve a proposal is not divided into stages, meaning that re-approval of the proposal itself is unnecessary at the time of Phase 2:

    "The question posed is, if a decision to commit funds for the second phase of a two-phase grant has to be made by the Board (as we concluded in the previous section), does the Board then need to renew at that time its initial decision to approve the proposal?

    "[…] As concluded above, this division of the financial commitment into phases leads to the conclusion that a separate decision is to be taken by the Board at each phase as to whether to continue or renew the financial commitment. In the case of the approval of the proposal itself, however, the decision is not so divided into phases, leading to the conclusion that the decision to approve a proposal is to be made for the entire term of the proposal.

    "[…] Based on the foregoing, therefore, we conclude that, assuming that the objectives and activities of the second phase of the grant do not change materially from those listed in the proposal, it is not necessary for the Board to revisit or renew its earlier decision to approve the proposal when a given grant is transitioning from its first to its second phase." (Attachment 2, at paras. 19, 20, and 22)

10. The important caveat in the final paragraph above that proposal re-approval is not necessary unless a proposal has changed "materially" begs the question of the definition of "materially." While such a definition is important, attempting to develop it is beyond the scope of this paper and not strictly necessary to reach agreement upon the decision-making process. Further, any such effort should be tied to discussions already underway at the Portfolio Management and Procurement Committee on reprogramming, which also deal with how to handle significant changes in the course of implementation.

11. The legal opinion also addresses whether the Board may delegate the authority to make the requisite "funding decisions" – in the context of Phase 2, this is the decision to make financial commitments – to the Secretariat (or other bodies). The relevant reference here is the Bylaws of the Global Fund (as most recently amended in June 2004 after the Eighth Board Meeting), at sections 7.4 and 7.5:

    7.4: The Foundation Board is the supreme governing body of the Foundation. The Board shall exercise the powers of the Foundation, including the following:

    - […]
    - Make funding decisions…

    7.5: The Board may delegate its powers, except where governing law or these Bylaws may otherwise prohibit delegation. Powers delegated by the Board under this Article will, notwithstanding such delegation, be exercised under the authority and direction of the Board.

12. In the words of the external legal opinion, "[t]hus, it appears that if the Board generally wishes to delegate its powers, the Bylaws do not prevent it from doing so, except to the extent that 'governing law' would prohibit such a delegation." (Attachment 2, at para. 5) "Governing law" is Swiss, and the legal opinion found no evidence that Swiss law prohibited the delegation of funding commitments. The opinion thus continues "[b]ased on the foregoing, we conclude that the Board of the GFATM may delegate its power to 'make funding decisions', including to the Secretariat." (Attachment 2, at para. 9)

13. The legal opinion summarizes the issues as follows:

> "(iii) a decision by the Board whereby proposals are approved for the entire term of a proposal but financial commitments are approved for a first phase (subject to renewal for the second phase) does not require the decision on the approval of the proposal to be revisited before the second phase; and (iv) that the renewal of the financial commitment for the second phase is a new decision that must be taken by the Board (though it is a delegable decision)." (Attachment 2, at para. 23; emphasis in original)

III. Decision-making process: Introduction

14. The recognition that an additional decision must be taken at the time of the Phase 2 renewal leads to two further questions:
    a. The basis – or criteria – for such a decision; and
    b. The process by which such a decision is taken.

15. On the first, the Board has already discussed extensively and agreed to the basis for such a decision: it would be based on performance in Phase 1 of a proposal, as appropriately understood in light of contextual considerations. (For more information, see GF/B7/8, particularly at Annex 4 and the accompanying attachments, which lays out the decision-making process in considerable detail.)

16. As previously agreed by the Board (both in the context of Phase 2 and more broadly through the performance-based funding system), the Secretariat is responsible for making performance assessments of recipients of Global Fund financing. In the case of Phase 2, following a process to ensure transparency and local ownership (within a very tight timeframe), the Secretariat's review culminates in the development of a "scorecard" that categorizes a proposal as "Go," "Conditional Go," "Revised Go," or "No Go."

17. This paper does not reopen these discussions.[1] Rather, the key point of departure is what happens after the Secretariat makes its recommendation. At the Seventh Board Meeting, the Board approved a process for this final decision-making that involved the Secretariat making the decision to continue proposals, whereas the Board kept the authority to discontinue funding:

> "The Board delegates the authority to make Phase 2 grant commitments to the Secretariat according to the policies and review and decision process set forth in this document. The Board will confirm all decisions to discontinue funding based on reviews by the Secretariat and the TRP." (GF/B8/2, p. 7)

18. If this is understood as the Board deciding that a financial commitment needs to be made but delegating to the Secretariat the authority to make such a "funding decision" (in the language of the Bylaws), then the approach is consistent with the above discussion of the Comprehensive Funding Policy and the Board's ability to delegate.

19. However, some Board constituencies raised concerns about this approach and as a result a set of safeguards and reporting protocols were proposed by the MEFA Committee and PMPC to the Eighth Board Meeting (see GF/B8/8, pp. 4 – 7). However, the Board did not discuss these, instead opting to revisit the decision-making process.

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[1] Similarly, the paper does not reopen the related question of how to handle resource-constrained environments, which was addressed at the Eighth Board Meeting.

20. Thus the Board has two basic options for the decision-making process:

    Option 1: Reaffirming the approach adopted at the Seventh Board Meeting, perhaps strengthened by some of the safeguards and reporting protocols developed for the Eighth Board Meeting; or

    Option 2: Not delegating the authority to make funding decisions to the Secretariat but rather making those decisions itself.

21. The first is not elaborated upon herein, as it is familiar from the previous Board documents already cited. Instead, the below focuses on the development of an approach to the Board retaining the authority to make funding decisions, beginning with the timing of such decisions and then proceeding to the mechanism for decision-making, before addressing some fiscal matters.

IV. Decision-making process: Option 2 (Board retains authority to make funding decisions)

A. Timing

22. As previously discussed by the Board and its committees, the timing of the Phase 2 process is driven by the program cycle, which is tied to when recipients receive their initial tranche of financing from the Global Fund (the Program Starting Date): at Month 16 after the Program Starting Date, a recipient is invited to submit a Request for Continued Funding, which must be sent to the Secretariat by Month 18. The categorization of the proposal by the Secretariat would then occur by Month 20.

23. Grant Agreements are signed – and therefore recipients receive their initial disbursements – on a continuous basis throughout the course of a year. As a result, the number of proposals that the Secretariat is categorizing in a given month can vary considerably, from fewer than 10 to more than 20.

24. The decision to extend or discontinue financing for these proposals must be taken within a small window, as time is needed after the decision is made to make provisions for next steps before the completion of the initial two-year commitment. For proposals that are being continued, this entails negotiating an extension to the Grant Agreement and making an initial disbursement in time to ensure the continuity of financing with Phase 1. For proposals that are being discontinued, recipients need time to find alternative funding sources.

25. To resolve the tension between, on the one hand, the imperative for rapid decision-making and, on the other, the need to ensure that the system is able to foster informed decision-making by the Board without causing confusion, proposals could be grouped together for monthly presentation to the Board.

26. On the first of every month[2], the Secretariat would simultaneously notify the Board of the group of proposals on which the Secretariat was making recommendations, and post the information relating to the renewal on a webpage. The group of proposals would consist of all those proposals that had been categorized by the Secretariat upon reaching Month 20 within the preceding calendar month.[3]

B. Decision-making mechanism

27. The Board would then vote upon the Secretariat's recommendation, which would result in a decision either to make an additional financial commit or not to do so. As is the case in Phase 1 (when the Board votes on the recommendations of the Technical Review Panel), the Board either is agreeing or disagreeing with a Secretariat recommendation, rather than voting on the proposal itself.

28. The criteria upon which the Secretariat will be making its recommendation have already been agreed to by the Board. It is therefore anticipated that in the large majority of cases, the Board will agree with the Secretariat.

29. The vote would take place by email and the normal Board voting procedures would apply, with one important modification: the voting would occur on a no-objection basis. Thus if no response is received from a given Board constituency within a given timeframe, the constituency is deemed to have agreed with the Secretariat recommendation (i.e., to have voted "Yes").

30. The use of the normal voting procedures means that a double two-thirds majority is needed to affirm a Secretariat recommendation. Thus the votes of four members of either voting group (as defined in the Bylaws) are sufficient for the Board to disagree with a Secretariat recommendation.

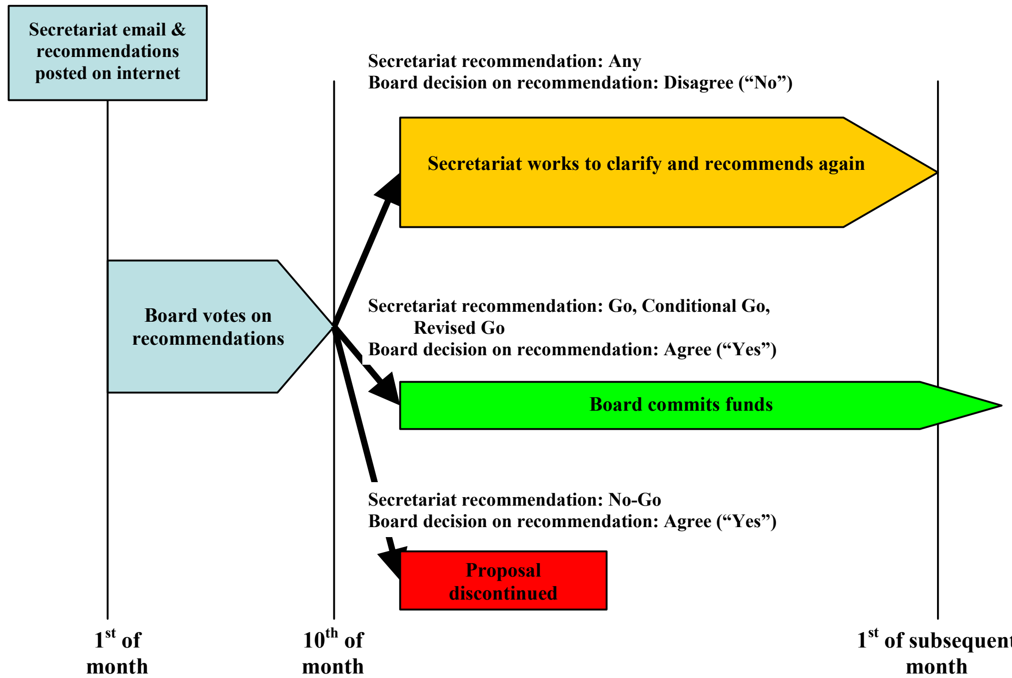
31. Because the entire process is quite time-sensitive, the Board constituencies would have ten (calendar) days to vote after receipt of the Secretariat recommendation.

32. If the Board agrees with the Secretariat recommendation, the Board would then either commit additional financing (in the case of Secretariat recommendations of "Go," "Conditional Go," and "Revised Go") or discontinue financing (in the case of Secretariat recommendations of "No Go").

33. If the Board disagrees with the Secretariat recommendation, the Secretariat would be asked to reassess its recommendation. Board constituencies would be able to provide comments or request specific additional points for clarification. The Secretariat would then present a recommendation a second time on the first of the subsequent month (unless the comments and clarifications from Board constituencies necessitated follow-up work by the Secretariat that could not be completed by the first of the subsequent month, in which case the Secretariat could defer the presentation of a recommendation until the information sought was obtained).

[2] Or the first working day thereafter, if the first falls on a Saturday, Sunday, or holiday.

[3] This would include proposals categorized as "Conditional Go" and "Revised Go" as well as the straightforward "Go" and "No Go" proposals. In some cases, the Secretariat would be likely to delay submission of proposals categorized as "Conditional Go" and "Revised Go" in order to work further with the recipient.



34. In those circumstances in which the Secretariat was asked to make any clarifications and present a recommendation again, the same voting system would apply. However, in this case, if the Board still disagrees with the Secretariat recommendation – which would likely to a rare event – there would not be a further period of clarification and then voting.

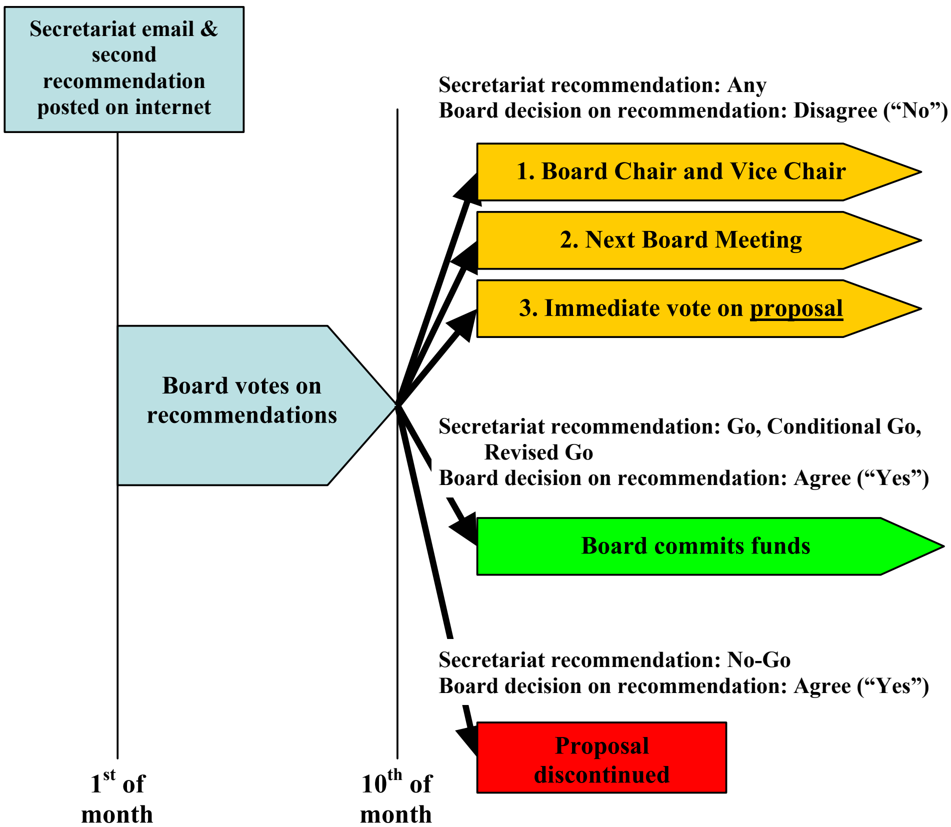
35. Instead, there are three options as to how to resolve this situation:
    a. The matter could be sent to the Chair and Vice-Chair of the Board for their decision;
    b. The matter could be immediately placed on the agenda of the next Board Meeting; or
    c. The Board could immediately vote on the proposal, rather than on the Secretariat recommendation, in which case an affirmative vote would be required to commit additional resources to the proposal.

36. The primary advantage of the first option is that it is in keeping with the approach of the current Board Operating Procedures, which states that

    “Between Board meetings the Chair and the Vice Chair, acting together, shall take action on behalf of the Foundation Board which they consider must be taken urgently without recourse to other procedures as provided in the Bylaws or Board Operating Procedures. In the event the Chair and Vice Chair are unable to agree, the Chair shall make the decision.”

37. However, this could result in the Board Chair making funding decisions on her/his own, which is an authority that the Board may not wish to delegate to any individual, even the Chair. The second approach would resolve this, but could result in considerable delays in decision-making.

38. The third option would have the obvious benefit of an immediate decision. However, it would lack the opportunity presented by the second option for the Board to discuss and attempt to reach consensus. Since a proposal would need to receive a double two-thirds majority or be discontinued (because an affirmative decision to commit financing must be made, which requires a Board decision with the attendant voting procedure), four members of a voting block could vote down continuing a proposal that a simple majority of Board constituencies wished to continue, without any further discussion (while four members could still block continuation of a proposal that was considered at a Board Meeting, in that case the Board would have an opportunity to discuss).



39. If either of the first two options are selected, there is the possibility that a proposal would run out of funding prior to be considered by the Board. To avoid this possibility, the Board could utilize the principles it adopted at the Eighth Board Meeting to address the fact that proposals were due to have had a Phase 2 renewal decision before the Board had agreed upon the Phase 2 decision-making process.

40. In that case, the Board decided that:

> "As an interim arrangement, the Board authorizes the Secretariat to extend the terms of grants up to six months for those grants where [the] Phase 2 decision is required prior to the Ninth Board Meeting, and to provide bridge funding for such grants as appropriate based on program needs during this extension period. The Board approves an amount of up to USD 30 million to be used for this purpose."

41. In the case of bridge funding required until either the Chair and Vice-Chair decide (the first option above) or the full Board meets and decides (the second option), the amount that the Board authorizes the Secretariat to commit could be limited to half the year 3 budget in the Request for Continued Funding (using the same six month period that the Board adopted at the Eighth Board Meeting, which would also be reasonable in this case, as the interval between Board meetings is unlikely to exceed six months). These resources would be from the Phase 2 envelope for the proposal, rather than additional financing.

C. Fiscal matters

42. If the Board is adopting a process for making the financial commitments for Phase 2 renewals, the basis for these commitments needs to be clear. In the Comprehensive Funding Policy, the basis for the initial two-year commitments is defined as "the cumulative uncommitted amount pledged through the calendar year of the Board decision." (GF/B7/2, p. 6) Although no Board decision specifically extended this approach to the financial commitments needed for Phase 2 renewals, the practice to date has been to do just that: to determine if a resource constraint exists, the total (up to three year) financial commitments have been compared with pledges due to be paid in the calendar year in which the decision occurs.

43. Similarly, the Comprehensive Funding Policy set out financial prerequisites for the Secretariat's signing of Grant Agreements:

> "A sufficient amount of assets to meet the full cost of two years of implementation of approved grants must be deposited with the Trustee or readily available on demand prior to the Secretariat signing a grant agreement." (GF/B7/2, p. 6)

44. Although these policies have been challenged as overly conservative (see, for example, the report of the Partnership Forum), reopening the Comprehensive Funding Policy is beyond the scope of the present paper, which instead simply proposes addressing the gap in current Board policy by codifying present practice. Thus the basis for Phase 2 financial commitments (up to the full duration of a proposal, typically a further three years) would be established as the cumulative uncommitted amount pledged through the calendar year of the Board decision, while the basis for the Secretariat extending Grant Agreements would be assets deposited with the Trustee or readily available on demand.

45. Finally, if the Board is making Phase 2 decisions on a monthly basis, there is some danger that it will have more difficulty seeing the overall resource needs picture of the Global Fund.

46. At the last Board Meeting of each year, the Secretariat already provides the Board with estimates of the resources needed in the next calendar year. Further, at the Eighth Board Meeting, the Board agreed that "special policies and procedures are required in the event of insufficient resources during a certain calendar year to fund all Phase 2 grant renewals" and noted that this "resource constrains would become evident at the final Board meeting of the previous year." The Board further agreed upon a "time-limited partial allocation" system for renewals in the event of resource constraints.

47. These might be sufficient protections against the possibility of misallocation of resources, but the Board could also limit the total amount of resources that it intended to commit to Phase 2 renewals at the last Board Meeting of a year, as the MEFA Committee and PMPC proposed in a recommendation to the Eighth Board Meeting that the Board did not discuss. The only disadvantage of this approach would be to limit the flexibility of the Board to respond to changing circumstances that might necessitate higher-than-anticipated levels of financial commitment for Phase 2 (e.g., in the context of large-scale reprogramming). Although the Board could of course revoke a limit that it had established on Phase 2 financial commitments, this would typically need to occur at a Board Meeting, rather than being something that could easily happen between Board Meetings.

V. Decision points

48. As noted above, the option in which the Board delegates the authority to the Secretariat to make funding decisions is based on the Seventh Board meeting decision. The Eighth Board Meeting did not revoke this decision but instead noted the Board's decision to revisit the issue at the Ninth Board Meeting. Therefore, should the Board decide that it wished to delegate authority to the Secretariat, it would not need to make any further decision, unless it chose to adopt some of the safeguards and reporting protocols that the MEFA Committee and PMPC recommended at the Eighth Board Meeting.

49. In order to adopt the second option, in which the Board retains the authority to make funding decisions, the Seventh Board Meeting decision would need to be amended. This applies in particular to the third decision point:

> "The Board delegates the authority to make Phase 2 grant commitments to the Secretariat according to the policies and review and decision process set forth in this document. The Board will confirm all decisions to discontinue funding based on reviews by the Secretariat and the TRP. The Secretariat will regularly report on Phase 2 grant commitments to MEFA and PMPC. The PMPC Chair will inform the Board at each Board Meeting. 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.
>
> "The Phase 2 decisions will be taken 20 months after the start date for grant programs with exceptions for *force majeur* situations. The decision may be taken earlier in cases of (i) accelerated implementation; or (ii) severe exchange rate fluctuations.
>
> "For Rounds 1 and 2 grants, the start date of each grant program may be adjusted to reflect program realities. This will be achieved through negotiations between the Secretariat and the PR." (GF/B8/2, p. 7)

50. A draft recommendation could read as follows:

> The MEFA Committee and the PMPC recommend that the Board replace decision 3 of the section "Phase 2 Grant Renewals" (GF/B8/2, page 7) with the following:
>
> a. The Board may commit funds for Phase 2 renewals (up to the full duration of a proposal) up to the cumulative uncommitted amount pledged through the calendar year of the Board decision.
>
> b. The Board makes funding decisions for Phase 2 renewals based on its review of Secretariat recommendations.

c. The Secretariat will present the Board with its recommendations on the first of every month. The Board will vote on each recommendation by the tenth of the same month. The voting would occur by email and would be on a no-objection basis (i.e., if no response is received from a given Board constituency within a given timeframe, the constituency is deemed to have agreed with the Secretariat recommendation, voting "Yes").
d. If the Board votes in favor of the Secretariat recommendation, the Board would then either commit additional financing (in the case of Secretariat recommendations of "Go," "Conditional Go," and "Revised Go") or decide to discontinue financing after the completion of Phase 1 (in the case of Secretariat recommendations of "No Go").
e. If the Board votes against the Secretariat recommendation, the Secretariat would be asked to reassess its recommendation. Unless the comments and clarifications requested by the Board could not be completed in time, the Secretariat would then present a second recommendation on the first day of the subsequent month, at which point the Board would vote again, using the procedures described above.
f. If the Board votes in favor of the second Secretariat recommendation, the Board would then either commit additional financing (in the case of Secretariat recommendations of "Go," "Conditional Go," and "Revised Go") or decide to discontinue financing after the completion of Phase 1 (in the case of Secretariat recommendations of "No Go").
g. If the Board votes against the second Secretariat recommendation:
   <u>Option 1</u>: The matter is delegated to the Board Chair and Vice Chair for decision. As an interim arrangement, the Board authorizes the Secretariat to extend the terms of the grants by up to six months, and to provide bridge funding for such grants as appropriate. The Board authorizes the Secretariat to commit up to one-half of the first year budget contained in the Request for Continued Funding in question for these purposes, which would be financed by utilizing the Phase 2 renewal funding of the proposal.
   <u>Option 2</u>: The matter is deferred to the next Board Meeting for decision. As an interim arrangement, the Board authorizes the Secretariat to extend the terms of the grants by up to six months, and to provide bridge funding for such grants as appropriate. The Board authorizes the Secretariat to commit up to one-half of the first year budget contained in the Request for Continued Funding in question for these purposes, which would be financed by utilizing the Phase 2 renewal funding of the proposal.
   <u>Option 3</u>: The proposal is put to an immediate vote, with an affirmative vote required to commit additional resources to the proposal.
h. For proposals for which the Board commits Phase 2 funds, a sufficient amount of assets to cover the full costs of the extension of the Grant Agreement must be deposited with the Trustee or readily available on demand prior to the Secretariat extending a Grant Agreement.
i. 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 the MEFA Committee.
j. The Phase 2 decisions will typically be taken based on Secretariat recommendations that are made 20 months after the Program Starting Date (exceptions could include for situations of *force majeur*). The decision may be taken earlier in cases of (i) accelerated implementation; or (ii) severe exchange rate fluctuations.

51. The last two bullets above are taken from the original decision (with a modification in the timing in bullet 10 to reflect the fact that it is only the Secretariat recommendation, not the decision, which would occur at Month 20). The final bullet of the original decision point – on Round 1 and 2 Program Starting Dates – has been removed as it is no longer germane, having already been dealt with by the Secretariat.

52. A possible recommendation on an additional safeguard (based on the recommendation from the MEFA Committee and PMPC to the Eighth Board Meeting) would be as follows:

> The MEFA Committee and PMPC recommend that the Board approve, at the final Board Meeting of each year, a maximum amount for Phase 2 commitments during the next calendar year.

Attachment 1 to Annex 1:

Budgetary implications

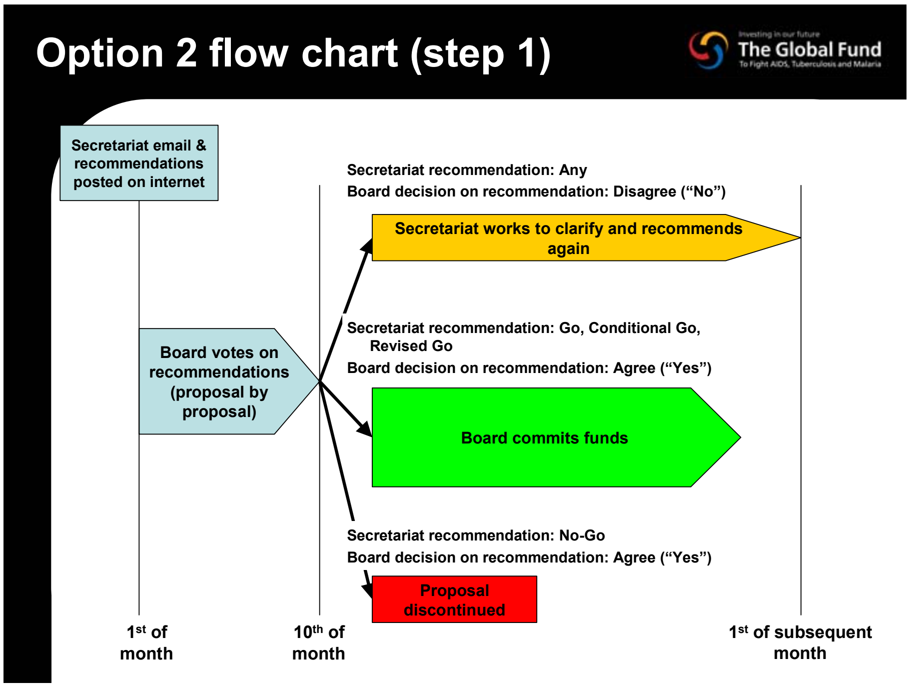
1. The cost of the first option – the procedures as approved at the Seventh Board Meeting – have already been included in the Secretariat budget for 2005, and no additional materials costs are foreseen.

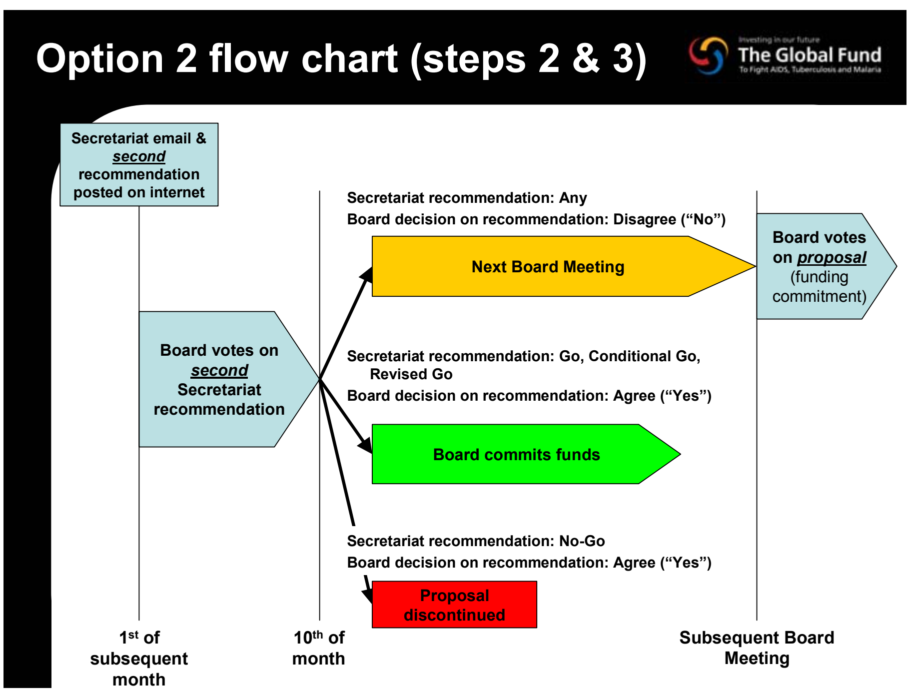
2. The additional cost of the second option – the Board retaining the authority to make financial commitments – is estimated at US$140,000. There are two parts of this cost:
   a. US$85,600 is the cost of 0.5 FTE of a Fund Portfolio Manager. This additional cost is based on an assumption that the Board would disagree with 10% of Secretariat recommendations (as such disagreements would necessitate considerable efforts on the part of the Fund Portfolio Manager to provide clarifications prior to the development of a second Secretariat recommendation). Should this assumption prove to be an underestimate, additional costs would need to be incurred.
   b. US$54,400 is the cost of 0.5 FTE to handle the communications protocol described above, including the development of the webpages to hold the Phase 2 materials, the compilation and posting of all materials in a timely manner, and the correspondence with Board constituencies.

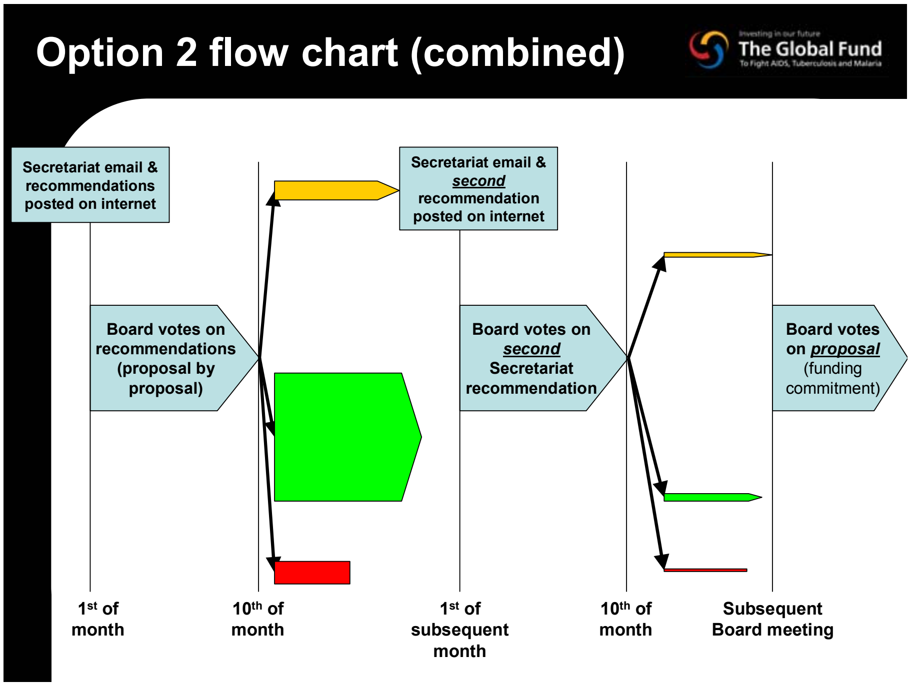
3. There are no material additional costs for the additional safeguard.

Annex 2

Decision-making flowcharts






Option 2 flow chart (combined)
Investing in our future
The Global Fund
To Fight AIDS, Tuberculosis and Malaria
Secretariat email & recommendations posted on internet
Secretariat email & second recommendation posted on internet
Board votes on recommendations (proposal by proposal)
Board votes on second Secretariat recommendation
Board votes on proposal (funding commitment)
1st of month
10th of month
1st of subsequent month
10th of month
Subsequent Board meeting

Annex 3

Phase 2 Decision-Making Policies and Procedures

1. The Board may commit funds for Phase 2 renewals (up to the full duration of a proposal) up to the cumulative uncommitted amount pledged through the calendar year of the Board decision.

2. The Board makes funding decisions for Phase 2 renewals based on its review of Secretariat recommendations, according to procedures agreed by the Board.

3. The Secretariat will present the Board with its recommendations on the first of every month (notice to Board constituencies of a recommendation shall be effective upon the posting of the recommendation on the Global Fund website; the Secretariat will inform Board constituencies via e-mail when recommendations have been posted). The Board will vote by email on each recommendation on a no-objection basis. Votes must be received by the Secretariat no later than the tenth of the same month.

4. A Board decision in favor of a Secretariat recommendation either:
   - Commits additional resources in the amount proposed in the Secretariat recommendation (in the case of Secretariat recommendations of "Go," "Conditional Go," and "Revised Go"); or
   - Does not commit any additional resources (in the case of Secretariat recommendations of "No Go"), thereby discontinuing the proposal after Phase 1.

5. If the Board does not decide in favor of a Secretariat recommendation, this would serve to request further clarification on the Secretariat recommendation and ask the Secretariat to reassess its recommendation. To facilitate the clarifications process, those Board constituencies that are not ready to decide in favor of a Secretariat recommendation would provide a written explanation that is made publicly available. The Secretariat will review its recommendation in light of the questions and comments of those Board constituencies and will then present a second recommendation on the first day of the subsequent month (unless time-constraints make it necessary to wait to the month thereafter). The Board then votes again, on the second Secretariat recommendation, using the procedures described above.

6. A Board decision in favor of the second Secretariat recommendation either:
   - Commits additional resources in the amount proposed in the Secretariat recommendation (in the case of Secretariat recommendations of "Go," "Conditional Go," and "Revised Go"); or
   - Does not commit any additional resources (in the case of Secretariat recommendations of "No Go"), thereby discontinuing the proposal after Phase 1.

7. If the Board does not decide in favor of the second Secretariat recommendation, the matter is deferred to the next Board Meeting for a final decision on making a funding commitment.

8. In circumstances in which insufficient resources remain in Phase 1 to cover financing needs until any Board decision in the Phase procedure can be operationalized, the Board authorizes the Secretariat to extend the terms of the grants by up to six months, and to provide bridge funding for such grants as appropriate. The Board authorizes the Secretariat to commit up to a maximum of one-half of the first year budget contained in the Request for Continued Funding in question for these purposes, which would be financed by utilizing the Phase 2 renewal funding of the proposal. The actual amount committed by the Secretariat would be based primarily on the performance and disbursement patterns in Phase 1.

9. For proposals for which the Board commits Phase 2 funds, a sufficient amount of assets to cover the full costs of the extension of the Grant Agreement must be deposited with the Trustee or readily available on demand prior to the Secretariat extending a Grant Agreement.

10. 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 the MEFA Committee.

11. The Phase 2 decisions will typically be taken based on Secretariat recommendations that are made 20 months after the Program Starting Date (exceptions could include for situations of *force majeur*). The decision may be taken earlier in cases of (i) accelerated implementation; or (ii) severe exchange rate fluctuations.

12. These procedures for the Board commitment of funds for Phase 2 are subject to a time-limited trial period. The Board asks the MEFA Committee to review these procedures and prepare recommendations on whether the Board should continue with these procedures or should adopt an alternative set of procedures. Based on these recommendations the Board will reconsider the procedures at the Thirteenth Board Meeting.

Annex 4

Amendments to Bylaws and Board Operating Procedures

Section 7.6 of the Bylaws is amended to read as follows (text highlighted to show additions):

7.6 ***Operations***

The Foundation Board shall meet as often as necessary but not less than twice per year.

A meeting of the Foundation Board shall be convened by written notification from the Chair or the Vice Chair of the Foundation Board, or by the Executive Director at the direction of the Chair or the Vice Chair.

The Foundation Board shall use best efforts to make all decisions by consensus. If all practical efforts by the Foundation Board and the Chair have not led to consensus, any member of the Foundation Board with voting privileges may call for a vote. In order to pass, motions require a two-thirds majority of those present of both: a) the group encompassing the seven donor seats and the two private sector seats and b) the group encompassing the seven developing country seats, the two non-governmental organization seats, and the representative of an NGO who is a person living with HIV/AIDS or from a community living with tuberculosis or malaria.

<u>Notwithstanding the foregoing, the Board may decide to take action on a no-objection basis. On such basis, and subject to procedures set by the Board, a motion shall be approved unless four Board members of one of the voting groups described above objects to the motion.</u>

The Foundation Board may act by means of proxy letter, teleconference, e-mail or such other method of communication in which the votes of each Board Member may be recorded, subject to procedures determined by the Foundation Board. <u>When acting on a no-objection basis by proxy, e-mail, or other mode of communication in which actual participation may not be verified, participation shall be deemed to have occurred provided that notice to Board members of the action to be taken conforms to standards set by the Board.</u>

All decisions of the Foundation Board will be recorded in minutes of the Foundation Board meetings, approved by the Board and provided to all voting and non-voting Board Members, and retained in the permanent records of the Foundation.

The Board Operating Procedures are amended by adding the following new Section 12:

12. Non-Objection Process for Approving Funding for Proposals Beyond the Initial Funding Commitment

Notwithstanding Sections 10 and 11, decisions by the Board to provide funding for approved proposals beyond the initial funding commitment may be made on a no-objection basis under the following process.

As directed by the Board, the Secretariat shall issue a recommendation for action on each funding commitment for which a Board decision is required, and shall notify the Board accordingly. Unless four Board members of one of the voting groups described in Section 10 object to the recommendation within a time period specified by the Board following the date of notification, the recommendation shall be deemed approved by the Board.

Annex 5

Investing in our future
The Global Fund
To Fight AIDS, Tuberculosis and Malaria

MEFA Meeting
Geneva, 12-13 October 2004

REVIEW OF OPERATING EXPENSES 2004

(Actuals for January-June 2004 & Forecast for Year)

Outline: This report provides the MEFA Committee with information on and analysis of the Secretariat's performance against budget for the first half of 2004 and a forecast for the whole year.

Part 1 gives an overview of financial performance in the first half of 2004 and forecasts the outcome for the year, with an analysis of variances on the budget for operating expenses.

Part 2 outlines performance of the Secretariat work plan in the first half of 2004

Part 3 advises MEFA of transactions on the Fund's bank account in the first half of 2004

Part 1: Overview of Financial Performance

1. The overall picture of the Global Fund's financial performance in 2004 is as follows:

Statement of Activities **Summary** (in US$ Millions)	**2003**		**Six months ended 30 June 2004**		**2004 Forecast**	
Income						
Contributions	1,368.6	98.0%	756.0	98.4%	1,510.0	98.4%
Financial income	28.2	2.0%	12.0	1.6%	24.0	1.6%
	1,396.8	100%	**768.0**	100%	**1,534.0**	100%
Expenditure						
Grants	1,063.3	97.0%	266.0	93.0%	1,482.8	96.7%
Operating expenses	32.6	3.0%	20.1	7.0%	50.2	3.3%
	1,095.9	100%	**286.1**	100%	**1,533.0**	100%
Excess of Income over Expenditure	**300.9**		**481.9**		**1.0**	
Uncommitted funds:						
At start of period	727.1		1,028.0		1,028.0	
Surplus per above	300.9		481.9		1.0	
At end of period	1,028.0		1,509.9		1,029.0	
Key ratios						
Operating expenses as % of:						
Total Expenditure	3.0%		7.0%		3.3%	
Grant Disbursements	14.1%		10.6%		8.0%	
Value of Active Grants	2.9%		1.5%		1.9%	
Operating expenses per Active Grant (in $k per grant)	366		134		246	
Activity data:						
Grant Disbursements	232		190		630	
Total Expenditure	1,096		286		1,533	
Value of Active Grants	1,116		1,382		2,599	
Number of active grants	89		150		204	

2. Operating expenses in 2004 are forecast to remain at approximately 3% of total expenditure and are expected to decline from 14% to 8% of grant disbursements for the year, as compared to 2003. As a percentage of the value of active grants, operating expenses are forecast to decline from 2.9% to 1.9% as grant volumes increase.

Budget Comparison

3. The following table compares operating expenses in the first half of 2004, and as forecast for the whole year, with budget.

Operating Expenses	Budget 2004 (Year)	Six months ended 30 June 2004						Forecast for 2004 (whole year)					
		Actual (6 months)	As % of annual budget	Budget (6 months)	Variance (6 months)	As % of six-month budget		Forecast (year)	As % of annual budget	Budget (year)	Variance (year)	As % of year's budget	
Secretariat Expenses	32,338	14,035	43%	14,868	833	6%		31,752	98%	32,338	586	2%	
LFA Services	20,478	6,067	30%	7,378	1,311	18%		18,400	90%	20,478	2,078	10%	
Total Operating Expenses	**52,816**	**20,102**	**38%**	**22,246**	**2,144**	**10%**		**50,152**	**95%**	**52,816**	**2,664**	**5%**	
Secretariat expenses by Function	**32,338**	**14,035**	**43%**	**14,868**	**833**	**6%**		**31,752**	**98%**	**32,338**	**586**	**2%**	
Fund Portfolio Operations	10,651	4,358	41%	4,785	427	9%		10,706	101%	10,651	(55)	(1%)	
Corp.Strat. & Perform.Measurem't	2,968	820	28%	1,122	302	27%		2,597	87%	2,968	371	13%	
External Relations	6,349	3,458	54%	3,695	237	6%		6,055	95%	6,349	294	5%	
Office of the Executive Director	2,074	738	36%	797	59	7%		1,930	93%	2,074	144	7%	
Business Services	9,746	4,661	48%	4,469	(192)	(4%)		10,314	106%	9,746	(568)	(6%)	
Contingency fund	550							150	27%	550	400		
Secretariat expenses by Type	**32,338**	**14,035**	**43%**	**14,868**	**833**	**6%**		**31,752**	**98%**	**32,338**	**586**	**2%**	
Staff	15,666	6,822	44%	7,122	300	4%		15,803	101%	15,666	(137)	(1%)	
Professional fees	7,343	2,675	36%	3,260	585	18%		6,371	87%	7,343	972	13%	
Travel & meetings	5,065	2,584	51%	2,765	182	7%		5,165	102%	5,065	(101)	(2%)	
Office infrastructure	2,572	1,245	48%	1,086	(159)	(15%)	x	2,897	113%	2,572	(325)	(13%)	x
Communications materials	1,143	711	62%	635	(75)	(12%)	x	1,366	119%	1,143	(223)	(19%)	x
Contingency fund	550							150	27%	550	400	73%	

Variances are computed as budget minus actual expenditure. Hence, positive amounts are favourable, since expenditure is less than budgeted.
Unfavourable variances of more than $10'000 and 10% of budget are flagged for further attention (X).

Observations on budget comparison

4. In the first half of 2004, operating expenses at $20.1m consumed 38% of the year's budget of $52.8m and were 10% lower than the portion of the budgeted apportioned to the first two quarters ($22.2m). As grant activity continues to increase in the second half of 2004, the outlook for the whole year forecasts operating expenses amounting to 95% of the year's budget.

5. LFA services were 18% less than budgeted in the half-year due mainly to Round 3 grant signings occurring later than originally envisaged. As a result, fewer LFA assessments occurred in that period and grant monitoring spanned fewer months than had been budgeted for. The transfer of $1.7m from the LFA budget to the Secretariat expenses budget at the 8th Board meeting reallocated resources to take account of that. Based on anticipated grant activity for the remainder of the year, LFA services are forecast to consume 90% of their (revised) budget for the year.

6. Secretariat expenses were 6% under budget in the first six months. After taking account of the budget transfer for LFA costs, Secretariat expenses are likely to be slightly under budget (at 98%) for the whole year.

7. In the first half-year, overspending on communications materials (mainly for translation of grant proposals) and office infrastructure (mainly for additional rented office space and telecommunications costs) was offset by under-spending on professional fees (mainly in Corporate Strategy and Performance Measurement).

8. These offsetting effects are expected to be reflected at year-end, containing overall costs within budget.

9. The details for each unit and team are set out in the table below.

Details by Unit & Team

(in US$)	Budget for the year	Six months ended 30 June 2004	As % of budget for the year	Forecast for year	Variance	Variance as % of annual budget
Secretariat expenses	**32,338,488**	**14,035,348**	**43%**	**31,752,427**	**586,061**	**2%**
Operations	**10,650,861**	**4,357,844**	**41%**	**10,705,946**	**(55,085)**	**(1%)**
Staff	7,942,063	2,989,675	38%	7,322,364	619,699	8%
Travel & meetings	1,591,798	790,421	50%	2,015,050	(423,252)	(27%)
Communications materials	205,000	276,118	135%	474,330	(269,330)	(131%)
Professional fees	912,000	289,855	32%	875,679	36,322	4%
General office expenses	0	11,775	0%	18,524	(18,524)	0%
Corp.Strat. & Perform.Measurem't	**2,968,139**	**819,901**	**28%**	**2,596,887**	**371,253**	**13%**
Staff	765,658	424,783	55%	1,260,687	(495,029)	(65%)
Travel & meetings	521,200	149,664	29%	324,520	196,680	38%
Communications materials	0	731	0%	46,982	(46,982)	0%
Professional fees	1,681,281	244,723	15%	964,697	716,584	43%
External Relations	**6,349,213**	**3,458,394**	**54%**	**6,055,401**	**293,812**	**5%**
Staff	2,037,372	1,251,120	61%	2,340,947	(303,575)	(15%)
Travel & meetings	2,494,200	1,457,647	58%	2,464,972	29,228	1%
Communications materials	908,000	432,804	48%	786,089	121,911	13%
Professional fees	909,641	316,823	35%	463,393	446,248	49%
Office of the Executive Director	**2,074,166**	**737,876**	**36%**	**1,929,984**	**144,183**	**7%**
Staff	1,242,366	588,458	47%	1,168,288	74,078	6%
Travel & meetings	321,800	149,418	46%	272,111	49,690	15%
Communications materials	0	0	0%	55,975	(55,975)	0%
Professional fees	510,000	0	0%	433,610	76,390	15%
Business Services	**9,746,109**	**4,661,333**	**48%**	**10,314,211**	**(568,102)**	**(6%)**
Staff	3,428,149	1,415,638	41%	3,285,446	142,703	4%
Staff recruitment & development	250,000	151,918	61%	425,094	(175,094)	(70%)
Travel & meetings	135,700	36,453	27%	88,772	46,928	35%
Communications materials	30,000	1,085	4%	2,446	27,554	92%
Professional fees	3,330,000	1,823,126	55%	3,633,481	(303,481)	(9%)
General office expenses	1,337,760	868,525	65%	1,683,136	(345,376)	(26%)
IT Infrastructure	803,100	233,730	29%	715,734	87,367	11%
Fixed assets	431,400	130,858	30%	480,104	(48,704)	(11%)
Contingency fund	**550,000**			**150,000**	**400,000**	**73%**

Secretariat expenses by type	**32,338,488**	**14,035,348**	43%	**31,752,427**	**586,061**	**2%**
Staff	15,665,608	6,821,592	44%	15,802,826	(137,218)	(1%)
Travel & meetings	5,064,698	2,583,603	51%	5,165,424	(100,726)	(2%)
Communications materials	1,143,000	710,738	62%	1,365,822	(222,822)	(19%)
Professional fees	7,342,922	2,674,527	36%	6,370,860	972,062	13%
Office infrastructure	2,572,260	1,244,888	48%	2,897,496	(325,236)	(13%)
Contingency fund	550,000			150,000	400,000	73%

Part 2: Performance of Secretariat Work Plan to 30 June 2004

10. The table below details performance on each key deliverable to 30 June 2004. This can be summarized as follows in respect of each organizational priority as follows:

(1) Achieving results:

- Close to target on all deliverables.
- Round 3 grant signings were behind, but catching-up by end September

(2) Documenting results

- Most targets fully achieved
- Information systems to support Phase 2 strategy and functionality of country profile modules underway

(3) Mobilizing support

- Most targets fully achieved
- 82% of 2004 non-US pledges converted to contributions
- Goal of raising additional $120m from non-US donors partially achieved

(4) Managing the Secretariat

- Most targets fully achieved
- Subject-specific training being developed

(5) Facilitating governance

- Most targets fully achieved
- Improved Board/constituency communications under way

Progress on work plan key deliverables

Corp-orate object-ive	End product	Target Date (per workplan)	Percentage complete by 30-06-2004	Remarks
1 Achieving results				
	Develop policy on reprogramming consistent with MEFA Phase II guidelines	Apr-04	100%	Recommendation with PMPC
	Complete grant agreements with 50% of R3	Jun-04	43%	22% of R3 grants signed (72% of all R3 grants signed by 30 Sep.)
	Disburse $450 million	Jun-04	94%	$423m disbursed ($588m by 30 Sept 2004)
	Submit R4 proposals and analyses (outcomes, CCMs) to Board	Jun-04	100%	
	Submit letter to pharmaceutical companies on broadening reduced prices	Mar-04	50%	In process
	Broker and announce deal with Clinton Foundation on ARV prices	Apr-04	100%	
	Agree and enact concrete CCM actions for Secretariat to lead	Apr-04	100%	
2 Documenting results				
	Establish TERG	Mar-04	100%	
	Identify institutional KPIs and modalities for their ongoing calculation	Mar-04	100%	Executive dashboard
	Submit Phase Two policy paper to the Board	Mar-04	100%	
	Identify SIM team	Apr-04	75%	Final positions will be recruited during second half of 2004
	Develop Information Management systems to support phase 2 strategy	Apr-04	50%	Systems designed, implentation underway
	Develop Phase 2 strategy and key products (e.g. score card)	Apr-04	90%	Only the scorecard remains to be finalised
	Ensure functionality of country profile modules in Info Systems	Jun-04	50%	Systems designed, implentation underway
	Complete revised summaries for all grants	Apr-04	100%	
	Complete Rounds 1-3 grant analysis within agreed M&E framework	May-04	100%	
	Complete LFA review with operational recommendations	Jun-04	100%	
	Complete study of absorptive capacity	Jun-04	50%	Work with TP Committee ongoing
	Develop and place a business-oriented story on co-investment	Jun-04	25%	Co-investment is still in its infancy
	Complete production of 2003 Annual Report (publication in April)	Mar-04	100%	
	Complete performance analyses for "Bangkok Results Report"	Jun-04	100%	
	Complete production of a video documenting Global Fund results	Jun-04	100%	
	Produce and disseminate results/profiles on 5 pilots and 4-5 stories	Jun-04	100%	Produced in "Bangkok Results Report" (July)
	Retroactive analysis of malaria grants for Rounds-1-3	Jun-04	100%	

Corp-orate object-ive	End product	Target Date (per workplan)	Percentage complete by 30-06-2004	Remarks
3 Mobilizing support				
	Put in place system with detailed info and briefing materials on donors	Mar-04	80%	System in place - will be further developed into electronic database in Q3
	Make governance documentation available on the Intranet	May-04	80%	All Board documentation posted within a week of meeting; all core governance documents posted, new versions and translation of some documents still underway
	Recruit minimum number of partners to set launch date for branding campaign	Apr-04	100%	
	Launch branding campaign in at least one market	Jun-04	90%	
	Extend legal basis for receiving private donations in donor countries	Jun-04	100%	Legal advice received & submitted to UN Foundation for consideration
	Appoint chair for replenishment mechanism and 2005 meeting	Jun-04	100%	In progress - mechanism to appoint Chair agreed by Board
	Develop financial piece of replenishment model	Jun-04	100%	Grant forecasting model enhanced
	Identify a success story per month with COMM team for press outreach	Mar-04	100%	
	Broker stories profiling grant success stories (through June)	Jun-04	100%	
	Ensure establishment of Friends USA	Mar-04	100%	Established in April 2004
	Ensure establishment of Friends Japan	Apr-04	100%	Established in March 2004
	Develop concrete partnership with PEPFAR in one country (COMM to publicize)	May-04	70%	Focus meetings scheduled in Nov. 2004
	Complete meetings with 45 country missions for donors and recipients	May-04	69%	31 further missions visited, others contacted indirectly
	Strengthen relationship with EU with high-level involvement at Dublin	Feb-04	100%	
	Report on grant progress and harmonization in DFID-focus countries	Apr-04	100%	
	Convert 97% of 2004 non-US pledges into payments (~$1.0 - 1.1 billion)	Jun-04	82%	Still outstanding contributions particularly from three major donors
	Raise an additional $120 million from non-US donors	Jun-04	67%	In Q2 through July US $ 81Mio. were received in new pledges from Canada, Gates, Swiss, NZ, Taiwan, Korea and Luxembourg for 2004
	Confirm funding and basic arrangements for events in Arusha	Jun-04	100%	Basic arrangements and bookings in place

Corp-orate object-ive	End product	Target Date (per workplan)	Percentage complete by 30-06-2004	Remarks
4 Managing the Secretariat				
	Finalize HQ agreement	Apr-04	99%	Text agreed - signature scheduled November 2004
	Provide "issues" paper on operational impact of HQ agreement	Apr-04	100%	Discussed in GPC. Implementation roadmap March 2005
	Acquire and equip additional office space	Jun-04	100%	
	Ensure completion of performance reviews for all staff	Mar-04	100%	Up-to-date
	Establish and commence staff training program	Apr-04	75%	Implementation first modules foreseen for November 2004
	Redefine Secretariat job responsibilities	Apr-04	100%	Some additonal JDs required - due 1 November 2004
	Begin area-specific training of managers: procurement, finance, M&E	Jun-04	20%	In process - modules being developed
	Enact recommendations regarding additional safeguards for concerned countries	Jun-04	100%	
	Provide to Board 2003 financial statements	Mar-04	100%	
	Provide to Board 2004 budget and workplan	Mar-04	100%	
	Put in place Global Fund intranet	May-04	100%	
5 Facilitating governance				
	Facilitate TRP renewal with PMPC	Mar-04	100%	
	Complete Global Fund Operational Manual	Jun-04	100%	
	Facilitate PMPC/RMCC recommendations on in-kind donations	Jun-04	100%	
	Propose comprehensive policy on use of Global Fund logo	Jun-04	100%	
	Define aspired concrete outputs for Partnership Forum	Mar-04	100%	
	Launch global email discussion forum to support Partnership Forum	Mar-04	100%	Launched 15 March
	Finalize arrangements for Partnership Forum	Jun-04	100%	Partnership Forum held in Bangkok, 7-8 July
	Induct new Board Members successfully	Mar-04	100%	Induction completed 15 - 16 March 2004
	Develop recommendations for Board action on CCM performance	May-04	100%	Board to revisit requirements
	Ensure recommendations to June Board address challenges expected in July meetings	Jun-04	100%	Recommendations covered CCMs and other issues of interest in July
	Provide analysis to Board on committee functioning to improve operation	May-04	100%	Board acted in June by requesting review of Committees by outside service provider
	Improve communications to the Board and constituency info sharing	Jun-04	70%	Board communication more regular but can still be improved, constituency processes much improved as result of regional meetings

Part 3: Summary of transactions on Credit Suisse bank account through 30 June 2004

	(as previously reported to MEFA) From inception to 31 December 2003 USD	From 1 January to 30 June 2004 USD	
Balance at beginning of period	0	224,736	
Receipts			
Transfers from Trustee	1,000,000	200,000	
Contributions	120,321	420,549	(a)
Staff contribution to rent of parking spaces	10,335	16,232	
Bank interest	55	-	
Total receipts	1,130,711	636,781	
Payments			
Relocation services (home search for incoming staff)	136,472	19,876	
Rent allowance element of ED compensation	136,333	50,999	
Travel	127,868	28,279	
Agency staff & consultants	127,502	458	
Recruitment advertising	78,512	-	
Annual Report 2003 - authoring & production	63,382	-	
Meetings	40,940	9,143	
External audit fees	40,397	19,645	
Apartment rent (part of staff separation terms)	36,969	-	
Refundable advances/refunds (to new staff)	28,035	(28,206)	
Office catering (for meetings, etc.)	21,822	1,264	
Salary adjustments & rent subsidy	19,767	41,415	
Office sundries	19,288	15,233	
Refundable deposit to supplier		50,000	(b)
Professional fees		16,376	
Communication costs	18,055		
Separation costs	11,571	-	
Miscellaneous	593	-	
Exchange gain, less bank charges	-1,531	4,837	
Total payments	905,975	229,319	
Balance at end of period	224,736	632,198	

(a) Hewlett Foundation, Statoil, UNESCO
(b) Massive Effort Campaign

Annex 6

PROPOSED 2005 SECRETARIAT BUDGET

Part 1: Introduction

1. This document outlines the proposed operating expense budget for 2005 of $ 62.6 million (equivalent to $ 61.0 million, net of an efficiency target of $ 1.6 million) and 150 staff, as reviewed and recommended by MEFA at its meeting on 12-13 October 2004.

2. Indicative amounts for 2006 & 2007 as envisaged by the Secretariat are also provided.

3. The proposed budget is based on the detailed work plans for each team within the Secretariat which have been reviewed at MEFA meetings in September and October 2004.

Part 2: Summary of Budget

4. Pursuant to adjustments recommended by MEFA, the proposed budget for 2005 (with indicative amounts for 2006 & 2007, as envisaged by the Secretariat) is as follows:

In US$m	**2004**	**2004**	**2005**	**2006**	**2007**
	Budget	Forecast	Draft	Indicative	
Secretariat Expenses	32.3	31.8	42.4	51.6	52.8
LFA Services	20.5	18.4	20.2	18.4	14.4
Total Operating Expenses (before new Rounds after Round 4)	**52.8**	**50.2**	**62.6**	**70.1**	**67.2**
less: Efficiency Target			-1.6	-1.8	-1.7
Net of Efficiency Target			61.0	68.3	65.5
Staffing (fixed-term positions)	118.0	118	**150**	168	179

In US$m	**2004**	**2004**	**2005**	**2006**	**2007**
Increase on prior year	Budget	Forecast	Draft	Indicative	
Operating Expenses - before new Rounds			15%	12%	-4%
Staff positions			27%	12%	7%
Number of Active Grants			82%	46%	21%

5. MEFA recommended that the costs associated with launching new Rounds after Round 4 be separated from the budget and that such costs be added to the budget as and when new Rounds were launched (see paragraphs 9 – 12). Accordingly, the proposed budget for 2005, exclusive of the costs of new Rounds, totals $62.6m with an efficiency target for cost savings to be pursued throughout the year of $1.6m (2.5% of the budget).

6. Overall, costs before new Rounds would increase by 15% on the 2004 budget . Of this, $2.7m (representing 5%) relates to the annual costs of the additional 29 positions approved at the 8th Board meeting. Taking those adjusted annual costs into account, MEFA recommended an increase of $ 6.4 million, being 11.8% over the adjusted 2004 budget (see paragraph 13). Further cost details are provided in Part 5.

7. Staffing will grow to 150 positions in 2005 (the ceiling recommended by MEFA). The Secretariat envisages limited additional growth in 2006 & 2007 reflecting a phased movement towards a fully-staffed stable Secretariat. Further details are provided in Part 4. MEFA recognized that some adaptation and refinement of the 2005 budget might be necessary in due course to ensure the optimum alignment of resources with the agreed priorities of the organization.

8. The number of active grants being managed by the Secretariat is expected to grow by 82% from 2004 to 2005.

Increment for new Rounds

9. The costs of launching new Rounds comprise those direct costs of the proposal review process (TRP, screening, translations, etc.), travel costs related to grant negotiations and LFA fees for PR assessments and grant monitoring that fall within the year. Timing of the approval has a bearing on these costs since a Round approved in the middle of the year would result in a greater number of grants being signed within the year than a Round approved close to the end of the year. Hence more PR assessments and months of grant monitoring would occur within the year, as well as fund portfolio manager travel for grant signings.

10. The incremental budgetary amount in 2005 for launching potential new Rounds in 2005 is comprised as follows:

Round 5, if approved in November 2005	$1.7m
Additional, if approved in July 2005	$5.1m
	$6.8m
Round 6, if approved in November 2005	$1.5m
Total	**$8.3m**

11. The indicative amounts for 2006 & 2007 in respect of new rounds assume that one new round is approved in 2006 and two in 2007.

12. These incremental costs of new rounds are comprised as follows:

$m	2005	2006	2007
Secretariat Expenses	2.6	1.6	2.5
LFA Services	5.8	17.3	23.5
Total	8.3	19.0	26.0

MEFA Adjustments

13. In arriving at its recommended budget for 2005, MEFA deliberations at its September and October meetings resulted in adjustments to the budget originally proposed in September to include $ 77.7 million and 177 staff and adjusted in October as summarized below:

US$m	Proposed by Secretariat	Recommended by MEFA	
Budget 2004			
Secretariat Expenses	32.3		
Annualization of additional 29 positions approved at 8th Board	2.7		
less: Round 4 costs	-0.9		
	34.1	34.1	
LFA Services	20.5	20.1	
Budget 2004, as adjusted	**54.6**	54.2	
Board mandated tasks	1.2	1.1	
Continuation of existing commitments	4.3	3.2	
Essential improvements	4.5	3.0	
Recommended enhancements	2.7	0.6	
Contingency	1.0	0.5	
Budget 2005, before new Rounds	**68.2**	**62.6**	
less: Efficiency Target		-1.6	
Net of Efficiency Target		**61.0**	
Increase on Budget 2004, as adjusted		*6.4*	*11.8%*
Increment for new Rounds*	**8.3**	**(A)**	

* Additional direct costs (Secretariat & LFA) of new Rounds

(A) See paragraph 5

Performance Indicators

14. Based on the foregoing, and assuming two new Rounds are approved in 2005, the resultant key ratios are:

Key Ratios	2004	2005	2006	2007
	Forecast	Draft	Indicative	
Operating Expenses (including new Rounds) as:				
As % of Disbursements [a]	8.0%	5.0%	3.6%	2.8%
As % of Expenditure [b]	3.3%	2.3%	1.9%	3.1%
As % of Value of Active Grants [c]	1.9%	1.3%	0.9%	0.7%
Operating Expenses per Active Grant [d] ($'000)	247	188	162	141

(a) Grant disbursements in the year
(b) New grant commitments (on signing agreements) plus Operating Expenses
(c) Cumulative funds committed to active grants ('funds under management')
(d) Grants (with signed agreements) that have not yet reached completion

The above ratios are based on the following projected grant activity volumes (and would change depending upon grant activity volumes):

Grant Activity Volumes (projected)	2004	2005	2006	2007
	Forecast	Draft	Projected	Projected
Number of new Rounds approved	1	2	1	2
Number of New Grants signed	153	158	190	110
(d) Number of Active Grants (average)	204	370	539	651
(a) Value of grant Disbursements in year	630	1,387	2,446	3,247
(b) Value of (new) grant Commitments in year	1,483	2,950	4,496	2,899
Operating Expenses (including new rounds)	50	69	87	92
Value of total Expenditure in year	1,533	3,019	4,583	2,990
(c) Value of Active Grants - Commitments $m	2,575	5,416	9,724	12,407
Value of Active Grants - Disbursements $m	852	2,103	4,384	7,413

Part 3: Corporate Objectives and Work Plan 2005

15. The Secretariat Work Plan for 2005 is focused on five Corporate Objectives:

- **Achieving results**: Finance the significant scale-up of responses to the three diseases through effective grant management and funds disbursement. Accelerate implementation through partnerships and harmonized approaches at country level.

- **Mobilizing resources**: Mobilize sufficient resources to implement the Global Fund's mission and meet country needs

- **Measuring and documenting performance**: Make performance based funding a reality.

- **Managing the Secretariat**: Build a cost- efficient, high-performing, diverse and motivated Secretariat.

- **Facilitating governance:** Provide effective support to the Global Fund Board and its Committees.

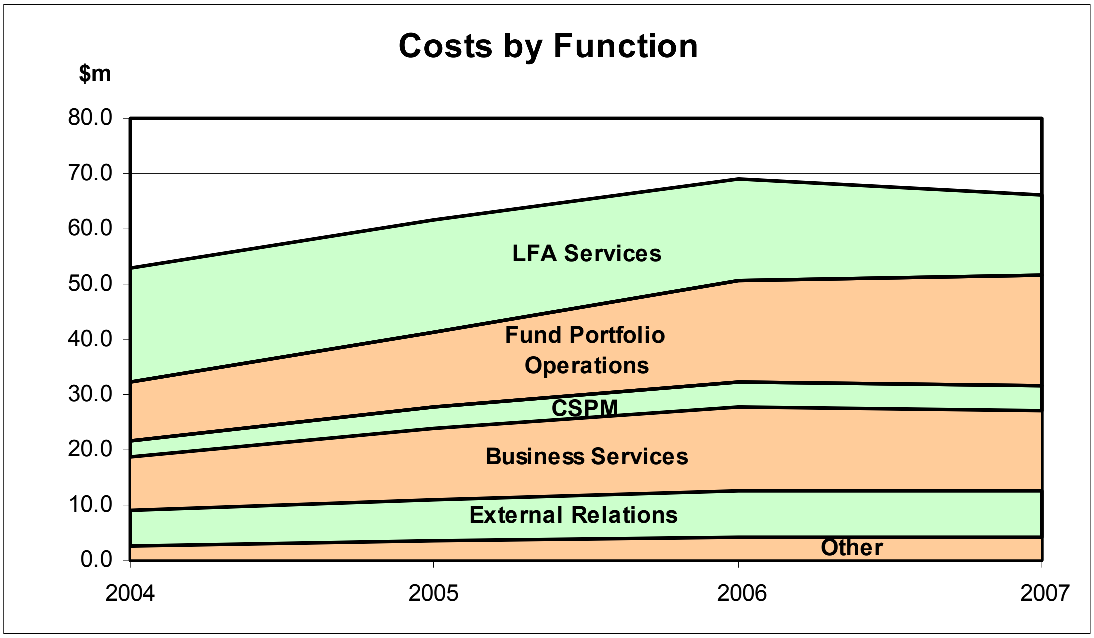
16. The attainment of these objectives is the basis of the individual team work plans detailing the constituent activities and deliverables, as reviewed by MEFA. The budget is derived from the resultant work planned. The allocation of resources in support of the Corporate Objectives after MEFA adjustments is as follows:

Budget 2005		Expenditure, by Corporate Objective (US$'000)					
Before new Rounds		**TOTAL**	Achieving results	Mobilizing resources	Measuring & documenting performance	Managing the Secretariat	Facilitating governance
Fund Portfolio Operations	22%	13,513	12,487	-	-	587	439
Corp. Strategy & Perform. Measure.	6%	3,971	531	-	3,362	78	-
External Relations	12%	7,470	-	4,618	73	38	2,740
Executive Director's Office	3%	2,144	422	530	696	264	232
Deputy Executive Director	2%	1,018	-	-	-	1,018	-
Business Services	21%	12,960	2,595	963	966	7,970	467
Independent Audit/Inspectorate	0%	290	-	-	-	290	-
Sub-total, before Contingency	66%	41,367	16,036	6,111	5,097	10,246	3,878
Contingency	2%	1,000	500	100	100	200	100
Total Secretariat Expenses	68%	**42,367**	16,536	6,211	5,197	10,446	3,978
LFA Services	32%	**20,199**	20,199	-	-	-	-
Total Operating Expenses	100%	**62,566**	36,735	6,211	5,197	10,446	3,978
		100%	59%	10%	8%	17%	6%

This is prior to cost savings sought under the Efficiency Target.

17. Fund Portfolio Operations and LFA services represent the largest cost element at 54% of total operating expenses. Business Services, which includes office rent, IT services, office infrastructure and Finance, Legal, Contracting, Human Resources and Administration, accounts for 21%. 6% is allocated to Corporate Strategy and Performance Measurement, 12% to External Relations (resource mobilization and communications), 5% to Executive Director activities (including the appointment of a Deputy ED). 2% is reserved for contingencies.

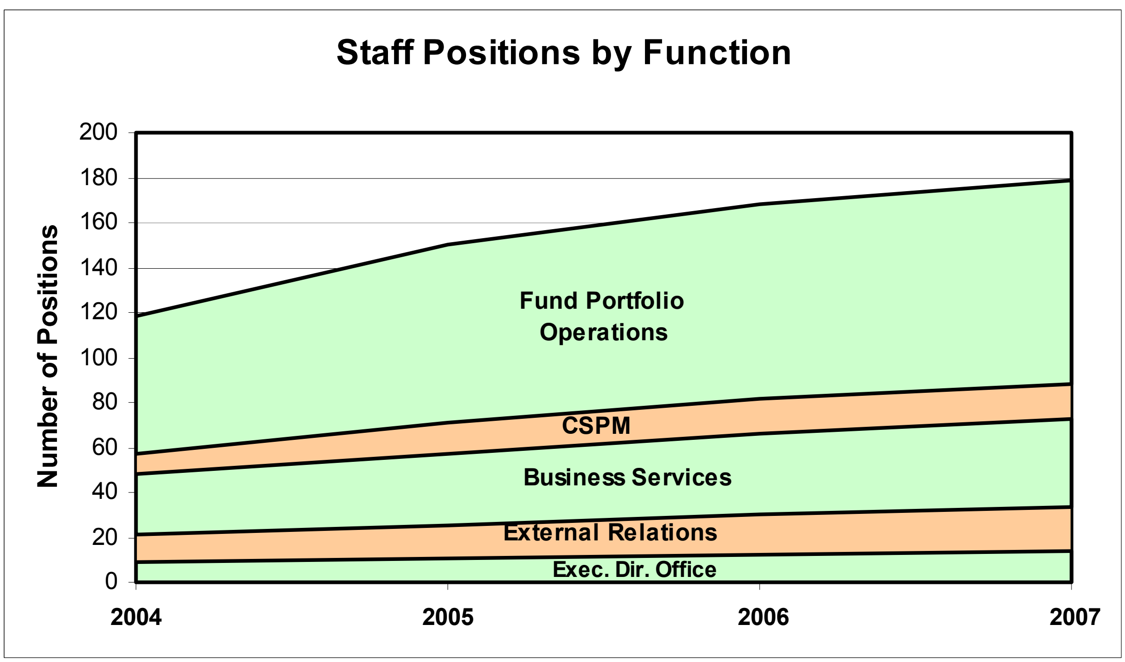
18. The chart below depicts the allocation of resources to each function, showing a build-up in 2005 & 2006 leveling off in 2007. Fund Portfolio Operations and LFA Services represent the main areas of growth in resource allocation, followed by Business Services which includes office infrastructure and support to all Secretariat activities.



Part 4 : Staffing

Staffing, by function

19. Growth in staffing is concentrated on Fund Portfolio Operations and the functions that support it.



By Function	2004		2005	Change on 2004		2006	Change on 2005		2007	Change on 2006
Fund Portfolio Operations	61.0		79	18		87	8		91	4
Corporate Strategy & Performance Measurement	9.0		14	5		15	1		16	1
External Relations	12.0		14	2		18	4		19	1
Executive Director's Office	7.0		7			7			8	1
Deputy Executive Director	2.0		4	2		5	1		6	1
Business Services	27.0		32	5		36	4		39	3
Total	**118.0**		**150**	32		**168**	18		**179**	11

20. The Operations Unit has been reorganized and expanded for a more efficient use of human resources to ensure effective portfolio management. The new structure reflects an emphasis on a risk-based approach and the integration of operational support staff in mobilizing partners when addressing slow implementation and bottlenecks. Alternative options would be more costly and inefficient: expanding portfolio management teams to manage all grants including slow performing grants, would require more staff and would not leverage the skills of technical partners.

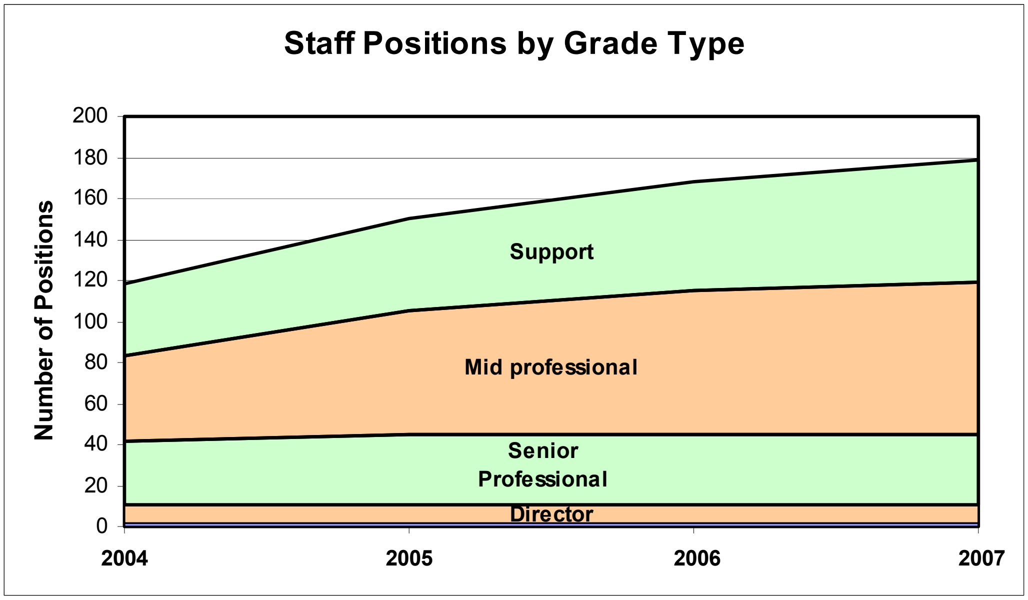
21. The Business Services Unit brings together a diverse range of functional services in the Secretariat: six in all - Finance, Human Resources (HR), Information Technology / Information Management (IT / IM), Legal, Contracts and Administration. The component teams' cross-cutting services and enabling capacities draws them in as contributors across the organization. Legal, Finance, IT / IM and Contracts each contribute very directly to ensuring the grant proposal, negotiation, approval and tracking / disbursement process functions smoothly and speedily. There is a critical need for each of these units to provide expected and requested support processes to the required standards. They must also constantly review both the established ways they interact with and support Operations, as well as explore how they can innovate to operate even more effectively. Conversely, dysfunctionality in any of these services may become a serious bottleneck in core business processes.

22. Finance provides support in furnishing accurate and up to date information on pledges, contributions, together with regularly updated modeling and forecasts of funding needs. The IT / IM team is critical in support of the M&E function – providing data capture and manipulation capability, the development and maintenance of grant proposal and grant management tools, performance tracking and progress reporting. They will also be critical in developing and driving a knowledge sharing capability across and between constituencies and providing a flexible, stable and cost-effective IT operating environment. Specific focus has been placed in the 2005 budget in ensuring the minimum required in-house management oversight, while out-sourcing almost all of the core support functions.

Staffing, by grade

23. In developing the budget scenarios and options, particular attention has been devoted towards reviewing required staffing levels and the appropriate mix of grades and remuneration.

24. In planning staff evolution, particular attention has been taken to avoid "grade creep". Although the cumulative scenario implies a total potential + 27% increase in headcount (118 to 150), the majority of additional positions are at the mid-professional (P3/P4) level and the support level (P2/Gs), consistent with the need to further strengthen the Fund Portfolio Operations management team and to cope with the additional administrative load. This will drive down the average cost per employee each year.



By Grade Type	2004	2005	Change on 2004	2006	Change on 2005	2007	Change on 2006
Seconded free-of-charge	2	2		2		2	
Director	9	9		9		9	
Senior professional	31	34	3	34		34	
Mid professional	41	60	19	70	10	74	4
Support	35	45	10	53	8	60	7
Total	**118**	**150**	32	**168**	18	**179**	11

Part 5: Cost increases from 2004 to 2005

25. The table following summarises the budgetary changes from 2004 to 2005, which are explained in the paragraphs beneath. Attachment 1 details the computation of the changes.

Changes from 2004 to 2005		Changes from Budget 2004 to 2005 (US$'000)						
		TOTAL	Staff	Professional Fees	Travel	Meetings	Office Infrastructure	Communications Materials
Fund Portfolio Operations	27%	2,862	2,443	(181)	78	321	-	202
Corp. Strategy & Perform. Measure.	34%	1,003	1,073	(255)	(130)	140	65	110
External Relations	18%	1,121	788	(410)	363	196	30	153
Executive Director's Office	3%	70	(50)	(50)	30	110	-	30
Deputy Executive Director		1,018	756	175	58	30	-	-
Business Services	33%	3,214	1,107	556	53	8	1,510	(20)
Independent Audit/Inspectorate		290	-	290	-	-	-	-
Sub-total, before Contingency	30%	9,578	6,117	125	451	805	1,605	475
Contingency	82%	450	39%	2%	11%	91%	62%	42%
Total Secretariat Expenses	31%	**10,028**						
LFA Services	-1%	**(279)**						
Total Operating Expenses	18%	**9,749**						

Note: The percentages on this table represent the percentage change on the 2004 budget.

Reasons for the changes

26. Fund Portfolio Operations

- Consolidation of the Operations team to achieve appropriate grant process management capability, including the establishment and integration of Operations Services and Support capacity – particularly in the areas of operational partnerships and country level support. (See 19 also.)
- Increased grant activity and enhanced risk management capability
- Staff cost increase reflects annual costs for the 23 additional staff approved at 8th Board meeting and 16 additional staff in 2005.
- Increased cost of meetings and communications materials relate to more Regional Meetings to facilitate CCMs' and PRs' capacity and partnership building through training workshops and knowledge exchange. Costs are net of anticipated cost sharing/sponsorship. These meetings act as platforms for information sharing among CCMs and PRs in accordance with each region's situation. Additional costs relect more meetings, more extensive training materials and translation of this material.
- Travel cost increase results from more grants being managed, Phase 2 renewals and ACT reprogramming

27. Corporate Strategy and Performance Management

- Additional staff to ensure that monitoring and evaluation work is developed to the required standard to underpin true performance-based funding, and to better enable program policy development
- Production and translation of M&E toolkit, M&E manual and CCM case studies.

28. External Relations (Includes resource mobilization, communications and Board relations)

- Travel and meetings costs for Board meetings have increased because: (a) the current configuration of members, including high costs of bringing people from remote areas (e.g. Samoa, Chile) which will last for another 12 months; (b) the costs of appropriate venues (with enough space and interpretation booths etc), especially for the away meeting, was under-budgeted in 2004 and these extra costs have been factored in for 2005 (c) overlapping committee meetings make it difficult to hold all meetings in the GF office, the budget has thus been slightly increased to cover the costs of an outside venue; (d) a provision has been made to support Board members' travel to fulfill certain limited responsibilities and for

professional expertise to support the committees (in particular the Ethics committee which requires expert guidance).
- Resource mobilization activities including replenishment conferences.
- Reduction in professional fees and increase in staff costs reflects use of temporary staff in place of consultants.

29. Executive Director's office

- Provision for appointment of a Deputy Executive Director.

30. Business Services (Includes organization-wide costs for office rent, IT infrastructure, Trustee fee, etc. and for Finance, Human Resources (HR), Information Technology/ Information Management (IT / IM), Legal, Contracts and Administration.)

- Enhancement of IT systems to support proposal and grant management and performance measurement
- Increased legal and contracts support to portfolio operations
- Office rent, equipment and other infrastructure costs impacted by staff numbers
- Increased scope of Trustee services (replenishment & multi-currency grants)
- See paragraphs 20 & 21 also.

31. Independent Audit/Inspectorate

- Provision for the establishment of a service to independently review integrity of Global Fund. Terms of reference to be determined in consultation with stakeholders.
- 50% of annual estimated cost provided in 2005, assuming mid-year start-up with extensive use of outsourced services.

32. Contingency

- Increase to reinstate contingency to $1m, to provide for unforeseen needs.

33. LFA services

- Cost decrease arises when LFA fees relating to new Rounds are excluded from the 2005 budget (as explained in paragraph 4). The launching of new Rounds would result in additional LFA fees as outined in paragraphs 8 through 11.
- See Attachment 2 for calculation of LFA fee estimates.

Attachment 1

Changes from Budget 2004 to 2005

Budget 2004		Budget 2004 (US$'000)						
		TOTAL	Staff	Professional Fees	Travel	Meetings	Office Infrastructure	Communications Materials
Fund Portfolio Operations	20%	10,651	7,942	912	1,476	116	-	205
Corp. Strategy & Perform. Measure.	6%	2,968	766	1,681	521	-	-	-
External Relations	12%	6,349	2,037	910	1,724	770	-	908
Executive Director's Office	4%	2,074	1,242	510	322	-	-	-
Deputy Executive Director								
Business Services	18%	9,746	3,678	3,330	136	-	2,572	30
Independent Audit/Inspectorate	0%	-	-	-	-	-	-	-
Sub-total, before Contingency	60%	31,788	15,666	7,343	4,179	886	2,572	1,143
Contingency	1%	550	30%	12%	7%	1%	4%	2%
Total Secretariat Expenses	61%	**32,338**						
LFA Services	39%	**20,478**						
Total Operating Expenses	100%	**52,817**						

Budget 2005		Expenditure, by Expense Type (US$'000)						
Before new Rounds		TOTAL	Staff	Professional Fees	Travel	Meetings	Office Infrastructure	Communications Materials
Fund Portfolio Operations	22%	13,513	10,385	731	1,553	437	-	407
Corp. Strategy & Perform. Measure.	6%	3,971	1,838	1,426	391	140	65	110
External Relations	12%	7,470	2,826	500	2,087	966	30	1,061
Executive Director's Office	3%	2,144	1,192	460	352	110	-	30
Deputy Executive Director		1,018	756	175	58	30	-	-
Business Services	21%	12,960	4,786	3,886	189	8	4,083	10
Independent Audit/Inspectorate	0%	290	-	290	-	-	-	-
Sub-total, before Contingency	66%	41,367	21,783	7,468	4,629	1,691	4,178	1,618
Contingency	2%	1,000	35%	12%	7%	3%	7%	3%
Total Secretariat Expenses	68%	**42,367**						
LFA Services	32%	**20,199**						
Total Operating Expenses	100%	**62,566**						

Changes from 2004 to 2005		Changes from Budget 2004 to 2005 (US$'000)						
		TOTAL	Staff	Professional Fees	Travel	Meetings	Office Infrastructure	Communications Materials
Fund Portfolio Operations	27%	2,862	2,443	(181)	78	321	-	202
Corp. Strategy & Perform. Measure.	34%	1,003	1,073	(255)	(130)	140	65	110
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Executive Director's Office	3%	70	(50)	(50)	30	110	-	30
Deputy Executive Director		1,018	756	175	58	30	-	-
Business Services	33%	3,214	1,107	556	53	8	1,510	(20)
Independent Audit/Inspectorate		290	-	290	-	-	-	-
Sub-total, before Contingency	30%	9,578	6,117	125	451	805	1,605	475
Contingency	82%	450	39%	2%	11%	91%	62%	42%
Total Secretariat Expenses	31%	**10,028**						
LFA Services	-1%	**(279)**						
Total Operating Expenses	18%	**9,749**						

Note: The percentages on this table represent the percentage change on the 2004 budget.

Fees for Local Fund Agent Services

	Budget 2005: **LFA Fees**	2004 Budget	2005	2006	2007
	Total	**$20.5m**	**$26.0m**	**$35.8m**	**$38.0m**
	New Rounds approved (assumed)	**1**	**2**	**1**	**2**
	Activity Volumes				
A	Phase 1 grant agreements signed	153	158	190	110
B	Phase 2 renewals reviewed	0	142	193	150
	Active grants (at year end)	287	429	603	683
C	(Av.) No.of Active grants throughout year	204	370	539	651
	No. of new grants per PR (Phase 1)		1.8	1.9	2.0
	No. of PRs receiving a new grant		88	100	55
	Of which, existing PRs		40%	45%	50%
	Assessments of NEW PRs		53	55	28
	Assessments of Existing PRs		35	45	28
	LFA Fees for Assessments				
	New PRs				
	Unit cost (per assessment)	$75,000	$75,000	$75,000	$75,000
	No. of New PRs assessed	96	53	55	28
	Cost	$7,200,000	$3,960,000	$4,125,000	$2,062,500
	Existing PRs				
	Unit cost (per assessment)	$40,000	$40,000	$40,000	$40,000
	No. of Existing PRs assessed	47	35	45	28
	Cost	$1,880,000	$1,408,000	$1,800,000	$1,100,000
	Total cost of Assessments	$9,080,000	$5,368,000	$5,925,000	$3,162,500
	LFA Fees for Monitoring				
	Unit cost (per grant-year)	$52,627	$50,000	$50,000	$50,000
C	(Av.) No.of Active grants throughout year	205	370	539	651
	Cost	$10,788,535	$18,475,346	$26,925,743	$32,558,188
	LFA Fees for Phase 2 Renewal Reviews				
	Unit cost (per renewal review)	$15,238	$15,000	$15,000	$15,000
B	Phase 2 renewals reviewed	40	142	193	150
	Cost	$609,520	$2,130,000	$2,901,509	$2,250,000
	LFA Fees - Total	$20,478,055	$25,973,346	$35,752,252	$37,970,688
		$20.5m	**$26.0m**	**$35.8m**	**$38.0m**
	Increase on prior year - LFA Fees		27%	38%	6%
	Increase on prior year - No. of Active Grants (average)		82%	46%	21%
	If no new Rounds		20,199,138	18,433,070	14,434,759
	Increment over "No New Rounds"				
	Assessments		3,512,095	5,925,000	3,162,500
	Monitoring		2,217,112	11,329,975	18,238,089
	Phase II		45,000	64,207	2,135,340
	Total - fees relating to new Rounds		**5,774,208**	**17,319,182**	**23,535,929**

MEFA Meeting
Geneva, 12-13 October 2004

DUAL CURRENCY GRANTS – OPERATIONAL IMPLICATIONS

Outline: At the 8th Board Meeting it was resolved that from 2005 onwards grant proposals submitted to the Global Fund may be denominated in either US Dollars or Euros. It was further decided that Grant Agreements may be signed in USD or Euro at the recipients' choice and that disbursements would be made in the currency of the grant agreement.

The Board mandated the MEFA Committee, with the Secretariat, to identify the operational implications of this decision. This paper, which has been prepared in consultation with the Trustee, outlines the operational implications.

Part 1: Background

6. To date all proposals to the Global Fund and grants approved have been denominated in US Dollars. From Round 5 onwards, proposals and grant agreements can be denominated in either US Dollars or Euro at the choice of the recipient, in accordance with the following decision of the 8th Board meeting:

    - *"From 2005, proposals submitted to the Global Fund may be denominated in USD as well as in Euro.*
    - *Grant agreements may be signed in USD or Euro, depending on a recipient's preference. Disbursements will be made in the denominated currency of the grant agreement.*
    - *The Board requests the Trustee to incorporate in its data processing system for the Global Fund, the capacity to cater for grants denominated in USD as well as Euro.*
    - *The Board authorizes the Secretariat to incur costs not exceeding USD 150,000 for this purpose. The Secretariat may use the contingency to cover this expenditure.*
    - *The Board mandates the MEFA Committee with the Secretariat to prepare the operational implications for the Ninth Board Meeting."*

7. The change to dual-currency grant funding has several important operational and financial implications which are addressed in this report under the following headings:

    Part 2: Clarification of aspects of the Board decision

    Part 3: Risk management – mitigation of the risks inherent in dual currency grants (and promissory notes in various currencies)

    Part 4: Updating proposal forms and guidelines for dual currency grants

    Part 5: Trustee IT systems upgrades to allow for dual currency grants

Part 2: Clarification of application of dual currency grant policy

8. While the intent of the Board decision is clear, MEFA guidance is sought on interpretation of the decision to clarify that:

    (A) The choice of currency will apply only to new proposals submitted after 1 January 2005

    In which case:

    i) Grants approved in Rounds 1 through 4 which have not been signed by 1 January 2005 will continue to be denominated in USD (i.e. the currency choice applies from Round 5 onwards)

    ii) Phase 2 renewals are not regarded as new proposals and hence will continue to be denominated in the currency chosen for Phase1.

(B) The currency choice must be made at the time of submission of the Proposal

In which case, the applicant cannot change its chosen currency after submission of the Proposal.

9. If the option to change the chosen currency were allowed between proposal approval and grant signing, the Fund's commitment liability as assessed when approving the round of grants would be altered. Consequently, any hedging or asset-liability matching undertaken to mitigate risk when approving the round would be impaired.

10. Similar considerations apply if a change in currency was permitted when transitioning from Phase 1 to Phase 2. In estimating the Fund's financing needs, especially in the context of multi-year replenishment funding, a significant additional degree of uncertainty would be introduced if the currency mix of a round could be altered as each individual grant was renewed. If such were the case, the Phase 2 funding need for each round would be subject to ongoing restatement as currency choices were made when renewing each grant.

Part 3: Risk management – mitigation of the risks inherent in dual currency grants (and promissory notes in various currencies)

11. In the future, two factors will each give rise to additional financial risks for the Global Fund:

    i) The introduction of dual currency grants giving rise to grant commitments in both USD and EUR, and

    ii) The potentially greater use of promissory notes (as a result of the replenishment mechanism) in multiple currencies as assets to back those grant commitments

    Grant liabilities will be in both EUR and USD while the assets to cover these liabilities may be promissory notes of various currencies.

12. This is in contrast with the current situation where all grant liabilities are in USD and all contributions are converted to USD on receipt (with only a small element of contributions made in promissory notes).

13. The resulting effect is changing currency composition of liabilities due to currency choice of recipients and fluctuating value of the assets because of the use of promissory notes denominated in various currencies. The risk is that the value of assets will not be sufficient to support the disbursements to grant recipients.

14. Commitments will be made on the basis of value of assets which will now be comprised of cash funds held in USD and Euro and, potentially increasingly, promissory notes which are likely to be in national currencies of donors. The value of the contributions in the form of promissory notes denominated in multiple currencies and encashed over a period of time will fluctuate relative to the original amounts contributed until the notes are encashed and converted into USD or Euro. Thus, commitments made based on the original value of the assets may not be supported by the same value of those assets over time – the value of those assets may increase or decrease. The risk is, therefore, that there are insufficient assets to fulfill the commitment when needed.

15. Currently when signing USD grant agreements, cash funds in USD equal to the 2 year grant amount are earmarked as “Committed Funds” within the GFATM Trust Fund held by the Trustee. Around $1.6bn has been committed in this way matching exactly the Phase 1 value of the grants signed to date. This means that to date all Phase 1 grants, which are all in USD, have been 100% covered by an equivalent USD asset. In essence there is no risk[4] that the GF will not have sufficient funds to fulfill all the disbursement requirements for those grants.

16. Going forward, the above no longer holds true. At time of commitment by Trustee, the signed grant will be 100% covered by multi-currency cash and promissory notes of equal value. However, the day after the commitment is made, the currency in which the promissory notes is denominated may depreciate (or appreciate) and the signed grant is no longer 100% covered but is exposed to fluctuating foreign exchange rates. Annex 1 shows examples of fluctuations in foreign currency exposure.

17. If all the promissory notes had been denominated in USD, at time of commitment of Euro grant, the Trustee would ensure there was sufficient liquidity in Euro to cover that new liability and there would be no currency exposure[5]. Thus, as promissory notes become an increasingly greater portion of the underlying assets to support grant commitments, the resulting currency risk will be increasingly difficult to manage.

18. At present, because there are sufficient levels of uncommitted cash, a relatively low use of promissory notes, and grants are only denominated in USD, the financial risk to the Fund is minimal. In time this may change: as grants in Euro become a sizeable portion of the portfolio and/or donors increase their use of promissory notes in currencies other than USD (or EUR) then the financial risk will increase.

19. An increased use of promissory notes will have an impact on the levels of cash available. In order to manage these cash levels (or liquidity risk), the Global Fund will need to establish encashment policies for promissory notes to ensure the Global Fund can draw down on promissory notes as funds are needed in order to disburse against grant agreements.

20. Both the use of multi currency grants and the expected increased use of promissory notes create foreign currency risk exposure. To mitigate the Fund’s exposure to that risk will require the Fund to both measure those exposures through the use of models and to develop asset liability management strategies including the potential use of hedging strategies. The Global Fund will need to develop detailed financial policies on how it intends to manage this risk.

21. Consequently it is proposed that MEFA consider recommendations which address the operating and financial policy surrounding the new sources of financial risk:
    i) consider recommendations to expand the current policy framework for accepting pledges and promissory notes (Recommendation 1), and
    ii) consider recommendations with regard to an overall policy framework to manage the new financial risks, including establishing appropriate asset/liability strategies and hedging options to mitigate these risks (Recommendation 2).

[4] Currently, the only risk is interest rate risk and the credit risk all inherent in the investments portfolio.
[5] If eventually the size of the EUR grants exceeded liquidity, this method of hedging would not work; but promissory notes could be encashed in time to make this work.

22. **Recommendation 1:**

The Global Fund should expand its current operational and financial policies in order to minimize the risks associated with the potential increase in use of promissory notes by donors for commitment of grant liabilities with the introduction of the Replenishment Mechanism. These policies should encompass:

a) Establishing a policy to determine how different types of contributions will be counted towards commitment authority, including cash, promissory notes and contributions received outside the replenishment. This policy will also need to consider any adjustments or reserves for potential liquidity risks associated with delays in timing of payment, credit risk or other factors.

b) Establishing the terms of promissory note encashment, including the type (i.e. demand or dated notes) as well as a proposed encashment schedule. Promissory notes which follow a needs-based encashment schedule (demand notes) based on disbursement requirements will provide the Global Fund with greater flexibility in meeting liquidity needs.

c) Defining the roles of the Global Fund Secretariat and the Trustee with regards to operational issues associated with promissory notes. Any necessary amendments to existing contribution agreements as a result, will also need to be considered.

d) Fixing the currency denomination and form of payment (cash or promissory notes) by each donor to the Global Fund at the time of pledge. If donors are provided the option to change the currency and form of payment at any time after a pledge has been made, this will present a source of uncertainty in the measurement of currency risk exposure, and a currency misalignment may arise on a previously hedged or matched position.

e) Applying a discount factor to those donor pledges and promissory notes that are denominated in currencies of high inflation economies when computing the assets available for covering grant liabilities.

23. **Recommendation 2:**

While there is currently no currency mismatch between grant liabilities and the supporting assets, the Global Fund will need to adapt its policies to ensure the minimization of any currency mismatch between grant liabilities and assets that may arise due to the increasing use of multi currency grants, and promissory notes denominated in multi currencies. It must be recognized that the measures to mitigate this risk can be complex. To this end the Global Fund:

a) Will determine financial policies to establish currency risk management objectives and guidelines, including parameters on acceptable levels of currency misalignment between committed assets and outflows (open currency positions), and acceptable financial instruments to be used in the context of a currency risk management strategy.
b) Will evaluate and operationalize an asset liability management strategy in line with these objectives, in order to closely match the currency denomination of assets with outflows. This strategy may include the adjustment of the currency composition of liquid assets, or the use of acceptable market based instruments, including the use of derivatives. In the case of liquidity, this may involve holding cash assets in a combination of the two grant currencies, USD and Euro, in order to partially or wholly match liability commitments in the two currencies.
c) Will undertake detailed and periodic measurement of currency risk exposure. This may include revaluing the Fund's asset and liability portfolio, which will include cash

and promissory notes, on a regular basis (at an interval to be determined but in any event no less than quarterly) in order to assess any currency misalignment between asset and liability sides that may have emerged in the intervening period.

d) Take action to reduce any currency exposure that may have arisen.
e) Recognise that under a resource constrained environment any action to eliminate a funding deficiency that may have arisen takes priority over any other allocation of funds.

24. Cost implications

Implementation of the above recommendations would necessitate additional finance personnel at the Secretariat and/or additional services from the Trustee, for both the set-up phase and ongoing implementation. Provisional costing would allow for one additional P4/P5 staff member or outsourced consultant (approximate cost $165,000 per year) plus Trustee costs to be determined.

Part 4: Updating proposal forms and guidelines for dual currency grants

25. The proposal form and accompanying guidelines to be used in Round 5 will need to reflect the decision to allow the choice of grants in either US Dollars or Euro.

26. The current draft version of the proposal form and guidelines do not mandate that the applicant is only entitled to seek a grant in the currency in which the proposal is submitted, instead leaving this decision open. The documents may require amendment upon clarification of the matters outlined in Part 2 of this paper.

27. The proposal form and guidelines should require that all financial information in the proposal document be expressed in the currency selected for the grant.

Part 5: Trustee IT systems upgrades to enable dual currencies

Systems changes that need to be made and timetable

28. The decision to allow grants to be denominated in either US Dollars or Euro requires changes to the system's module that was originally designed to accommodate a single currency operation of the Global Fund.

29. The required system changes can be made in time for the proposed January 2005 implementation of this option. If systems implementation is postponed beyond January 2005, then the next earliest possible delivery date for the system changes will be May 2005 because of the constraints imposed by the Bank's upgrade of the SAP system and other already scheduled work. Therefore, the Trustee expects to implement the systems changes by January 2005 even if Global Fund delays the effective implementation date of multi-currency.

Cost implications

30. The cost estimate for completing the required systems changes (design, development, and testing) to implement the multi-currency option is $150,000. This cost estimate assumes that the work will be completed by January 2005 and that there will be no retrofitting or redenomination of grants already recorded in the system (e.g. for Rounds 1 - 4). Any changes to existing data would require additional time and costs to be incurred and has not been factored into the estimate.

Attachment 1: Examples of circumstances giving rise to foreign currency exposure

The following are examples that illustrate how foreign currency exposure can arise in The Global Fund operations and that will need to be addressed in order to minimize its exposure to exchange rate movements. It is important to note that there are other situations of foreign exchange exposure that are not included as an example, such as, the effect of approvals based on pledges that occurs prior to the signing of grants.

Example 1 (No Foreign Currency Exposure)

In this example, contributions equivalent to 100 USD are received in cash during T_1. Grants denominated in USD are signed for the total amount of 100 USD in T_1 and they are disbursed in equal amounts during T_1, T_2, T_3, and T_4. The following table presents a simple forecast using these assumptions.

Table 1

		T_1	T_2	T_3	T_4	Total
Contributions	USD	100				100
Encashment	USD	100				100
Commitment	USD	100				100
Disbursement	USD	25	25	25	25	100
Cash Available/(Deficit)	**USD**	**75**	**50**	**25**	**0**	**0**

It can be observed that the amount disbursed during T_1-T_4 matches perfectly the amount contributed in T_1 given that the grants and the contributions were in the same currency. Furthermore, given that the contributions were in cash and in T_1, there is always cash available to cover the disbursements.

Example 2 (Grants in Euro and USD)

This example introduces some of the consequences of signing Grants in EUR and USD. In this example, contributions equivalent to 100 USD are received in cash during T_1. Grants are signed in USD and EUR in T_1. Grants in USD are for the total amount of 60 USD and Grants in EUR are for the total amount of 40 EUR. The grants are disbursed in equal amounts during T_1, T_2, T_3, and T_4. It is also assumed that the exchange rate USD/EUR is 1:1 in T_1 and then, in future periods, the USD depreciates with respect to the T_1. The following table presents a simple forecast using these assumptions.

Table 2

		T_1	T_2	T_3	T_4	Total
FX (USD/EUR)		**1.0**	**1.7**	**1.3**	**1.5**	
Contributions	USD	100				100
Encashment	USD	100				100
Commitment in EUR	EUR	40				40
Commitment in USD	USD	60				60
Disbursement in EUR	EUR	10	10	10	10	40
Disbursement in USD	USD	15	15	15	15	60
Total Disbursement equivalent in USD	**USD**	**25**	**32**	**28**	**30**	**115**
Cash Available/(Deficit)	**USD**	**75**	**43**	**15**	**(15)**	**(15)**

The last scenario considers that the contributions are kept in USD and that in every period the Trustee buys EUR on the spot market to cover the disbursements in EUR. As a result of the USD depreciation, it is more expensive to buy EUR in the future, and as a consequence, in T_4 there is not enough USD to buy the EUR required to meet the disbursements.

Table 3 presents the same scenario with the difference that some contributions are received in EUR and they are kept in EUR as cash. Additionally, the amount of contributions in EUR match the amount of grants signed in EUR.

Table 3

		T_1	T_2	T_3	T_4	Total
FX (USD/EUR)		**1.0**	**1.7**	**1.3**	**1.5**	
Contributions in EUR	EUR	40				40
Contributions in USD	USD	60				60
Encashment in EUR	EUR	40				40
Encashment in USD	USD	60				60
Commitment in EUR	EUR	40				
Commitment in USD	USD	60				
Disbursement in EUR	EUR	10	10	10	10	40
Disbursement in USD	USD	15	15	15	15	60
Total Disbursement equivalent in USD	**USD**	**25**	**32**	**28**	**30**	**115**
Cash Available in EUR	EUR	30	20	10	0	0
Cash Available in USD	USD	45	30	15	0	0
Total Cash Available/(Deficit) in USD	**USD**	**75**	**64**	**28**	**0**	**0**

As can be observed, there is no cash deficit at T_4, and this is the result of the matching of currencies between assets/liabilities.

Table 4 illustrates what could happen if there is not a perfect matching of currencies between assets and liabilities, for example, contributions could have the following composition 40 EUR and 60 USD, and grants signed could be 80 EUR and 20 USD.

Table 4

		T_1	T_2	T_3	T_4	Total
FX (USD/EUR)		**1.0**	**1.7**	**1.3**	**1.5**	
Contributions in EUR	EUR	40				40
Contributions in USD	USD	60				60
Encashment in EUR	EUR	40				40
Encashment in USD	USD	60				60
Commitment in EUR	EUR	80				80
Commitment in USD	USD	20				20
Disbursement in EUR	EUR	20	20	20	20	80
Disbursement in USD	USD	5	5	5	5	20
Total Disbursement equivalent in USD	**USD**	**25**	**39**	**31**	**35**	**130**
Cash Available in EUR/(Deficit)	EUR	20	0	(20)	(40)	(40)
Cash Available in USD/(Deficit)	USD	55	50	45	40	40
Total Cash Available/(Deficit) in USD	**USD**	**75**	**50**	**19**	**(16)**	**(16)**

As observed, in T_3 and T_4, it is required to buy EUR on the spot market in order to cover the disbursements in EUR those periods because there are not EUR available from the encashment. As a result of the USD depreciation, in T_4 there is not enough USD to buy the EUR required to meet the disbursements, and there is therefore a deficit. In order to resolve this problem, the Trustee, could rebalance in T_1 the assets between both currencies in order to match the liabilities.

Example 3 (Grants in Euro and USD and use of promissory notes)

This example illustrates some of the consequences of using promissory notes (PN). Contributions are 40 EUR and 60 USD, but their encashment will occur during four periods. The Grants signed in T_1 are 40 EUR and 60 in USD, and their disbursements do not match the encashment of PN. Table 5 presents the forecast under this scenario.

Table 5

		T_1	T_2	T_3	T_4	Total
FX (USD/EUR)		**1.0**	**1.7**	**1.3**	**1.5**	
Contributions in EUR	EUR	40				40
Contributions in USD	USD	60				60
Encashment in EUR	EUR	10	0	10	20	40
Encashment in USD	USD	15	15	15	15	60
Commitment in EUR	EUR	40				40
Commitment in USD	USD	60				60
Disbursement in EUR	EUR	0	15	15	10	40
Actual Disbursement in EUR	**EUR**	**0**	**10**	**10**	**20**	**40**
Disbursement in USD	**USD**	**15**	**15**	**15**	**15**	**60**

As it is observed, the encashment of USD matches perfectly the disbursements in USD, therefore, there is no problem in meeting the requirements of USD disbursements. Nevertheless, there are not enough funds available to cover EUR shortfalls. As of T_2, the Fund has received only 10 EUR (during T_1) that is not enough to meet the disbursements of 15 EUR that period. As a consequence, the Fund only disbursed the amount already received, 10 EUR. This situation again occurs at T_3, the 10 EUR received from the encashment schedule are not enough to cover the pending disbursement from T_2, 5 EUR, and the disbursement corresponding to T_3, 15 EUR. In T_4, the Fund received enough EUR to cover all the disbursement requirements. This case exemplifies the importance of having an encashment schedule for PN consistent with the grant disbursement profile.

In the next scenario, contributions will be 40 EUR, 30 GBP, and 30 USD, and their encashment will be done during four periods. The Grants signed are 40 EUR and 60 in USD, and their disbursement matches the encashment of PN. It is also assumed that the exchange rate USD/GBP is 1:1 in T_1 and then, in future periods, the USD appreciates with respect to the GBP. The encashment of GBP is converted to USD in the period the GBP are received. Table 6 presents a simple forecast using these assumptions.

Table 6

		T_1	T_2	T_3	T_4	Total
FX (USD/EUR)		**1.0**	**1.7**	**1.3**	**1.5**	
FX (USD/GBP)		**1.0**	**0.9**	**0.8**	**0.7**	
Contributions in EUR	EUR	40				40
Contributions in USD	USD	30				30
Contributions in GBP	GBP	30				30
Encashment in EUR	**EUR**	**10**	**0**	**10**	**20**	**40**
Encashment in USD	USD	7.5	7.5	7.5	7.5	30
Encashment in GBP	GBP	7.5	7.5	7.5	7.5	30
Encashment USD+GBP equivalent USD	**USD**	**15.0**	**14.3**	**13.5**	**12.8**	**56**
Commitment in EUR	EUR	40				40
Commitment in USD	USD	60				60
Disbursement in EUR	**EUR**	**10.0**	**0.0**	**10.0**	**20.0**	**40.0**
Disbursement in USD	USD	15.0	15.0	15.0	15.0	60.0
Actual Disbursement in USD	**USD**	**15.0**	**14.3**	**13.5**	**12.8**	**55.5**

As observed, the appreciation of the USD with respect to GBP means that in the future the Fund will receive less USD for every GBP, consequently affecting the amount of funds available to meet the disbursements. Exchange rate movements will have a significant impact in the amount received as cash from PN and they will add uncertainty with respect to the amount available to meet the disbursement.

Annex 8: TERG Report

Annex 9

MONITORING, EVALUATION, FINANCE AND AUDIT COMMITTEE
WORKPLAN FOR COMMITTEE January / November 2004 (Updated / Oct 4, 2004)
Secretariat Committee Focal Point : John Burke

Tasks	Secretariat Lead	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04
1. Forecasting Global Funding Demand	Bernhard Schwartlander											
Develop method with partners to provide estimates of global funding demand for the 3 diseases.												
a. Present regular updates on WHO/UNAIDS progress at MEFA			23-Feb								12-13 Oct	
2. Systems effects	Bernhard Schwartlander											
Define dimensions of system-wide effects, identify GF priorities (including Additionality) and establish measures and monitoring mechanism												
a. Contract consultants for concept paper, incl.GF priorities, indicators.												
- initial review										16-17 Sep		
- report back to TERG / MEFA											12-13 Oct	
3. Approval Process/Criteria: Phase II Renewals (Go/No Go)	Brad Herbert											
Process, criteria, accountability for Phase 2 decisions.												
a. Secretariat drafts paper proposing methods for decision-making	Done											
b. Paper to PMPC/MEFA for review	Done											
c. MEFA w/ PMPC reps. discuss			10-Feb									
d. Present revised draft to committees			10-Feb									
e. Receive input from committees			23-Feb									
e. Paper to Board for review				3-Mar								
f. Present to 7th Board for decision				18-Mar								
g. Options re resource constrained and non-renewal situations						10-11 May						
h. MEFA recommendation to Board							5-Jun					
i. Present to 8th Board for decision							28-Jun					
j. Options for treatment & services continuity (input/concls. from PMPC) - paper to MEFA - MEFA conclusions - paper/possible recomm. to Board											4 Oct 12-13 Oct 22 Oct	18-19 Nov

k. Options/recomms.on decision process / compliance with constits.' legal, fiduciary needs - paper to MEFA - MEFA recommendation - Paper, present to Board for decision											4 Oct 12-13 Oct 22 Oct	18-19 Nov
4. Phase 2 Renewals - Operational review	Brad Herbert											
Review operation of Phase 2 process												
a. Secretariat verbal report on renewals											12-13 Oct	
b.TERG reports on quality assurance system of renewal process											12-13 Oct	
c. MEFA report sent to Board											22-Oct	
d. Present to Board for information												18-19 Nov
5. Operationalizing TERG	Bernhard Schwartlander											
a. Initial TERG meeting										15-17 Sept		
6. Timelines for Grant Signings	Brad Herbert											
a. Board sets 6 mth target & 12 mth cut-off (max. 3 mth extension) for signings							30-Jun					
b. Board requests improved estimates for timelines							30-Jun					
c. Agreement with MEFA Chair for review period until early 2005										3 Sept		
d. Update/improved estimates submitted to MEFA												Mar-05
7. 2004 Budget Performance	Barry Greene											
Monitor vs. 2004 Budget & Workplan												
a. Review Operating Expenses Jan-Mar						10-11 May						
b. Review Operating Expenses Jan-Jun											12-13 Oct	
c. Review Workplan perf. Jan-Jun											12-13 Oct	
d. Report sent to Board on Budget & Workplan performance Jan-Jun											22-Oct	
e. Present to 9th Board for information												18-19 Nov
8. Finance & Audit	Barry Greene											
a. External Audit of 2004												
- audit conducted (Ernst & Young - E&Y)												Jan/Feb 05
- draft report to MEFA												Mar-05
- audited fin.statements approved by 10th Board												Apr-05
b. Report to MEFA on E&Y review of external audits of selected PRs												Mar-05
c. Propose to MEFA areas for specific focus by E&Y												Mar-05

9. 2005 Budget, Staffing & Workplan Approvals												
a. Papers circulated to MEFA										8-Sep		
b. Pre-meeting MEFA Fin. sub-group										14-15 Sep		
c. Sub-group conclusions to MEFA											4-Oct	
d. Proposals discussed at MEFA											12-13 Oct	
e. Final budget recomms. to Board & present to 9th Board											22 Oct	18-19 Nov
10. Euro-denominated grants	Barry Greene											
Determine exchange rate impact and policy on grant budgets												
a. Draft analysis for MEFA		30-Jan										
b. MEFA review and recommendation			23-Feb									
c. Paper to Board			27-Feb									
d. Present to 8th Board				18-Mar								
e. Review proposals for top-up grants and multi-currency grants						10-11 May						
f. MEFA recommendation sent to Board							5-Jun					
g. Board decides for $ & Euro grants							30-Jun					
h. Paper on operational implications to MEFA											4-Oct	
i. MEFA review & inputs											12-13 Oct	
j. Present to 9th Board for information												18-19 Nov
11. World Bank	Barry Greene											
a. MEFA briefed on investment guidelines change											12-13 Oct	
b. Information to Board												18-19 Nov

Annex 10

11th Meeting of MEFA Committee on 12-13 October 2004

Global Fund Conference Room "Hope Plaza"
Ground Floor, 51 Ave Louis Casai, 1216 Cointrin

Agenda

Tuesday 12 October 2004

1 Approval of Agenda

2 Phase 2 Renewals
- Operational report *(verbal update)* : phase 2 tools package (performance management)
- Discussion Paper on Phase 2 Decision-making

3 Report back on options for treatment and services continuity

4 Operating expenses review Jan – June 2004 and balance of year outlook

5 Proposed 2005 Secretariat budget and 2006 – 2007 outlook

Wednesday 13 October 2004

1 Summary of outcomes of budget discussions
- Draft decision points for Board

2 Euro-denominated grants
- Update on cost and operational implications

3 Briefing on change in investment guidelines

4 Update / status report on study on Board Committee structure

5 TERG report / update and next steps – Prof. Korte, TERG Chair
- Measurement framework focusing on system-wide effects
- CCM standards and measurement (including GPC inputs)
- Quality assurance for grant reviews
- Review of the work plan and budget of the Global Fund's Strategic Information and Evaluation Unit

6 Forecasting Global Funding demand
- Report on progress to date, update on WHO/UNAIDS

7 Consideration of MEFA workplan / agenda and dates for next meeting

8 Comprehensive Funding Policy (*discussion led by Jairo Pedraza, Developed Country NGO)*