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

GF/B13/9
Revision 1

REPORT OF THE FINANCE AND AUDIT COMMITTEE

Outline: This report summarizes the deliberations of the Finance and Audit Committee (FAC) in its three meetings since the Twelfth Board Meeting.

Note:

This revised Report of the Finance and Audit Committee contains modifications to Annex 1: "Resource Mobilization Framework". The revised text more precisely reflects the views of some constituencies that underlie our consensus on this topic, which has been extensively discussed by the Committee in our three meetings since December 2005. The modifications are to paragraphs 1(3), 2(1), 3(1), 3(8), 5(7) and row 3 of the table in part 7, and the addition of a 'maintenance scenario' in Attachment 1 to Annex 1. All other elements of the Report are unchanged from the original version.

Jerry O'Dwyer
On behalf of the Finance and Audit Committee

Summary of Decision Points:

Regarding:

Resource Mobilization .... Page 3

Replenishment .... Page 3

The Comprehensive Funding Policy .... Page 5

Office of the Inspector General .... Page 6

2005 Audited Financial Statements .... Page 8

Introduction

The matters considered by the Finance and Audit Committee (FAC) in its sixth meeting on 22-23 March 2006, taking account of its prior discussion of the topics at its fourth and fifth meetings on 17 December 2005 and 25-26 January 2006, respectively, are outlined in the following parts of this report:

Part 1: Resource Mobilization

Part 2: Replenishment

Part 3: Consideration of Comprehensive Funding Policy

Part 4: Office of the Inspector General

Part 5: 2005 Audited Financial Statements and Budget Performance

Part 6: Other Financial Matters

Part 7: Transition Options Project

Part 1: Resource Mobilization

(See Annex 1 also)

1. The Director of External Relations and the Head of Board and Donor Relations made a presentation to the Committee on the draft resource mobilization strategy. The strategy focused on ways in which the Global Fund could increase its revenues in 2006–2007. It also highlighted potential sources of funding; including accessing increased ODA, broadening the donor base, and ensuring the Global Fund benefits from innovative financing mechanisms such as the International Finance Facility, Airline Solidarity Contribution and the Global Fund Debt Conversion as well as private sector initiatives.

2. The strategy emphasized the need for the stakeholders – the Board, current donors, civil society and the Secretariat to work together as partners in order to raise the funds needed. The Secretariat stressed the need for the Global Fund to demonstrate its comparative advantage and to link the resource mobilization strategy to global development processes. The strategy focused on a number of strategic questions for which the secretariat sought guidance from the committee.

3. The committee then discussed the draft strategy and noted the need to clearly define the roles of the Chair, Vice-Chair, the Board and the Secretariat in resource mobilization. It was emphasized that there is a need to formulate guiding principles which will lead to a coordinated approach to increasing resources for the Global Fund, once roles and responsibilities have been defined. Processes are needed to more effectively engage the Board in resource mobilization initiatives with support from the Secretariat.

4. In relation to the global needs and targets it was agreed that the FAC should work closely with the Policy and Strategy Committee (PSC), whose mandate is to work on the long term resource strategy to 2010. The committee decided to present a decision point and a shorter version of the draft resource mobilization strategy, a resource mobilization framework, to the Board in April for endorsement. This would give the Board an opportunity to provide input to the resource mobilization strategy, before the mid-term review of the replenishment in July 2006 thus ensuring the Board endorsed the direction that the committee is taking with regards to resource mobilization. The committee also requested that the Secretariat focus on the Global Fund's vision and mission, the position of the Global Fund in the global context, needs and targets and the respective roles and responsibilities of the Board and the Secretariat.

5. The Committee therefore presents the Resource Mobilization Framework herewith for endorsement. It should be clear that the original draft paper by the Secretariat is included here for information purposes and does not form part of the decision.

Decision Points:

1. The Board adopts the Resource Mobilization Framework developed by the FAC, attached as Annex 1, and requests the FAC to monitor the implementation of the framework and its role in guiding the replenishment process, and report regularly to the Board.

2. The Board requests the FAC to keep under review the strategy development process led by the PSC as it relates to Resource Mobilization and to develop a longer term resource mobilization policy in the light of the approved strategy.

Part 2: Replenishment (See Annexes 2 & 3 also)

1. The replenishment process was the subject of all three of the FAC meetings held since the last Board meeting. Mr. Sven Sandström, Vice-Chair of the Replenishment, presented his paper "Evaluating the Global Fund Replenishment Process" (Annex 2), and addressed four key questions raised by Board members. His conclusions are that

a. Donors expect to be able to ask questions and it would be counterproductive to limit the subjects that donors can discuss.
b. There was a perceived overlap with some Board functions as certain strategic questions had not yet been addressed by the Board.
c. Replenishment is essentially a voluntary system that inevitably involves an element of burden-sharing, and a forum for donor interaction is important in that context.
d. All replenishment processes have an inbuilt tension between the donors and the Board that is normally recognized and well managed.
e. The replenishment process has delivered in that it established a mechanism essential to achieving longer-term predictability of funding, it generated additional pledges and it offers a familiar mechanism and forum to new donors.
f. The Global Fund replenishment is a light process compared to others and is also quite innovative in terms of inclusiveness.

2. The discussion noted the importance of involving the Board in the replenishment process and of ensuring that it is the Board that sets policy and direction for the Global Fund and not the replenishment. There is a need for further clarification of the replenishment's relationship to the Board and to FAC. FAC recognized the need for the replenishment process to be placed within Global Fund general strategy development (in which the size and position of the Global Fund are addressed), as well as in a larger resource mobilization strategy (including contributions from the private sector, foundations, and innovative financing mechanisms). This would help to clarify the roles and responsibilities of the Board and the replenishment.

3. The FAC discussed the plans for the mid-term review of the replenishment and emphasized that it should have a strong focus on the future and the use of replenishment as an instrument for resource mobilization in the next cycle. FAC will be closely involved in defining the agenda for the mid-term replenishment meeting (see Annex 3 presenting a provisional agenda).

Decision Point:

The Board recognizes the importance of the replenishment in ensuring sustainable and predictable funding, and its role in increasing the Global Fund's donor base. The Board requests the FAC to continue its oversight role of the process and to guide the mid-term replenishment.

Part 3: Consideration of Comprehensive Funding Policy (See Annex 4 also)

1. In response to the request of the Eleventh Board meeting, FAC has reviewed the Comprehensive Funding Policy (CFP) as described in Annex 4. In advance of further consideration of the CFP by the Policy and Strategy Committee within the overall policy development process, FAC has focused its consideration on the application of the CFP with regard to approving proposals and signing grant agreements with the overall objective to better match the commitment and use of resources with their availability. In doing so, FAC has been mindful of the overriding need to preserve the value of the CFP for the longer term. FAC was conscious that refinement of the policy was not a way of generating additional resources.

2. A fundamental principle of the CFP is that "A sufficient amount of assets … must be deposited with the Trustee or readily available on demand prior to the Secretariat signing a grant agreement" (CFP paragraph 3b). The FAC does not recommend any change in this principle, which is sound and consistent with practices of other international institutions.

3. FAC recommends, however, that paragraph 3a of the CFP, which governs Board approvals, be changed as follows (words deleted through overstrike, words added are underlined):

> *"The Board may approve proposals and commit funds for two years up to the cumulative uncommitted amount ~~pledged through the calendar year of the Board decision~~ of assets <u>that the Board determines will be available at the time of signing the related grant agreements in accordance with 3(b)</u>;"*

4. This change would align the policy for Board approval of grants in paragraph 3.a with the policy for signing of grants in paragraph 3.b. The change would remove the anomalies that now can occur, particularly when Board approval takes place late in the calendar year. It would link the authority for Board approval directly to the amount of assets expected to be available at the time of grant signing, including assets made available in the form of promissory notes or equivalent instruments. The Trustee was consulted on the proposed change and had no objection to this proposal, since it would more directly link the approval process with the availability of assets at the time of grant signing.

5. FAC would monitor the calculation process, including the estimations made, to determine the resources available for approval of proposals based on the "cumulative uncommitted amount of assets[1]" that will be available at the time of the grant signing.

6. The benefits, risks and financial impact of the proposed refinement of the Policy are further described in Annex 4.

7. FAC also considered a number of other options, the financial implications of which were modeled by the Secretariat to support the FAC review. However, FAC decided not to recommend these options for further consideration, because they did not meet the overall objective of its review of the CFP – to better match the commitment and use of resources with their availability.

[1] This may (depending on timing) include expected contributions based on confirmed pledges for a portion of the following calendar year.

8. In the course of its review FAC observed the need for a technical modification of paragraph 3c of the CFP, which pre-dates the advent of Phase 2. The text currently refers to "two years of implementation". While this is correct with regard to Phase 1, it is inconsistent with Phase 2, which is typically for three years. If the intent of this provision is to ensure that sufficient assets are deposited with the Trustee to cover the duration of the grant, then paragraph 3c would need to be amended as per the text proposed in the decision point below.

Decision Point

The Board amends paragraphs (a) and (c) of decision point 3 under the Comprehensive Funding Policy approved at the Sixth Board Meeting as follows:

> ***3 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, with the following conditions:***
>
> ***a The Board may approve proposals and commit funds for two years up to the cumulative uncommitted amount of assets [~~pledged through the calendar year of the Board decision~~] <u>that the Board determines will be available at the time of signing the related grant agreements in accordance with 3(b)</u>;***
>
> ***b 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;***
>
> ***c Based on successful implementation of a grant, funding beyond its first 2 years receives priority over the funding of new proposals. <u>A sufficient amount of assets to meet the cost of such additional funding for the grant must be deposited with the Trustee or readily available on demand prior to the Secretariat signing an amendment to the grant agreement committing such additional funding</u>;***
>
> ***d No funds for appeals should be reserved. Successful appeals should be funded immediately if resources are available or as soon as new resources become available.***

Part 4: Office of the Inspector General (See Annex 5 also)

1. The discussion was in Executive Session. The Committee considered proposals on OIG Budget 2006/2007, Preliminary Work Plan for 2006 and a draft Charter (per Annex 5). The details of the budget proposal and the work plan have been discussed in detail. The work plan, in addition to review and investigation of incoming allegations, includes the following four areas of audit:
    a. Local Funding Agent (LFA) System & Management
    b. Travel Management
    c. PR and SR Transactions
    d. Credit Suisse Payments at the Secretariat

2. The FAC decided:
    a. To recommend to the Board for approval the OIG Budget proposal (as summarized below), Preliminary Work Plan for 2006 and the Charter, subject to the addition of a reference to policy on working relationships and communications.
    b. That the OIG Budget should be separated from the (non-OIG) Operating Expenses budget as a separate budget line item.
    c. To consider the OIG Budget Proposal for 2007 together with that of the Secretariat in September 2006.

3. The Committee also requested the IG to discuss the summary of the OIG Proposed Budget for 2006-2007 with the Chief Financial Officer.

Budget

4. The OIG Proposed Budget for 2006 as recommended by FAC is summarized as follows:

	US$'000
Staff (8 fixed-term positions)	1,265
Travel and meetings	100
Training	75
Professional fees	300
Office rent and infrastructure	235
Communications materials and services	40
Total	2,015

5. This proposed budget supersedes and replaces the tentative amount of US$ 823,000 provided for within the Operating Expenses budget approved at the Twelfth Board Meeting and results in an incremental budget adjustment of US$ 1,192,000 for 2006. This increment would be reduced by any savings that may be achieved in the budget approved for LFA fees and Secretariat expenses.

Office space

6. The IG and the Secretariat have jointly explored a number of options to meet the accommodation needs of the OIG. In their discussions following the FAC meeting, the preferred option was identified to be the renting (until 2011) of an additional half-floor in the same building as the Secretariat. The projected space needs of the OIG through 2007 are for an area of approximately 410 square meters (m^2), allowing for the privacy, security and access appropriate to the needs of the Office. While the total area of the half-floor is 932 $m^{2,}$ the landlord is willing to initially let the OIG portion alone (410 m^2), on the understanding that the remaining 522 m^2 would be rented within the following six to twelve months (subject to further negotiation and approval by the WHO Contract Review Committee). That additional space could be utilized by the Secretariat for committee and other meetings including those of task forces, TERG, proposal screening, TRP consultations and other events. It would also facilitate any further Secretariat or OIG accommodation needs that may arise.

7. The annual rent of the half-floor would be approximately US$ 360,000, of which US$ 160,000 would be attributable to the OIG space and the remaining US$ 200,000 to the Secretariat. Potential savings on meeting costs would be approximately US$ 25,000 to US$ 50,000 per year. There would be no incremental impact on the 2006 budget.

Decision Points:

1 The Board approves the Charter of the Office of the Inspector General, attached as Annex 5 to the Report of the Finance and Audit Committee (GF/B13/9).

2 The Board approves the 2006 budget in the amount of US$ 2,015,000 to be used exclusively for the Office of the Inspector General ("OIG"), as set out on page 6 of the Report of the Finance and Audit Committee (GF/B13/9) and as proposed by the Inspector General and recommended by the Finance and Audit Committee. This amount supersedes and replaces the US$ 823,000 which was allocated to the OIG in the 2006 Secretariat Operating Expenses Budget approved at the Twelfth Board Meeting.

The budgetary implications of this decision are a maximum of US$ 1,192,000 in 2006 which would be reduced by any savings achieved on the budget approved for LFA fees and Secretariat expenses

Part 5: 2005 Audited Financial Statements and Budget Performance

Budget Performance 2005 (See Annex 6 also)

1. The Chief Financial Officer presented the budget performance for 2005 (attached as Annex 6), that showed total operating expenses contained at 8 percent less than budget. The under-budget expenditure of US$ 6.9m achieved the savings target of US$ 1.6m and yielded a net under-spend of US$ 5.3m on the approved budget of US$ 66.3m.

2. The savings came from both LFA fees and Secretariat expenses, as described in Annex 6. Within Secretariat expenses, the additional costs of the office relocation that had not been planned for in the 2005 budget were covered by the contingency and savings in other areas (as proposed to FAC and the Board early in 2005). Fund Portfolio Operations was 1 percent over budget, but this too was fully offset by savings in other units. These budgetary compensations between units were approved by FAC, in accordance with the budget rules (per Attachment 4 to Annex 6).

3. Within LFA fees, Phase 2 grant renewal reviews by LFA had (on average) cost almost twice what had been estimated before the process began in January 2005. This was offset by lower than budgeted spending on grant monitoring.

4. Under-spending of budget was due to a number of factors including: later than estimated grant commencements (affecting LFA fees for grant monitoring), postponement of tasks to 2006 because of higher priorities (including Phase 2 workload), fixed-term appointments being later than budgeted, and efforts to make cost savings where feasible.

5. FAC noted that each of the key ratios set (by MEFA) to monitor operating expenses showed a favorable trend in 2005. Part 2 of the annex outlined achievement of the key performance indicators in 2005 and attachment 2 provided a summary of transactions on the Global Fund bank account in the year.

6. FAC expressed its satisfaction with budget management and the overall outcome in 2005.

Audited Financial Statements 2005 (See Annex 7 also)

7. At the invitation of the Chair, Mr Mark Hawkins, partner, Ernst & Young, presented the Report of the Independent Auditors on the 2005 Financial Statements of the Global Fund (attached as Annex 7, in draft pending approval by the Board of the financial statements). He stated that their audit had been conducted in accordance with International Standards on Auditing and that their audit report expressed a ‘true and fair‘ opinion, free of any qualification.

8. Regarding the scope of the external audit, Mr. Hawkins explained that significant processes had been reviewed and key controls documented, and that the audit had taken a largely substantive approach by testing balance sheet accounts and the classification of transactions in the statement of activities. He stated that based on their review of the WHO internal audit report of November 2005 they did not see any significant risk of material misstatement of the financial statements.

9. The processes reviewed by Ernst & Young included contributions, grant commitments and disbursements, LFA fees, payroll, bank reconciliations and financial statements closing processes. They had not reviewed or tested processes performed by the WHO, the World Bank and Principal Recipients because such are outside the scope of the external audit.

10. In their audit observations and recommendations presented to FAC, Ernst and Young drew attention to the following:

a. The need to have a Swiss franc version of the financial statements approved by the foundation board for filing with the Swiss authorities.
b. An immaterial departure from the spirit of International Financial Reporting Standards by expensing fixed asset costs (mainly related to fitting-out and equipping the new office premises and representing 0.1 percent of total expenditure).
c. The need to obtain formal feedback from unit manages regarding their checking of budget reports for their unit's operating expenses.
d. The desirability of introducing checks to detect any errors by WHO in payroll calculations (for Global Fund personnel).
e. The likely introduction of new legal requirements in Switzerland in 2007 that would require external auditors to report specifically on the internal control system and management to report on risk assessment.

FAC noted these observations and recommendations and the draft management comments thereon, regarding which the Secretariat will report further to FAC at its next meeting.

11. FAC discussed the need for coordination of activities between the Inspector General and the external auditors. The Inspector General advised FAC of his delegation of authority from WHO and that he would explore with WHO how best to obtain assurance regarding internal controls exercised by WHO. He also stated that he would be considering areas in which his Office could undertake work that could be relied upon by the external auditors, possibly yielding cost savings.

12. Regarding the likely developments in Swiss law mentioned, the Chief Financial Officer mentioned that initial discussion between the IG, the external auditors and his office had already commenced with a view to working jointly to prepare for these well in advance of the implementation date.

13. FAC agreed to recommend that the Board approve the audited financial statements as set out in Annex 7.

Decision Point:

The Board approves the 2005 Financial Statements of the Global Fund which have been audited by Ernst & Young, attached as Annex 7 to the Report of the Finance and Audit Committee (GF/B13/9).

Part 6: Other Financial Matters

Currency Risk Management (GF/FAC6/06)

1. The Tenth Board Meeting approved transitional policies that set a framework for currency risk management. The Board decided that the operational implications and practices shall continue to be reviewed by the Secretariat under the guidance of FAC, with a view to making further recommendations to set the policy and parameters for currency risk management, in the light of experience.

2. FAC reviewed the status of currency matching as at 28 February 2006 and noted that liabilities in each currency were fully covered by assets of the same currency. The committee further noted that extent to date of grants and promissory notes in non-US dollar currencies did not provide a sufficient basis for making further recommendations at this time. Accordingly, it will continue to keep the matter under review and will report further to the Board when appropriate.

Budget planning (GF/FAC6/05)

3. FAC endorsed the timetable envisaged by the Secretariat for compilation of the proposed budget for 2007 and its review by the Committee, as well as the proposed format of the presentation to FAC.

4. With regard to contributions in support of Secretariat expenses, FAC was concerned that such contributions should be consistent with activities related to the approved budget and will review this further in the light of contributions received in 2006 when considering the 2007 budget proposal. At that time, the Committee will also consider the budgetary implications of activities that are postponed from one year to the next.

Guidelines for activities paid for from Global Fund Bank accounts (GF/FAC6/ 07)

5. FAC reviewed the update from the Secretariat on the development of guidelines to supplement the Procedures for Operation of Global Fund Bank Accounts, which was a follow-up action to the report of the WHO Office of Internal Oversight.

6. FAC approved the "Guidelines Governing the Use of Global Fund Credit Cards". FAC also reviewed the partially completed 'Guidelines for activities that may be paid for from Global Fund Bank accounts' and confirmed that its content was appropriate and should be completed accordingly.

Budget for the Partnership Forum Budget (GF/FAC6/14)

7. FAC considered a request from the Partnership Forum Steering Committee to authorize up to US$ 275,000 of additional resources for the Partnership Forum to cover any shortfall between the budgeted expenses and the combined amount of existing budget of US$ 363,000 and sponsorship income that is finally achieved.

8. The budget had been reduced in the course of FAC review prior to approval by the Board on the assumption that sponsorship and other sources of funding would cover much of the need. While efforts continue to secure such support, a potential shortfall of US$ 275,000 currently exists. Financial certainty is necessary to allow implementation arrangements to continue for the Partnership Forum.

9. Noting that the Partnership Forum is an element of governance that has been approved by the Board, FAC agreed to approve an addition of US$ 275,000 to the budget for this activity, to be funded from the contingency to the extent not covered by any savings in the budget for External Relations.

Part 7: Transition Options Project (GF/FAC6/09)

1. The Secretariat updated FAC on the development of alternative options to the current administrative arrangement with WHO, for consideration by the Board as requested by the Eleventh Board Meeting.

2. The discussion focused on what the potential implications for the Headquarters Agreement between the Global Fund and Switzerland in the event that there was not a transition from the current arrangement, and the desirability of exploring alternative arrangements with WHO. These would be important elements in the further development of options for consideration by the Board.

3. FAC recommended that a pre-Board briefing on this topic be provided prior to the Thirteenth Board Meeting.

Part 8: Other Business

1. The Secretariat updated FAC regarding the process being undertaken by the Secretariat and the WHO to consider potential revisions to the Global Fund Procurement Policy (which will be presented to FAC for approval in due course). (GF/FAC6/13)

2. FAC reviewed its work plan through April 2007 noting that Resource Mobilization should be on the agenda for each meeting. (GF/FAC6/02)

3. The next meeting of FAC was confirmed for 19-20 September 2006. An interim consultation on budget preparation was also foreseen for late July, in a manner to be decided by the Chair on receipt of preliminary budget data from the Secretariat.

Attachments:

1A Agenda – 6th Finance and Audit Committee Meeting .... Page 14

1B Attendance List – 6th Finance and Audit Committee Meeting .... Page 16

2A Agenda – 5th Finance and Audit Committee Meeting .... Page 17

2B Attendance List – 5th Finance and Audit Committee Meeting .... Page 18

3A Agenda – 4th Finance and Audit Committee Meeting .... Page 19

3B Attendance List – 4th Finance and Audit Committee Meeting .... Page 20

Agenda
Sixth Finance and Audit Committee Meeting

Date :	22-23 March 2006
Venue :	Global Fund Office, Geneva – Hope Plaza conference room
Chair :	Lieve Fransen
Vice –Chair :	Minghui Ren
Focal Point :	Barry Greene

<u>Wednesday, 22 March 2006</u>

9:00 **Agenda & FAC Work Plan** Chair/Vice-Chair

GF/FAC6/01 Approval of the Agenda

GF/FAC6/02 Review of FAC Work Plan

9:30 **2005 Financial Statements** Barry Greene

GF/FAC6/03 Review of draft Audited Financial Statements 2005

[Recommend Board decision]

GF/FAC6/04 Review of Budget Performance 2005

11:00 Coffee break

11:15 **Other Financial Matters** Barry Greene

GF/FAC6/06 Review of currency risk management

GF/FAC6/14 Partnership Forum budget

13:00 **Lunch**

14:15 **OIG Matters** Ibrahim Zeekeh

OIG Proposed budget 2006/2007

OIG Charter

[Recommend Board decisions]

Wednesday, 22 March 2006 (continued)

16:00		**Transition Options Project**	Jean-Claude Crepy
	GF/FAC6/09	Update on progress and next steps	
17:00		**Resource Mobilization Strategy** (Commencement of discussion, to be continued on 23rd)	Christoph Benn
18:00		Meeting adjourns	

Working dinner:

20:00 – 22:00	**Replenishment Update**	Sven Sandström

Thursday, 23 March 2006

9:00		**Comprehensive Funding Policy**	Barry Greene
	GF/FAC6/08	Review of scenarios to consider possible refinement of Policy (continued from previous meeting) *[Recommend Board decision]*	
11:00		**Resource Mobilization Strategy** (continued)	Christoph Benn
	GF/FAC6/10	Innovative financing mechanisms for development - briefing on Paris meeting	Sophie de Castelnau
	GF/FAC6/11	Consider resource needs scenarios	
	GF/FAC6/12	Review and finalize strategy for presentation to Board *[Recommend Board decision]*	
13:30		**Lunch**	
14:30		**Other Financial Matters** (continued)	Barry Greene
	GF/FAC6/07	Guidelines for activities paid for from GF bank accounts	
	GF/FAC6/05	Budget process 2007 – planning	
15:15		**Other Business**	
	GF/FAC6/13	Global Fund Procurement Policy (update on potential revision)	
	GF/FAC6/02	Review FAC work plan and date and topics for next meeting	
16:00		**Close of Meeting**	

6th Finance and Audit Committee Meeting
Geneva, 22-23 March 2006

Attendance List

	Constituency	FAC Member	Attendee
1	European Commission (Chair)	Lieve Fransen	Lieve Fransen
2	Western Pacific Region (Vice-Chair)	Ren Minghui	Ren Minghui
3	Developed Country NGO	Peter van Rooijen	Peter van Rooijen
4	Eastern Mediterranean Region	Huma Qureshi	Huma Qureshi
5	European Commission	Paul Avontroodt	Paul Avontroodt
6	France	Sophie de Castelnau	Sophie de Castelnau
7	Japan	Yuka Fujino	Yuka Fujino
8	Point Seven	Jerry O'Dwyer	Jerry O'Dwyer
9	USA	Rebecca Hooper	Rebecca Hooper
10	World Bank	Keith Jay	Keith Jay

	Global Fund Secretariat	Name	Function/ Subject Matter Specialist
11	Chief Financial Officer	Barry Greene	FAC Focal Point
12	Deputy Executive Director	Helen Evans	Observer
13	Inspector General	Ibrahim Zeekeh	Subject Matter Specialist
14	Director, External Relations	Christoph Benn	Subject Matter Specialist
15	Head, Board and Donor Relations	Dianne Stewart	Subject Matter Specialist
16	Manager, Administration	Jean-Claude Crepy	Subject Matter Specialist
17	Legal Counsel	Bartolomeo Migone	Legal Counsel
18	Senior Finance Officer	David Ball	Rapporteur
19	External Relations Officer	Dorcas Mapondera	Rapporteur

	Others	Name	Function/ Subject Matter Specialist
20	Invited Consultants/Advisors	Sven Sandstrom	Vice-Chair of the Replenishment
21		Mark Hawkins	Partner, Ernst & Young
22		Michael Williams	Consultant, Hewitt Associates

Attachment 2A

Agenda
Fifth Finance and Audit Committee Meeting

Date :	26 January 2006 (working dinner on 25 January 2006)
Venue :	Mövenpick Hotel, Geneva, Montgolfier Conference Room, Fourteenth Floor
Chair :	Lieve Fransen
Vice –Chair :	Minghui Ren
Focal Point :	Barry Greene

Wednesday, 25 January 2006 (Move pick Hotel, Zeppelin Room, First Floor)

20:30 – 22:30 **Dinner, with discussion of Resource Mobilization Strategy**

Thursday, 26 January 2006 (Move pick Hotel, Montgolfier Conference Room)

9:00 – 9:15 **Approval of the Agenda**

9:15 – 10:30 **Office of the Inspector General** (Ibrahim Zeekeh, OIG paper)

Presentation of OIG Work Plan Outline for 2006

10:30 – 11:00 **Comprehensive Funding Policy** (Barry Greene, GF/FAC5/04)

Continuation (from FAC 4) of review, with focus on scenarios to supplement GF/FAC4/2. [Discussion to be continued in afternoon]

11:00 – 11:15 **Coffee break**

11:15 – 12:45 **Replenishment** (Sven Sandström, GF/FAC5/02; GF/FAC5/05)

Review the Report of the First Replenishment and make recommendations to the Board; finalize date and venue for mid-term review.

12:45 – 14:00 **Lunch**

14:00 – 15:30 **Resource Mobilization Strategy**
(Christoph Benn, Rajesh Anandan, GF/FAC5/03)

Review initial paper on resource mobilization strategy

15:30 – 15:45 **Coffee break**

15:45 – 17:00 **Comprehensive Funding Policy** (Barry Greene, GF/FAC5/04)

[Continuation of discussion from morning session]

17:00– 17:30 **Any Other Business and Close of Meeting**

5th Finance and Audit Committee Meeting
Geneva, 25-26 January 2006

Attendance List

	Constituency	FAC Member	Attendee
1	European Commission (Chair)	Lieve Fransen	Lieve Fransen
2	Western Pacific Region (Vice-Chair)	Ren Minghui	Ren Minghui
3	Developed Country NGO	Peter van Rooijen	*(Unable to attend - participated by phone)*
4	Eastern Mediterranean Region	Huma Qureshi	*(Unable to attend)*
5	European Commission	Paul Avontroodt	Paul Avontroodt
6	France	Sophie de Castelnau	Sophie de Castelnau
7	Japan	Yuka Fujino	Yuka Fujino
8	Point Seven	Jerry O'Dwyer	Jerry O'Dwyer
9	USA	Rebecca Hooper	Rebecca Hooper
10	World Bank	Keith Jay	Keith Jay

	Global Fund Secretariat	Name	Function
11	Chief Financial Officer	Barry Greene	FAC Focal Point
12	Inspector General	Ibrahim Zeekeh	Inspector General
13	Director, External Relations	Christoph Benn	Subject Matter Specialist
14	Head, Board and Donor Relations	Dianne Stewart	Subject Matter Specialist
15	Legal Counsel	Bartolomeo Migone	Legal Counsel
16	External Relations Officer	Pauline Mazue	Rapporteur

	Others	Name	Role
17	Vice-Chair of the Replenishment	Sven Sandstrom	Invitee

Agenda
Fourth Finance and Audit Committee Meeting

Date :	17 December 2005
Venue :	Hotel Mansour Eddahbi -- Salle Select, 1st Floor Avenue Mohamed VI, Marrakech 40000, Morocco
Chair :	Lieve Fransen
Vice–Chair :	Minghui Ren
Focal Point :	Barry Greene

Saturday, 17 December 2005

8:30 – 8:40	**Approval of the Agenda**
8:40 – 9:10	**Introduction of Inspector General** Chair introduces Mr. Ibrahim Zeekeh, newly appointed Inspector general of the Global Fund
9:10 – 12:30	**Consideration of the Comprehensive Funding Policy** Discussion informed by paper GF/FAC4/2
12:30 – 13:00	**Dates for next FAC meetings** **Any other business**

4th Finance and Audit Committee Meeting
Marrakech, 17 December 2005

Attendance List

	Constituency	FAC Member	Attendee
1	European Commission (Chair)	Lieve Fransen	Lieve Fransen
2	Western Pacific Region (Vice-Chair)	Ren Minghui	Ren Minghui
3	Developed Country NGO	Peter van Rooijen	Peter van Rooijen
4	Eastern Mediterranean Region	Huma Qureshi	Huma Qureshi
5	European Commission	Paul Avontroodt	Paul Avontroodt
6	France	Sophie de Castelnau	Sophie de Castelnau
7	Japan	Yuka Fujino	Yuka Fujino
8	Point Seven	Jerry O'Dwyer	Jerry O'Dwyer
9	USA	Rebecca Hooper	Peggy Hoyle
10	World Bank	Keith Jay	Keith Jay
	Global Fund Secretariat	**Name**	**Function**
11	Chief Financial Officer	Barry Greene	FAC Focal Point
12	Director, External Relations	Christoph Benn	Subject matter specialist
13	Head, Board and Donor Relations	Dianne Stewart	Subject matter specialist
14	External Relations Officer	Pauline Mazue	Rapporteur
	Others	**Name**	**Role**
15	Vice-Chair of the Board	Michel Kazatchkine	Observer

Annexes:

1 Resource Mobilization Framework .... Page 19

2 Evaluating the Global Fund Replenishment Process .... Page 31

3 Provisional Agenda – Global Fund Replenishment Meeting, Durban .... Page 37

4 Consideration of the Comprehensive Funding Policy .... Page 39

5 Charter of the Office of the Inspector General .... Page 51

6 Budget Performance 2005 .... Page 57

7 Audited Financial Statements 2005 .... Page 66

8 Draft Resource Mobilization Strategy .... Separate file

Annex 1

RESOURCE MOBILIZATION FRAMEWORK

The framework presented here provides an explanation of the main ideas underpinning the draft Resource Mobilization Strategy, which will be further developed under the guidance of FAC and is included for information as Annex 8 to the Report of the FAC (separate document).

Part 1: The Vision

> *The purpose of the Fund is to attract, manage and disburse additional resources through a new public-private partnership that will make a sustainable and significant contribution to the reduction of infections, illness and death, thereby mitigating the impact caused by HIV/AIDS, tuberculosis and malaria in countries in need, and contributing to poverty reduction as part of the Millennium Development Goals.*
>
> *Framework Document*

1. The Global Fund was created on a wave of political support and activism at the start of the new millennium. The hope generated by this new idea, and the energy channeled to make it successful, were powerful drivers in ensuring that it got off to a quick start, was rapidly financed and in operation. While that initial optimism and commitment have proven justified, predictable and sustainable financing to the required levels has become an increasing challenge.

2. There are clear indications at the international level that the global community is still seized by the challenges that first prompted them to agree on the creation of the Global Fund, however it will require a collective effort to ensure that this translates into rapid and continuously sustainable refinancing of the Global Fund that guarantees more than the maintenance of current programs. To achieve its initial promise, the Global Fund's portfolio of investments must grow, and must allow for substantial scale-up at country level.

3. This framework highlights a way forward for both the Board and the Secretariat to work together to ensure that the Global Fund is can continue to make progress toward its vision. To ensure the Global Fund benefits from any newly available money, the Global Fund needs to communicate its comparative advantages effectively to ensure stakeholders remain supportive and convinced the Global Fund is not only a viable and effective model, but a competitive model for the fight against the three diseases. Continued increases in funding for the Global Fund will require collective commitment and collective effort. It is an enterprise that cannot, and must not, fail.

Part 2: The Guiding Principles

1. The Resource Mobilization Framework is based on the following principles:
    a. Maximum Board ownership and partnership in resource mobilization efforts;
    b. Cultivation of stakeholders' support for resource mobilization within a global context;
    c. Appeal to diverse donor interests to increase support for the Global Fund by demonstrating excellent performance, solid management and comparative advantage;
    d. Accommodate donor engagement and recognition within the context of the Global Fund to ensure appropriate influence for all donors;
    e. Secretariat support and engagement with innovative financing mechanisms and private sector initiatives to ensure direct benefit to the Global Fund; and
    f. ENHANCE the organizational culture, management policies and structures of the Fund Secretariat to promote commitment to the Fund.

Part 3: The Global Fund's position in the Global Context

1. The primary debate in 2006 among stakeholders of the Global Fund will center on the questions of how the Global Fund fits into the international development architecture, how to achieve the best mix of bilateral versus multilateral channels for the fight against HIV/AIDS, tuberculosis (TB) and malaria, and how the Global Fund is contributing to the achievement of internationally-agreed targets. This debate will have a strong influence on the Global Fund's resource-mobilization strategy and priorities. The Global Fund will need to prove that increased funding will reduce the mortality and morbidity resulting from the three diseases.

2. The Global Fund has a number of comparative advantages, which the Board and the Secretariat need to communicate effectively to different audiences:

   a. Performance-based financing of effective interventions that lead to measurable impact;
   b. Country Ownership;
   c. Minimal overhead and cost-effective operations;
   d. Adaptability and flexibility;
   e. Stakeholder engagement;
   f. Transparency and Accountability; and
   g. Complementarity.

3. A resource-mobilization strategy for the Global Fund must proactively emphasize the Global Fund's unique role, as it proves itself as an accountable and effective channel for donors to invest in its operations.

Part 4: Global Fund needs

1. A series of estimated resource scenarios for the Global Fund appears in Attachment 1 to this document which describes various models that project the estimated resource needs of the Global Fund for 2006-2007 to be between USD5.3 – USD6.0 billion, depending on a set of assumptions. The Resource Mobilization Strategy must also fit into the context of the strategy discussion pursued by the Policy and Strategy Committee (PSC). Of particular relevance in this context is the PSC options paper on the "Global Fund Size" (see Report of the PSC, GF/B13/7, Attachment 2), which looks at the possible longer-term needs of the Global Fund. The PSC considered this paper at its meeting in March 2006, but did not come to any consensus on recommendations in the area for the Board. The PSC will also address the issue of "Optimizing Global Fund resource mobilization" in Batch 2 of its strategic framework, at its meeting in July 2006.

Part 5: Sources of funding

1. Over the past four years, funding for the Global Fund has come primarily from the **official development assistance** (ODA) budgets of donor governments, supplemented by a certain level of contributions from the private sector and private foundations. Altogether, the G-8 countries have accounted for 72 percent of funding to date. Other donors have contributed as follows: non-G8 countries of the Organization for Economic Cooperation and Development (OECD), 13 percent; the European Commission, 11 percent; private foundations, 3 percent; non-OECD countries, including recipient countries, 0.7 percent;; and the private sector, 0.04 percent.

2. The Global Fund must retain the confidence and attention of the public -sector donors that are the major source of current funding. There is reason for optimism, as ODA, in general, is projected to increase considerably following the commitments various countries have made at international gatherings. A number of the major Global Fund donor countries have announced clear deadlines for reaching ODA budgets of 0.7 percent of GNP, if they have not already done so. A strategic tool to increase the confidence of public-sector donors is the voluntary replenishment mechanism, which provides an opportunity for representatives of donor countries, other stakeholders and the Fund Secretariat to engage in a constructive dialogue, to provide critical information in an efficient and coordinated manner and to create a platform for longer-term commitments.

3. **Expanding the donor base** is a key strategic activity for the Fund Board and Secretariat over the next year. Several European and Asian donor Governments have never contributed to the Global Fund, and the Board and Secretariat should target the countries with the most potential for specific activities. The most positive development in recent months has been the progress made through efforts to engage the countries of the Organization of the Islamic Conference (OIC), which includes nations from the Middle East and North African region, particularly the oil-rich states. The Secretariat undertook extensive relationship-building activities in connection with the Board meeting in Marrakech, Morocco, in December 2005, and the strategy for 2006 will be to build on these initial contacts and convert interest into concrete contributions and sustainable involvement. The Resource-Mobilization Strategy aims to have two or three new donors attend the mid-year voluntary replenishment review in 2006.

4. An increasing number of donors have come to recognize that limits on traditional ODA might yield a level of resources that is not sufficient to meet the demand for foreign assistance; consequently, individual or coalitions of countries have developed so-called "**innovative financial mechanisms,**" with the aim to raise significant additional resources for development. The Global Fund has focused on three initiatives, and is working with partners to advance them to full implementation, namely:

a. The International Finance Facility (IFF);
b. The airline solidarity contribution (ASC) and the International Drug-Purchase Facility (IDPF); and
c. The Global Fund Debt Conversion (GFDC).

5. To advance the international discussion on innovative financing, and to position the Global Fund correctly within that debate as the beneficiary of innovative financing, the Secretariat has embarked on a set of concrete activities, including, developing papers to address specific issues, holding workshops and expert meetings, and engaging in formal and informal consultations.

6. With regard to mobilizing resources from the Private Sector, the Board and Secretariat's focus will be on successfully implementing priority initiatives in three key areas[2] for mobilizing a sustainable flow of resources from the private sector:

a. Cash contributions;
b. Pro bono contributions of services ; and
c. In-country co-investments and operational contributions (which, while they do not have a direct impact on the revenues or expenses of the Global Fund itself, play a critical role in increasing the scale and effectiveness of grants the Fund finances).

7. It is important to note that all three opportunity areas are inseparably linked. The credibility of the Global Fund amongst the private sector depends on its ability to be receptive to and to engage corporate support across the full range of partnership areas that enable companies to contribute in a manner most appropriate to their particular business.

[2] The key priorities as identified by the Private Sector Partnerships Strategy developed in 2004 and the Planning Guide for the Private Sector presented by the Private Sector Delegation at the replenishment conference in September 2005

8 The success of the Global Fund's resource mobilization strategy depends very much on **recipient communities, which** were the reason for the Global Fund's creation in the first place. Given that the question of mobilizing resources for the Global Fund is inseparable from the success or failure of grants on the ground, it is in the mutual interest of the Global Fund and grant recipients to deepen their partnership to ensure this success. In addition, the contribution of recipient countries through their own domestic resources is an important factor in ensuring the success of the overall response. Gradually, middle-income countries should cover a larger share of the costs of their programs through domestic resources, which will reduce the pressure on limited Global Fund resources. Where appropriate, the Global Fund Board and Secretariat will work to increase direct contributions from "emerging market" countries, since the solidarity and global commitment evidenced by these pledges is of great political importance within the overall strategy.

9 Working with **civil society** on resource mobilization will have two strategic components, (i) improving Global Fund processes and mechanisms, and (ii) supporting and facilitating coordinated national and global activities and advocacy. For both components, the inclusion of communities of people living with and/or affected by the three diseases will be crucial. The involvement of civil society is key to obtaining the kind of results that will lead to increased and continued investment in the Global Fund. The various "Friends' organizations" throughout the world provide an important channel for advocacy and the provision of information for Global Fund donors and opinion-makers, which supports the Fund's resource-mobilization efforts. The Board and Secretariat of the Global Fund should work together to support and expand the network of "Friends' organizations."

Part 6: Targets for Increased Revenue

1. In view of this overall situation, the Secretariat has developed several projections to account for where the Fund might derive new, additional resources in the future. The projections are based on the analysis of current and potential contributions and commitments to the Global Fund as compared to projected patterns in Official Development Assistance (ODA). For the OECD countries, the most recent estimates of the Development Assistance Committee (DAC) on ODA have been used as a reference, relying principally on reporting by DAC Members.

2. These projections take as a starting point an assumption that many OECD countries are projecting an increase in their levels of ODA, and that several emerging economies are experiencing high rates of growth. The more conservative scenario assumes at least the maintenance of the current level of ODA contributions for the Global Fund. More optimistic scenarios assume an increasing level of ODA channeled through the Global Fund, differentiated between one to three percent of major donors' ODA depending on their current level of contribution to the Fund, and factoring in public commitments for timetables to increase development assistance. It uses conservative, but confident, assessments of increased income from non-OECD donors, as well as from the new financing mechanisms and the private sector. The projections indicate that an income of US$ 4 to US$ 7 billion for a two-year period is realistically achievable, in line with the Secretariat's projections of the Global Fund's estimated resource needs for the same period.

Part 7: Role of Board and Secretariat

1. Ensuring success for the resource mobilization strategy will require the input and active participation of Board Members, not just the Secretariat. The Board must take a proactive and energetic approach to mobilizing funds. In this regard the role of the Board Chair and Vice-Chair are particularly important and they should effectively lead resource mobilization efforts and ensure that it is seen as a corporate responsibility. It should also be noted that there is a distinction between the role played by individual Board members in resource mobilization efforts and the collective or corporate responsibility of the Board. This aspect could benefit from thoughtful debate within the Board. However, the responsibilities of the Board as a whole in this area should be as follows:

a. Acting as advocates and spokespeople for the Global Fund, to give credibility to the Global Fund's activities and to provide informed opinion on Global Fund progress;
b. Regularly providing information to the Secretariat on events, processes or political decisions that could have an impact (positive or negative) on the Global Fund's resource mobilization efforts;
c. Provide assistance in the Global Fund's efforts to proactively build and maintain its network of key decision-makers who know and understand the Global Fund; and
d. Ensuring effective and accountable governance of the Global Fund, overseeing efficient and cost-effective management of the Secretariat, and preserving the founding principles of the Global Fund that make it different and innovative, so as to safeguard its credibility and feasibility.

3. Resource mobilization can only be successful if it is as a collective effort of various partners. Joint advocacy and well-coordinated messages about the estimated resource needs including those of technical partners will have a synergistic effect for the achievement of the common goals.

4. The Secretariat's role revolves primarily around providing information to outside parties, including not only the Board members but also the general public, the media, civil-society organizations, donors and recipient countries. Each of these parties has distinct information needs, and require a variety of services, including:

a. Provision of a wide selection of information channels, including general information publications in multiple languages, and multi-media documentation of the results and impact of the Global Fund's grants;
b. Working with the international media, both to answer their requests for information and to place proactively stories and articles;
c. Providing regular briefing sessions for donor and partner missions in Geneva, and maintaining a schedule of regular information visits to donor capitals; and
d. Working closely with all relevant partners to educate them on the Global Fund's activities and procedures.

5. The following accountability chart is offered as a checklist for the main strategic actions required for the implementation of this resource mobilization strategy. These accountabilities are intended for the Board as collective responsibilities and would require joint commitment to ensure they are achieved.

Key Accountabilities for Resource Mobilization

Essential	Accountable	Influencer/Enabler	Outlook
Lead resource mobilization efforts and ensure corporate responsibility is accepted for resource mobilization	Chair and Vice-Chair	Other Board members	Good
Agree on an accepted methodology or set of parameters for determining Global Fund estimated need projections.	- Board	- Secretariat	Fair
Provide to donors impact analysis that will increase the opportunities to attract new resources, including ODA.	- Secretariat	- Secretariat, Board, Principal Recipients (PRs)	Fair
Ensure Global Fund attracts new donors to the Fund	- Board (ensuring appropriate governance role) - Secretariat (outreach and marketing to new donors)	- Board (facilitates relationships with new donors, where they have influence)	Good
Ensure Global Fund is well-positioned to receive Funds from innovative financing initiatives	- Board (strategic positioning) - Government delegations on Board (those involved with innovative initiatives)	- NGOs - Secretariat	Good
Essential	**Accountable**	**Influencer/Enabler**	**Outlook**
Produce reliable and evidence-based results to prove Global Fund's effectiveness	- CCMs, PRs and SRs - Secretariat	- Board	Good
Communicate accurate and convincing information on the results, positioning, and role of the Global Fund; manage press coverage	- Secretariat	- Board (for their constituencies)	Good

RESOURCE NEEDS SCENARIOS

Outline: This paper outlines projected resource needs of the Global Fund through 2015 under various scenarios, to inform FAC consideration of recommendations to the Board with regard to replenishment targets.

Part 1: Introduction

1.1 The scenarios described in this paper are intended to demonstrate the evolution of annual resource needs of the Global Fund based on various levels of new grant approvals. The scenarios assume that an element of grants will be continued beyond Phase 2 and therefore generate funding needs for their renewal in future years. Hence the scenarios indicate the longer term implications of approving various levels of new grants.

1.2 For simplicity, the scenarios refer to annual amounts of new grants, rather than to rounds. This avoids the fluctuations caused by round timings including whether one or two rounds might be approved in a given year. Hence the scenarios demonstrate trends over time based on annual average amounts of new grants (and do not reflect the fluctuations that would arise from asymmetric round timings in individual years).

1.3 As part of the overall strategy development process, the Policy and Strategy Committee (PSC) is exploring options for the target size of the Global Fund. The Options Paper on the Size of the Global Fund (GF/PSC4/04) describes several scenarios that would give rise to differing magnitudes of need that might be funded through the Global Fund. These are summarized as three options for target size. This (FAC) paper is complementary to that process, by modeling four Fund sizes within those options.

Part 2: The Scenarios

2.1 The five size scenarios modeled in this paper are:

- Maintenance: Provides for renewal of approved grants (through Round 5) only
- I New grant approvals of **$1 billion** per year, **including** those grants that re-apply for funding after the end of Phase 2
- II New grant approvals of **$1 billion** per year, **plus** those grants that re-apply for funding after the end of Phase 2 (“Continued Programs”)
- III New grant approvals gradually increase to **$1.5 billion** per year by 2010, plus Continued Programs
- IV New grant approvals gradually increase to **$2 billion** per year by 2010, plus Continued Programs

These scenarios are summarized in the table below and mapped to the three size options considered in the PSC paper mentioned at 1.3. The following pages describe the implications of each scenario, distinguishing between new grants and renewals.

2.2 Assumptions common to all scenarios are:

a) **85%** of Phase 1 grants are continued for Phase 2

b) On completion of Phase 2, **90%** of grants re-apply successfully for new grants, at the same annual amount as for Phase 2 ("Continued Programs").

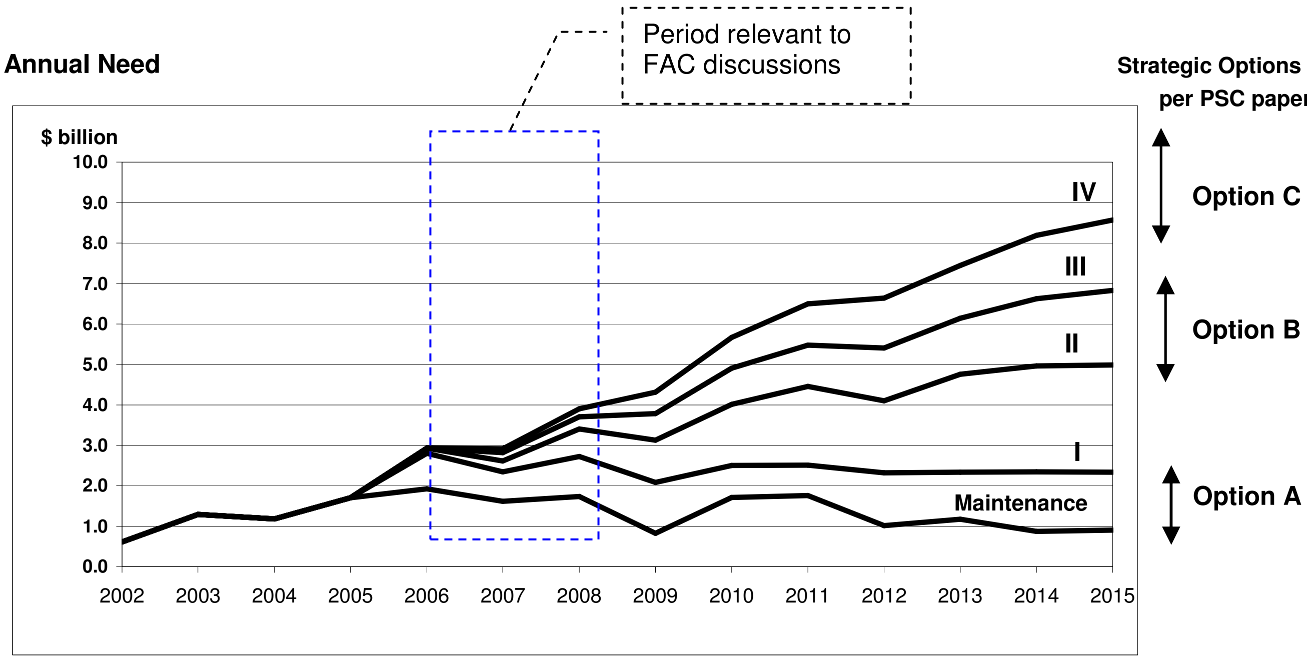
c) Grants that are continued beyond Phase 2 are (under the current architecture) funded similarly to new grants (i.e. for two consecutive phases of 2 and 3 years respectively). On completion of that (subsequent) five-year cycle, **80%** of these continued grants re-apply successfully for new grants, and continue to do so.

2.3 In the tables and charts below:

"**New Programs**" means grants that are in either Phase 1 or Phase 2 for the first time

"**Continued Programs**" means those grants that have been continued beyond the initial 5-year cycle (on completion of Phase 2 for the first time)

Overview of the Scenarios



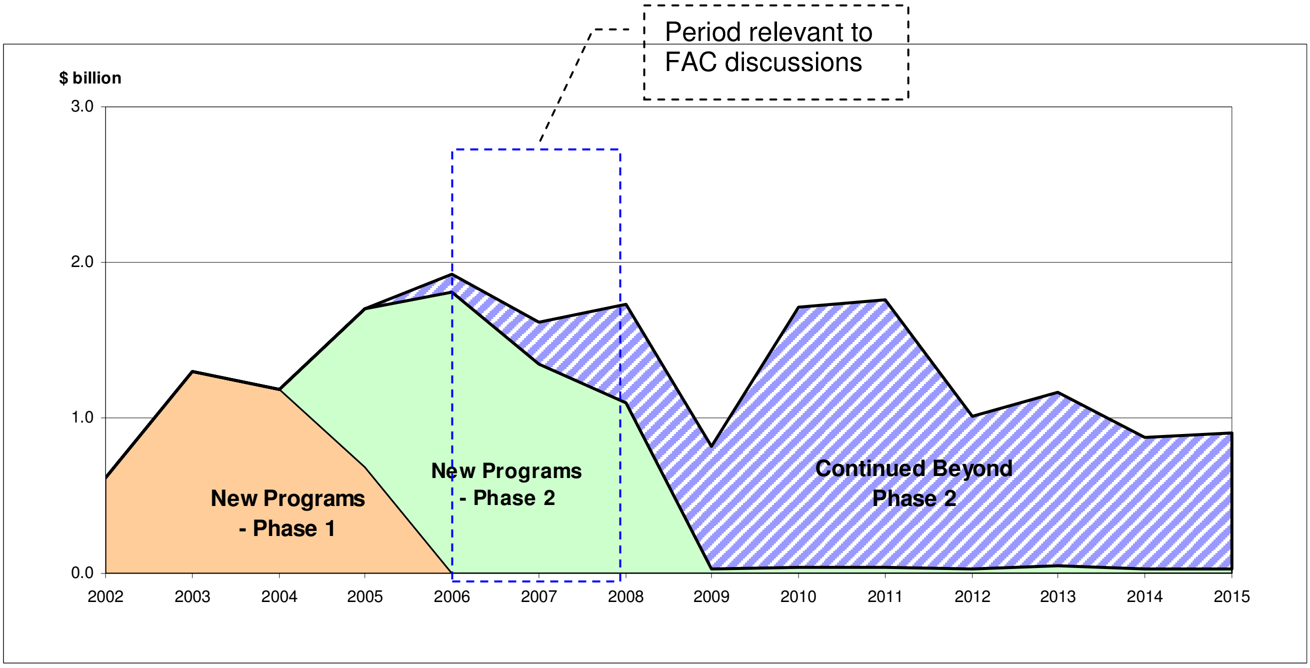
$bn	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Maintenance scenario	0.6	1.3	1.2	1.7	1.9	1.6	1.7	0.8	1.7	1.8	1.0	1.2	0.9	0.9
Scenario I	0.6	1.3	1.2	1.7	2.8	2.3	2.7	2.1	2.5	2.5	2.3	2.3	2.3	2.3
Scenario II	0.6	1.3	1.2	1.7	2.9	2.6	3.4	3.1	4.0	4.5	4.1	4.8	5.0	5.0
Scenario III	0.6	1.3	1.2	1.7	2.9	2.8	3.7	3.8	4.9	5.5	5.4	6.1	6.6	6.8
Scenario IV	0.6	1.3	1.2	1.7	2.9	2.9	3.9	4.3	5.7	6.5	6.6	7.4	8.2	8.6

Each Scenario is described in the following pages, including its linkage to the strategic options being considered by PSC (as described in GF/PSC4/04).

Maintenance Scenario:

Grants approved through Round 5 are renewed; no new rounds are provided for

Renewal of already approved grants, but no new rounds	Need	2006-2007	2008-2010	Average 2008-15
	$bn	3.5	4.3	1.2



$bn	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
New Programs - Phase 1	0.7										
New Programs - Phase 2	1.0	1.8	1.3	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Continued Beyond Phase 2		0.1	0.3	0.6	0.8	1.7	1.7	1.0	1.1	0.8	0.9
Total	**1.7**	**1.9**	**1.6**	**1.7**	**0.8**	**1.7**	**1.8**	**1.0**	**1.2**	**0.9**	**0.9**

Observations:

- In the absence of new rounds, overall resource needs decline from 2006, dropping to US$ 1 billion per year by 2012.

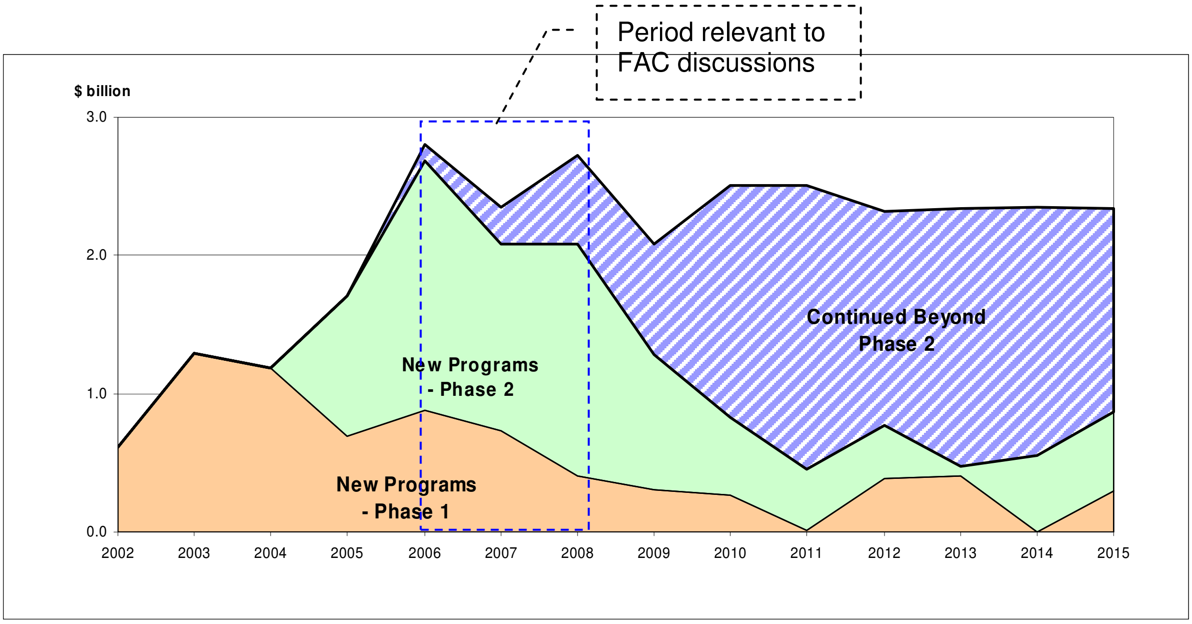
Link to PSC work:

This level of resource needs is similar to the **lower end of Option A** being considered by PSC. (Note the similar option considered by PSC assumed a new round of US$ 1 billion in 2006.)

Scenario 1: US$ 1bn per year for New* and Continued Programs

*(Phase 1 of)

Phase 1 approvals held at $1bn per year (New programs plus programs continued beyond Phase 2)	Need	2006-2007	2008-2010	Average 2008-15
	$bn	5.2	7.3	2.4



$bn	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
New Programs - Phase 1	0.7	0.9	0.7	0.4	0.4	0.1	0.2	0.4	0.4		0.3
New Programs - Phase 2	1.0	1.8	1.5	1.4	1.0	0.6	0.6	0.2	0.3	0.6	0.6
Continued Beyond Phase 2		0.1	0.3	0.6	0.7	1.8	1.8	1.8	1.6	1.8	1.4
Total	**1.7**	**2.8**	**2.5**	**2.4**	**2.1**	**2.5**	**2.5**	**2.3**	**2.3**	**2.4**	**2.3**

Observations:

- Because total Phase 1 approvals (for New & Continued Programs) are kept constant at US$ 1bn per year, overall **resource needs stabilize at US$ 2.3bn per year** from 2012 (after allowing for Phase 2).
- Funding available for New Programs diminishes as (Phase 1 of) Continued Programs grows, consuming almost all of the US$ 1bn per year by 2010 (see below). This assumes that continued programs receive priority over new programs, either as a policy or as a natural consequence of successful implementation as compared to untested applicants.

$bn	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
New Programs (Phase 1 of)	0.7	0.9	0.7	0.4	0.3	**0.3**	**0.0**	**0.4**	**0.4**		**0.3**
Continued Programs (Phase 1 of)		0.1	0.3	0.6	0.7	0.7	1.0	0.6	0.6	1.0	0.7
Phase 1 (of new & continued)	0.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Phase 2 (of new & continued)	1.0	1.8	1.3	1.7	1.1	1.5	1.5	1.3	1.3	1.3	1.3
Total	**1.7**	**2.8**	**2.3**	**2.7**	**2.1**	**2.5**	**2.5**	**2.3**	**2.3**	**2.3**	**2.3**

- Because new and continued programs have to share the US$ 1bn available per year, **very little is available for New Programs from 2008** (zero to US$ 0.4bn per year)

Link to PSC work:

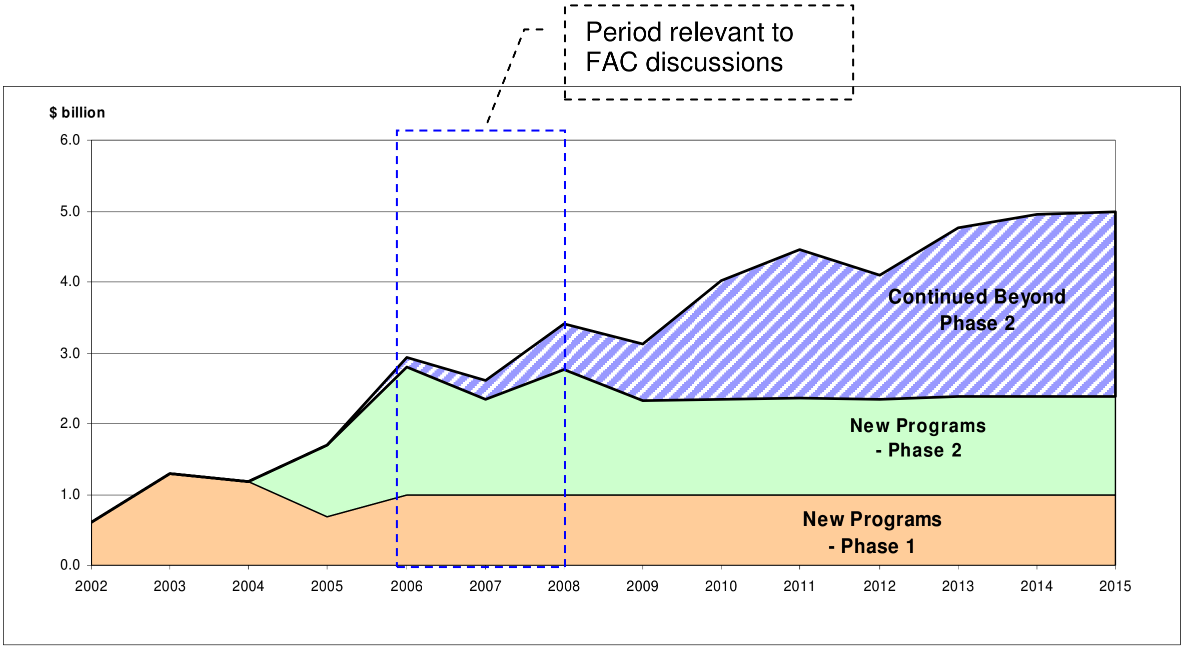
This level of resource needs is similar to the **upper end of Option A** being considered by PSC. That option sees a Fund size of US$ 1.5bn to US$ 2bn per year by 2015, based on the Global Fund staying at a "maintenance size" – renewing existing grants with or without an element of scale-up, but with no room for new grants.

Scenario 2: US$ 1bn per for New* Programs

*(Phase 1 of)

Difference from Scenario I:
Continued Programs do not eat into the US$ 1bn

Phase 1 approvals held at $1bn per year, for New Programs	Need	2006-2007	2008-2010	Average 2008-15
Continued programs are additional to that	$bn	5.5	10.5	4.2



$bn	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
New Programs - Phase 1	0.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
New Programs - Phase 2	1.0	1.8	1.3	1.8	1.3	1.3	1.4	1.3	1.4	1.4	1.4
Continued Beyond Phase 2		0.1	0.3	0.6	0.8	1.7	2.1	1.8	2.4	2.6	2.6
Total	**1.7**	**2.9**	**2.6**	**3.4**	**3.1**	**4.0**	**4.5**	**4.1**	**4.8**	**5.0**	**5.0**

Observations:

- US$ 1bn is available exclusively for (Phase 1 of) New Programs each year. Hence it remains **possible to fund significant new activities** that have not previously benefited from Global Fund support, but at a **fixed level of US$ 1bn per year**
- Because Phase 1 of New Programs is held constant at $1bn per year, the related Phase 2 renewals, and hence the total New Program needs, stabilize from 2009 (at US$ 2.3bn per year)
- Continued Programs are additional to this, and increase as they are renewed for successive five-year cycles; hence there is ongoing growth in total resource needs, reaching about $4bn per year by 2010 and US**$ 5bn per year by 2015**, assuming that programs continue to be renewed.

Link to PSC work:

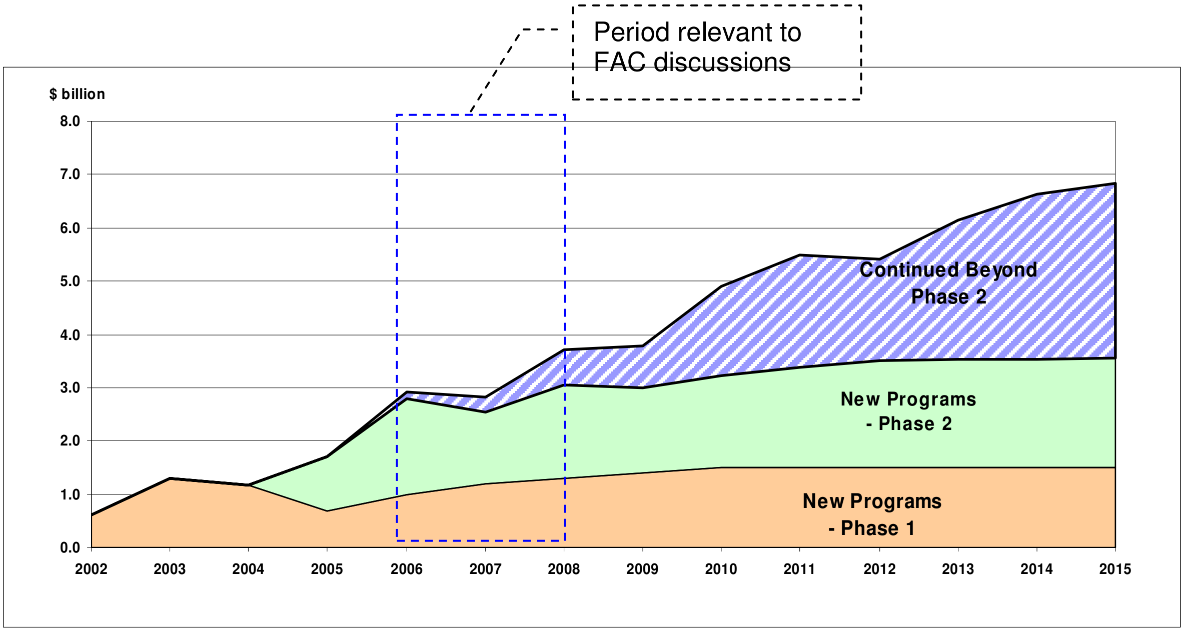
This level of resource needs is similar to **lower end of Option B** being considered by PSC. That option sees resource needs growing to US$ 5bn to US$ 7bn per year by 2015, based on the Global Fund financing some new programs and enabling a scale-up in existing programs. At its lower end, Option B assumes that the Global Fund will receive increased ODA as donors move towards meeting the 0.7 percent goal.

Scenario 3: <u>US$1.5bn</u> per for New* Programs from 2010

*(Phase 1 of)

Difference from Scenario II:
Allows for growth in New Programs

New Programs grow to $1.5bn (Phase 1) **per year by 2010**	**Need**	2006-2007	2008-2010	Average 2008-15
Continued programs are additional to that	**$bn**	**5.7**	**12.4**	**5.4**



$bn	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
New Programs - Phase 1	0.7	1.0	1.2	1.3	1.4	1.5	1.5	1.5	1.5	1.5	1.5
New Programs - Phase 2	1.0	1.8	1.3	1.8	1.6	1.7	1.9	2.0	2.0	2.0	2.0
Continued Beyond Phase 2		0.1	0.3	0.6	0.8	1.7	2.1	1.9	2.6	3.1	3.3
Total	**1.7**	**2.9**	**2.8**	**3.7**	**3.8**	**4.9**	**5.5**	**5.4**	**6.1**	**6.6**	**6.8**

<u>Observations</u>:

- The US$ 1bn available exclusively for (Phase 1 of) New Programs each year, per Scenario II, **grows gradually to US$ 1.5bn by 2010**, enabling the Global Fund to respond to an increasing demand from new grant applicants.
- Because funding for (Phase 1 of) New Programs reaches a plateau in 2010, the total resource needs for New Programs (including Phase 2) stabilize from 2012.
- As for Scenario II, Continued Programs create an increasing need upon successive renewals, bringing total resource needs to about US$ 5bn per year by 2010 and **US$ 7bn per year by 2015.**

<u>Link to PSC work</u>:

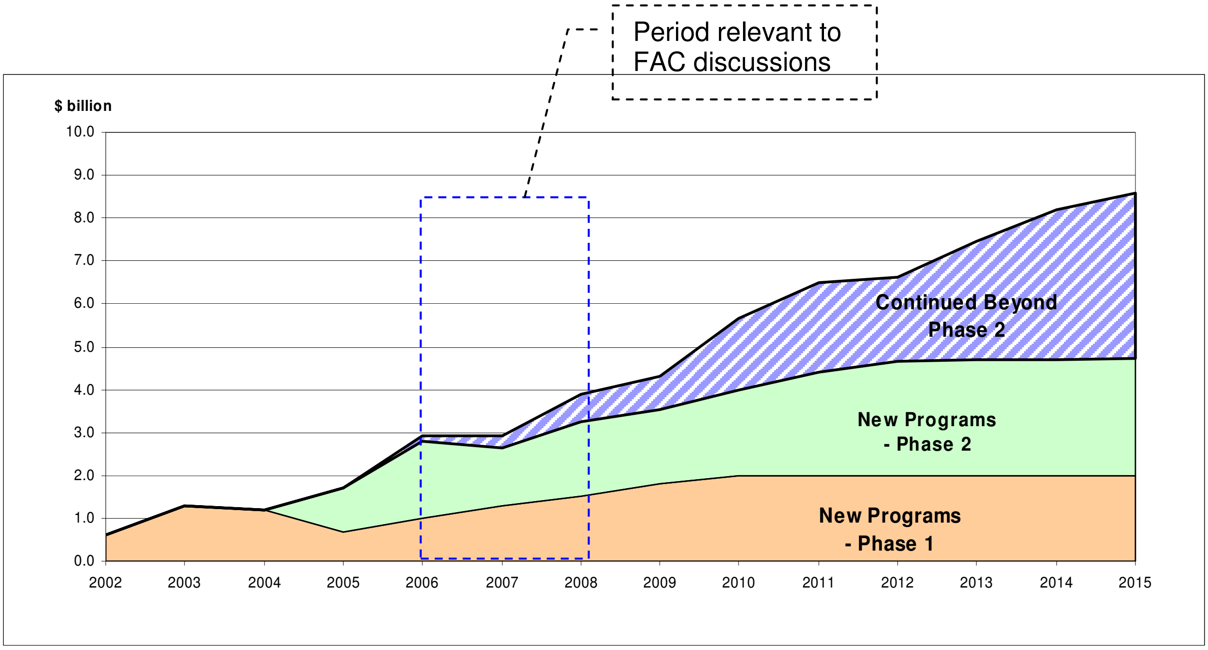
This level of resource needs is similar to the **upper end of Option B** being considered by PSC. That option sees resource needs growing to <u>US$ 5bn to US$ 7bn per year by 2015</u>, based on the Global Fund financing some new programs and enabling a scale-up in existing programs. At its <u>upper end</u>, Option B assumes that the Global Fund will receive increased ODA as donors move towards meeting the 0.7 percent goal, plus a significant share of funding generated by <u>innovative financing mechanisms</u>, such as the air ticket levy, debt conversion and IFF.

Scenario 4: <u>US$ 2bn</u> per for New* Programs from 2010

*(Phase 1 of)

Otherwise the same as Scenario III

New Programs grow to $2bn (Phase 1) per year by 2010 Continued programs are additional to that	Need $bn	2006-2007	2008-2010	Average 2008-15
		5.8	13.9	6.4



$bn	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
New Programs - Phase 1	0.7	1.0	1.3	1.5	1.8	2.0	2.0	2.0	2.0	2.0	2.0
New Programs - Phase 2	1.0	1.8	1.3	1.8	1.7	2.0	2.4	2.7	2.7	2.7	2.7
Continued Beyond Phase 2		0.1	0.3	0.6	0.8	1.7	2.1	2.0	2.8	3.5	3.9
Total	**1.7**	**2.9**	**2.9**	**3.9**	**4.3**	**5.7**	**6.5**	**6.6**	**7.4**	**8.2**	**8.6**

<u>Observations</u>:

- The US$ 1bn available exclusively for (Phase 1 of) New Programs each year, per Scenario 2, **grows gradually to US$ 2bn by 2010**, enabling the Global Fund to respond to an increasing demand from new grant applicants (at a greater level than per Scenario III).
- As for Scenario 2, Continued Programs create an increasing need upon successive renewals, bringing total resource needs to almost US$ 6bn per year by 2010 and almost **US$ 9bn per year by 2015.**

<u>Link to PSC work</u>:

This level of resource needs is similar to **lower end of Option C** being considered by PSC. That option sees resource needs growing to <u>US$ 8bn to US$ 11bn per year by 2015</u>, based on the Global Fund scaling up in line with the effort required to meet the <u>Millennium Development Goals</u>.

Finance/BG
11 April 2006

EVALUATING THE GLOBAL FUND REPLENISHMENT PROCESS

A CONTRIBUTION

1. The Chair's Report on the Global Fund's First Replenishment (2006 – 2007) dated 16 September 2005 sets out the process and the outcome of the first replenishment cycle. The report concludes by noting that participants asked the Global Fund to review the experience of the first replenishment cycle and to take into account lessons learned when making decisions about future steps. This note is a contribution to this review.
2. The replenishment process is new for the Global Fund. It was established by the Board of the Global Fund in 2004. The first donor meeting for the 2006 - 2007 replenishment took place in March, 2005, followed by a second meeting in June 2005 and a third and final meeting in September 2005.
3. The replenishment process has been tailor-made for the Global Fund. It is lighter than replenishment processes for other international institutions. Cycles of other replenishments typically involve at least four meetings over at least one year compared to three meetings over six months for the first Global Fund cycle. The final report of the first Global Fund replenishment (the Chair's Report and the Communiqué, about ten pages) is also significantly lighter than the final report of other replenishments, which typically is negotiated over several meetings and range from 50 to 100 pages in length, including annexes and action plans. Furthermore, the final report of the Global Fund replenishment is less intrusive than other reports. It does not prescribe policy and operational measures.
4. The Global Fund replenishment process is also more participatory than other replenishment processes. Board members and representatives of the private sector and civil society participate in the Global Fund replenishment discussions, which normally is not the case in other replenishments.
5. The total incremental cost to the Global Fund itself of the first replenishment was about US$ 410,000 (mostly for travel, hotels and consultants).
6. Board members have asked several specific questions about the first replenishment cycle and this note takes up the following four:

   A. Did the Replenishment Process Stray Beyond Its Intended Purpose?

   B. Did the Replenishment Process Encroach on the Board's Mandate?

   C. Should the Replenishment Process be Voluntary or Compulsory?

   D. Did the Replenishment Process Deliver?

A. Did the Replenishment Process Stray Beyond Its Intended Purpose?

7. It has been suggested that the replenishment process went beyond its intended scope and examined issues well outside the purview of the participants and the structure, including funding policy, strategy and health system architecture.
8. A fundamental feature of other existing replenishment processes is that they provide donors with a forum for open discussion of the institution they are funding. The purpose is to ensure both that donors have a full understanding of the institution -- its strategy, its priorities, its performance, its results – and that the institution hears directly from donors what their concerns and aspirations are. The initial cycle of the Global Fund replenishment process would appear to have achieved this purpose. Over time, donors would further deepen their understanding of the Global Fund and therefore be prepared gradually to increase their contributions. The Global Fund is only at the beginning of this process.
9. It would be counterproductive and work against the ultimate objective of a replenishment to try to limit the subjects that donors can discuss and, in particular, to restrict the discussion to donor contributions.
10. It was apparent already at the first meeting of the Global Fund donors in Stockholm that concerns and expectations were diverse, covering not only funding and the size of contributions but also health system architecture and the role and strategy of the Fund. Several donors had to explore these latter subjects and be assured that they were being addressed before being prepared to announce or increase their contributions. In this sense, the replenishment process remained focused throughout on what had to be done to achieve the ultimate objective of mobilizing additional resources.

B. Did the Replenishment Process Encroach on the Board's Mandate?

11. Partly overlapping with the previous question is the question whether the replenishment process encroached on the Board's mandate by taking up subjects that only the Board can decide.
12. All existing replenishment processes have a built-in tension between the donors and the Board of the institution concerned. Normally, this tension is fully recognized and well managed. Donors recognize and respect the mandate of the Board and the Board recognizes and respects the need of donors to have a wide ranging discussion and to express their views and expectations in order ultimately to be able to justify their contributions vis-à-vis their national constituencies.
13. The tension between donors and Boards becomes most explicit when donors condition their contributions on certain actions being taken by the institution. This needs to be carefully managed throughout the replenishment process in order to avoid surprises and irreconcilable differences of views at the end. In this regard, the Global Fund replenishment process is well designed with close involvement of Board members throughout, including attendance at each donor meeting. The respective roles and mandates were also discussed throughout the process and often explicitly recognized. For instance, the report on the Rome meeting states that participants "noted the central role of the Board of the Global Fund in developing and approving the strategy" of the Global Fund.

14. During this first Global Fund replenishment cycle there were, however, several specific tensions between the donors and the Board that now are being addressed and therefore should be less of an issue in the future:

- Most important, there is hopefully growing acceptance by the Board of the need for donors to have a wide-ranging discussion and to be able to express their views while fully respecting the decision-making mandate of the Board.
- Second, action plans are now in place in the Global Fund and its partner agencies to address concerns about systems architecture. These plans are based on a broad consensus on the need for action. Hence, less time should be required for discussion of these issues in future replenishment meetings.
- Third, some of the tension in the first replenishment cycle arose from the fact that the Fund had not yet internally developed and articulated a long term strategy and an estimate of its resource needs, both of which were critical for donors to be able to decide on their contributions. In this vacuum, donors naturally exerted some pressure and made suggestions on these subjects. This should be less of an issue in the future as the Fund now is addressing these issues and providing the leadership that donors expect.
- Fourth, in view of the unusually strong role that the Board plays in the management of the Fund, there is a need for proposals that the Secretariat makes to donors to be better anchored in the Board. Hence, the clear role in this regard that the Finance and Audit Committee now plays should be very helpful.

C. Should the Replenishment Process be Voluntary or Compulsory?

15. Board members have asked whether the replenishment process should shift from a voluntary to a non-voluntary approach to resource mobilization, with compulsory standards for donor contributions. It has been suggested that the replenishment processes of other multilateral organizations have established non-voluntary burden-sharing frameworks for resource mobilization.

16. In fact, all replenishments are voluntary and do not have compulsory burden shares so this would appear not to be an issue. At the same time, it has to be recognized that all replenishments, including the Global Fund's, do involve burden-sharing. This is unavoidable. Whether or not one explicitly uses the expression "burden-sharing", one can always calculate the burden each donor carries by dividing the donor's contribution into the total contribution of all donors.

17. Burden shares do over time take on an important role in replenishments. They are regularly discussed and reviewed vis-à-vis measures of capacity to make financial contributions, such as population-weighted GNP. Over time, a certain peer pressure also emerges among donors to increase or maintain funding shares. Donor shares can and do change significantly over time due to exchange rate movements, national budget constraints, and changing views on the institution being funded. A replenishment process provides an important forum for donors both to explain their individual situation to other donors and to exert pressure on each other. Such discussions are likely also to emerge in the Global Fund replenishment process.

D. Did the Replenishment Process Deliver?

18. This, of course, is the key question. Judged against the US$ 7 billion estimate of resource needs for 2006 and 2007 that was prepared for the replenishment, the process was clearly not a success as the total amount pledged at the London meeting was US$ 3.7 billion. However, it is questionable whether this is the right measure. There was no consensus on this estimate and Board members and donors continue to have differing views on whether it is too high, too low, or about right.

19. One may instead want to judge delivery and achievements against several measures, including the following: (1) establishing the replenishment process itself, (2) pledges made at the London meeting and (3) potential for further contributions for 2006 and 2007 from current and new donors building on the agreements reached during the replenishment meetings. Let's look at each in turn.

20. First, the replenishment process itself appears to have been established and to be working in the sense that donors actively participated and used the process to discuss their concerns and announce their pledges. In fact, sufficient progress was made to enable the majority of donors to announce significantly increased contributions for the coming two years at the London meeting. Hence, a donor forum now exists and basic procedures are in place to use the process to mobilize additional contributions over time.

21. As the London Communiqué states, "The move to a replenishment mechanism is essential in achieving longer-term predictability of funding". Progress has been made in establishing such a mechanism. The focus is now on enhancing its effectiveness.

22. Second, most donors increased their contributions quite significantly in London. As the London Communiqué states, "Many donors have significantly increased their annual contributions compared to previous levels and in several cases doubled or even trebled them." Attachment 1 compares the pledges made in London with past pledges for each donor. The following table summarizes these numbers for the US, the EC and all other donors (in USD millions). It indicates a 23 percent increase over the previous two-year period, even though the replenishment process also helped mobilize additional contributions for 2005:

	Pledges for 2004+2005	Pledges for 2006+2007 (in London)	Percent change
US	873	600	-31%
EC	334	117	-65%
All others	1,830	3,015	65%
Total	3,037	3,732	23%

23. Due to legislative and budgetary constraints, the US and the EC were unable at the London meeting to announce contributions beyond the floor numbers indicated above. However, they indicated that their contributions were likely to increase and in the case of the US, the number has already gone up to USD 825 million. In the case of the EC, the statement made at the London meeting indicated that the European Commission may increase its pledge for 2006, if the Member States accept the proposal put forward by the Parliament. The increase since the London meeting of the US contribution will in turn trigger increases from other donors who in London linked their contributions to a share of the total amount contributed. This is further analyzed below (see para. 26).

24. What is particularly significant about the London numbers is the increase of 65% in pledges from all other donors. In some cases the increases were significantly higher, for example: Japan (150%), Portugal (138%) Spain (124%), South Africa (100%), France (89%), UK (77%), and Switzerland (75%). These increases are responsive to calls from the US and others that donors increase their contributions to enable the Global Fund to expand its activities while respecting the US statement that it would contribute up to 1/3 of the total.

25. It should also be noted that the pledges announced in London assured the Global Fund at an early stage that it would have significant resources for the coming two years. In September 2003, the Global Fund was assured of only US$ 1.3 billion for 2004 and 2005, compared to the US$ 3.7 billion the Global Fund was assured of in September 2005 for 2006 and 2007. In other words, in September 2005 the Global Fund was assured of almost three times more resources for the coming two years than it was in September 2003. This is a significant step towards “achieving longer-term predictability of funding”, a key objective of the replenishment process.

26. **Third**, regarding future potential, the Secretariat has made an update of anticipated contributions for 2006 and 2007 based on a detailed analysis of the statements made in London and the developments that have occurred since then. It takes into account the increase in the US pledge and donor indications made in London of potential additional contributions that were conditioned on certain developments such as higher contributions from other donors and hence a larger total contribution. It also reflects some progress with regard to new donors. The expected total contribution for 2006 and 2007 now stands at US$ 4.2 billion or an increase of 13 percent since the London meeting (before taking into account the front-loading of 2006 contributions that has been made in order to fill the 2005 financing gap). The following table updates the table shown above in para. 22:

	Pledges for 2004 + 2005	Pledges for 2006 + 2007 (as of mid-January 2006)	Percent change
US	873	825	-5%
EC	334	247	-26%
All others	1,830	3,148	72%
Total	3,037	4,220	39%

Additional contributions should also emerge from new donors. The existence of the replenishment process will help attract new donors as it provides them with a forum and a mechanism with which they are familiar from other replenishment processes. The outcome of the first cycle provides them with critical basic information on both substantive issues and pledges announced.

27. The mid-term review meeting should further increase the overall total contribution for 2006 and 2007. First of all, the Global Fund and its partners are putting a lot of emphasis on follow-up on the issues identified by donors and reflected in the Chair's Report. This should reassure donors that their concerns are being taken into account and that progress is being made. Second, the Global Fund Secretariat is in touch with individual donors to follow-up on their statements in London and to encourage further pledges to be announced on an ongoing basis and at the mid-term review meeting.

28. The purpose and the documentation for the mid-term review meeting are set out in paras. 24-25 of the Chair's report on the first replenishment cycle.

Sven Sandström

Attachment 1: Comparison of Pledges between 2004 / 05 & 2006 /07

DONORS	Pledges for 2004 + 2005	Pledges for 2006 + 2007[1] (in London)	% Change
	USDm	USDm	
Australia	30	27	-10%
Belgium	16	26	60%
Brazil	0.05	0.10	100%
Canada	160	202	26%
China	4	4	0%
Denmark	39	49	26%
European Commission	334	117	-65%
Finland			
France	363	685	89%
Germany	149	200	34%
Greece	0.3	0.5	50%
Hungary	0.02		-100%
Iceland	0.4		-100%
India		4	
Ireland	29	39	33%
Italy	242	339	40%
Japan[2]	200	500	150%
Korea (Republic of)	1		-100%
Luxembourg	5	4	-4%
Netherlands	110	117	6%
Nigeria	10	10	0%
Norway	41	43	4%
Portugal	2	5	138%
Russia	15	15	0%
Saudi Arabia	5	3	-50%
Singapore	0.4	0.4	0%
South Africa	2	4	100%
Spain	31	70	124%
Sweden	97	125	29%
Switzerland	6	11	75%
Thailand	2	2	0%
Uganda	1	1	0%
United Kingdom	213	378	77%
United States	873	600	-31%
Others[3]	54	150	179%
	3,037	**3,732**	**23%**

United States	873	600	-31%
European Commission	334	117	-65%
All others	1,830	3,015	65%
Total	**3,037**	**3,732**	**23%**

1 Non-USD pledges are expressed in USD using the exchange rates agreed for replenishment calculations (average of official UN exchange rates from Jan-June 2005). USD 77m of these pledges were subsequently frontloaded to 2005 to fund Round 5.

2 Assumes that the entire USD 500m pledge is attributed to 2006 + 2007

3 For 2006 + 2007: includes a provision for anticipated pledges, including from the Private Sector, not yet announced

Annex 3

Mid-Term Review of the Global Fund Replenishment, 4-5 July 2006, Durban

Provisional Agenda

(as of 7 April 2006)

Monday 3 July

Venue:	**Hilton Hotel, Walnut Road, Durban**	
16.00 – 18.00	**Registration**	**Entrance Lobby**
19.00 – 20.30	**Evening Reception**	**Polo Lounge**

Tuesday 4 July

Venue: **Hilton Hotel, Durban**

08.00 – 08.30 **Registration** — **Mezzanine Level**

Ballroom

08.30 – 08.45 **Opening Session**

- Welcome
- Statement by the Global Fund
- Review of Agenda

08.45– 10.15 **Session 1: Progress Reports and Discussion**

- Brief Progress Reports on key subjects emerging from the 2005 replenishment process:
  - Update on the Fund's Long-Term Strategy
  - Progress on implementation of the Global Task Team's recommendations on Improving AIDS Coordination
  - Progress on harmonization in individual countries

10.15 – 10.45 **Break** — **Rainbow Terrace**

10.45 – 12.30 **Session 2: Global Fund Performance Review**

- Review of the performance of The Global Fund, including further review of the Fund's performance indicators and targets and grant performance under conditions of weak systems and fragile states
- Proposals for baseline data and targets for the remainder of the 2006-2007 replenishment period and beyond

12.30 – 13.30 **Lunch** — **Rainbow Terrace**

13.30 – 15.30	**Session 3: Resource Requirements and Mobilization, 2006-2007**
	• Resource requirements and progress on resource mobilization since 2005
	  o Updated estimate of resource requirements
	  o Forecast of available resources
	  o Progress in implementing the private sector engagement strategy, including an update on private sector contributions
	  o Progress in mobilizing additional financing from donors who do not yet provide significant contributions to the Fund
	• Mobilization of additional funding required for the Global Fund in 2006 and 2007	

15.30 – 16.00	**Break**	**Rainbow Terrace**
16.00 – 17.30	**Session 6: Second Replenishment, 2008 and Beyond** • Preliminary thoughts on the second replenishment of the Global Fund, for 2008 and beyond (resource scenarios, replenishment period, issues to be addressed and information to be provided, meetings, etc.)	
19.30	**Heads of Delegation Dinner** **(Bus leaves hotel at 19.00)**	**TBC**

Wednesday 5 July

<u>Venue:</u>	**<u>Ballroom</u>**	
8.00 – 8.30	**Welcome coffee**	**Mezzanine Level**
8.30 – 9.30	**Session 7: Further Updates** • Lessons from the Stop TB approach to support Global Fund grants • Update on funding of technical assistance provided by three agencies that support Global Fund programs – UNAIDS, Stop TB and Roll Back Malaria	
9.30 – 10.30	**Session 8: Continued Discussion of Resource Requirements and Mobilization**	
10.30 – 11.00	**Break**	**Rainbow Terrace**
11.00 – 12.15	**Session 9:** • **Continued Discussion of Second Replenishment, 2008 and Beyond** • **Next Steps**	
12.15 – 12.30	**Close**	

CONSIDERATION OF THE COMPREHENSIVE FUNDING POLICY

Part 1: Introduction

1. The Global Fund Comprehensive Funding Policy[3] ("CFP") defines modalities for resource mobilization, approving proposals and signing grant agreements, and selecting proposals in resource-constrained circumstances. (The CFP is attached as Attachment 3.)

2. At the request of the Board, PricewaterhouseCoopers undertook a study of the CFP and their report[4] was presented to the Eleventh Board meeting in September 2005. A key recommendation was that the policy should not be altered at that time, but that after completion of the first voluntary replenishment process, the Board should establish a long-term financial strategy for the Fund.

3. The Board requested the Finance and Audit Committee to keep the recommendations under review and report further to the Board as necessary. In advance of further consideration of the CFP by the Policy and Strategy Committee within the overall policy development process, FAC has focused its consideration on the application of the CFP with regard to approving proposals and signing grant agreements with the overall objective to better match the commitment and use of resources with their availability. In doing so, FAC has been mindful of the overriding need to preserve the value of the CFP for the longer term.

Part 2: Summary of FAC review and recommendation

4. A fundamental principle of the CFP is that "A sufficient amount of assets … must be deposited with the Trustee or readily available on demand prior to the Secretariat signing a grant agreement" (CFP paragraph 3.b). The FAC does not recommend any change in this principle, which is sound and consistent with practices of other international institutions. Furthermore, the FAC welcomes the Secretariat's efforts to encourage donors to provide their contributions in the form of promissory notes or equivalent demand instruments, as already provided for in paragraph 3.b of the CFP. This will help reduce the cash balances carried by the Global Fund and help better align the use and availability of resources

5. The FAC recommends, however, that paragraph 3.a of the CFP, which governs Board approvals, be changed as follows (words deleted through overstrike, words added are underlined):

> *"The Board may approve proposals and commit funds for two years up to the cumulative uncommitted amount ~~pledged through the calendar year of the Board decision~~ of assets <u>that the Board determines will be available at the time of signing the related grant agreements in accordance with 3(b)</u>;"*

[3] The Comprehensive Funding Policy is comprised of decision points approved by the Board at its 6th meeting in October 2003 and decision points relating to prioritization in resource constrained environments approved by the Board at its 7th meeting in March 2004.
[4] Pricewaterhouse Coopers. "The Global Fund's Fiscal Management Structure and Processes - An Independent Study". (GF/FAC1/04, April 2005)

6. This change would align the policy for Board approval of grants in paragraph 3.a with the policy for signing of grants in paragraph 3b. The change would remove the anomalies that now can occur, particularly when Board approval takes place late in the calendar year. It would link the authority for Board approval directly to the amount of assets[5] expected to be available at the time of grant signing, including assets made available in the form of promissory notes or equivalent instruments (such as letters of credit). The Trustee was consulted on the proposed change and had no objection to this proposal, since it would more directly link the approval process with the availability of assets at the time of grant signing

7. Part 3 outlines the detail of the recommended refinement and the underlying rationale. Attachment 2 describes other aspects and options considered by FAC, in respect of which no change is recommended.

Part 3: Refinement of CFP recommended for Board consideration

Explanation of the recommended refinement

1. FAC recommends consideration of a refinement of the CFP that would calculate the amount available for approval of new proposals by taking account of the cumulative uncommitted confirmed pledges that are projected to be contributed prior to signing of the related grants (rather than simply pledges through the current calendar year, as per the status quo).

2. Such a change in the process for implementing the CFP would allow the Board to approve new proposals up to the uncommitted amount of assets determined to be available at the time of signing the grant agreement (after providing for Phase 2 renewals).

Benefits

3. This refinement would align the rules for Board approval of proposals with those for incurring commitments upon grant signing. (These are set out in paragraph 3(b) of the CFP which requires that a grant cannot be signed unless sufficient uncommitted assets are available at that time. That requirement is consistent with the norms of major funding mechanisms whereby authority to incur commitments is linked to the availability of assets at the time of entering into the legally binding commitment, as confirmed by the Trustee.)

4. It would also insulate approval decisions from the consequences of timing of the approval date, by counting pledges according to when contributions are required rather than according to a particular calendar year. This would tend to avoid situations where approval of a round late in the year resulted in part of the round being deferred for approval until the beginning of the following calendar year.

Risks

5. The risk arising from counting pledges, as well as uncommitted assets, in the calculation of the resources available for the purpose of approving proposals, is that the pledge may be defaulted on, or may not be contributed in time, thus delaying grant signing (until other pledges are contributed to compensate). This risk is already inherent in the CFP, with regard to current year pledges; counting pledges into the following year would extend that risk. However, no pledge to the Global Fund has ever been defaulted on. To the extent that pledges are contributed by deposit of promissory note early in the year (as encouraged by the Replenishment process) the timing risk will be reduced (and even more so with promissory notes that cover multiple years' contributions). Ultimately, if actual contributions and/or grant signings were to differ from the projections such that a shortfall arose, then grant signings would be postponed until sufficient contributions were received.

[5] This may (depending on timing) include expected contributions based on confirmed pledges for a portion of the following calendar year.

Indication of impact

6. The impact of this refinement is modeled as Scenario A in Attachment 1 and is summarized as follows[6]:

Amount available for approval of new rounds **$bn**	**2006**	**2007**	**2008**	**2009**	**2010**
per Status Quo	0.0	0.7	1.2	1.5	1.9
per Scenario A (assuming grants signed within **9** months of approval)	0.4	0.9	1.3	1.6	1.9
per Scenario A1 (assuming grants signed within **6** months of approval)	(0.3)	0.7	1.2	1.5	1.9

(See Attachment 1 for basis of calculation and assumptions)

7. Scenario A assumes that 100% of grants are signed within 9 months following Board approval, whereas Scenario A1 assumes that this happens within 6 months following Board approval. Either of these assumptions would imply a substantial acceleration of grant signings as compared to Round 4, where 22 percent of grants had been signed within 6 months, and 38 percent within 9 months, following Board approval (see table below).

8. These scenarios also (conservatively) assume that contribution patterns would be as in 2005, where 10% of pledges for the year were contributed by April and 60 percent by July (which dates correspond to 6 and 9 months, respectively, after a 1 November round approval). This may not be the case in future years, especially if donors were to contribute by deposit of promissory notes at the start of the year (as encouraged by the replenishment process), thus causing contributions to accumulate earlier in the year than historically.

Timing of grant signing, following Board approval, *for Round 4* *(Round 4 was approved on 30 June 2004)*

Based on Round 4 grant signings	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Nov-05
Number of months since approval	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Month 17
Cumulative % of grants signed	0%	0%	**1%**	**6%**	**16%**	**22%**	**32%**	**32%**	**38%**	**45%**	**57%**	**94%**	**100%**
Month, if approval had been on 1 November	Nov	Dec	Jan	Feb	Mar	**Apr**	May	Jun	**Jul**	Aug	Sep	Oct	Mar

9. The above scenarios are for illustrative purposes only. FAC proposes that the calculations to determine the amount available for approval of each new round would be monitored by FAC, as outlined at 3.11 below.

Proposed modification of CFP text

10. To give effect to the refinement, paragraph 3(a) of the CFP would need to be modified along the following lines:

> *"The Board may approve proposals and commit funds for two years up to the cumulative uncommitted amount ~~pledged through the calendar year of the Board decision~~ of assets that the Board determines will be available at the time of signing the related grant agreements in accordance with 3(b);"*

11. Determination of the "cumulative uncommitted amount of assets" available for approval of proposals would be calculated by reference to uncommitted, pledges that are projected to be contributed in the form of promissory notes or cash in advance of grant signing, less Phase 2 renewal needs[7]. For that calculation, estimates would need to be made with respect to when the related grant agreements would be signed and the projected timing of contributions and Phase 2 renewals during that period (as described more fully in Attachment 1). Where that calculation takes

[6] The above example assumes approval of new rounds in November; the refinement may have less incremental impact for rounds approved earlier in the year since pledges due in a shorter part of the following year would be taken into account.
[7] And, if so determined by the Board in the future, other renewal needs accorded priority for funding over new proposals.

account of pledges and Phase 2 renewals for part of a calendar year, provision would have to be made for any amount by which the remainder of Phase 2 renewals for that year exceeded the remainder of pledges for the same year.

12. FAC would monitor the calculation process outlined at 3.11, including the estimations made, to enable the determination.

13. Unrelated to the refinement recommended for consideration, in the course of its review FAC observed the need for a technical modification of the CFP text in relation to Phase 2 renewals. Paragraph 3c of the CFP, which pre-dates the advent of Phase 2, refers to “two years of implementation”. While this is correct with regard to Phase 1, it is inconsistent with Phase 2, which is typically for three years. If the intent of this provision is to ensure that sufficient assets are deposited with the Trustee to cover the duration of the grant, then paragraph 3c would need to be amended as per the text below.

Decision Point

The Board amends paragraphs (a) and (c) of decision point 3 under the Comprehensive Funding Policy approved at the 6th Board Meeting as follows:

> ***4 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, with the following conditions:***
>
> ***a The Board may approve proposals and commit funds for two years up to the cumulative uncommitted amount of assets [~~pledged through the calendar year of the Board decision~~] that the Board determines will be available at the time of signing the related grant agreements in accordance with 3(b);***
>
> ***b 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;***
>
> ***c Based on successful implementation of a grant, funding beyond its first 2 years receives priority over the funding of new proposals. A sufficient amount of assets to meet the cost of such additional funding for the grant must be deposited with the Trustee or readily available on demand prior to the Secretariat signing an amendment to the grant agreement committing such additional funding;***
>
> ***d No funds for appeals should be reserved. Successful appeals should be funded immediately if resources are available or as soon as new resources become available.***

Impact of Scenario A as compared to Status Quo

Status-Quo (CFP is applied as currently)

			$bn	2006	2007	2008	2009	2010	
Pledged for year - by March 2006				1.8	1.8	0.3			
Allowance for future pledges*				0.0	0.3	2.0	2.5	2.7	
Pledged for year - total projected	A			1.8	2.1	2.3	2.5	2.7	[+50%]
Income from new sources*	B				0.1	0.3	0.5	0.7	
Total contributions projected for year	C			1.8	2.2	2.6	3.0	3.4	
Phase 2 approvals due in year (Rounds 1 to 5)				1.8	1.5	0.7			
Phase 2 approvals due in year (future rounds)*						0.7	1.5	1.5	
Phase 2 approvals due in year	D			1.8	1.5	1.4	1.5	1.5	
Amount available for new rounds, status quo	E	C-D		**0.0**	**0.7**	**1.2**	**1.5**	**1.9**	<<

** Assumed amounts, for illustrative purposes only*

Scenario A: Pledges are counted through the period during which a new Round is signed

This scenario assumes that **100%** of grants are signed within **9 months** following Board approval on 1 November
(Note: For Round 4, **38%** of grants had been signed within 9 months of approval)

			$bn	2006	2007	2008	2009	2010	
Pledges for current year				1.8	2.1	2.3	2.5	2.7	[+50%]
Pledges for next year -- assuming 60% contributed during period in which new round will be signed, if by **July**			60%	1.3	1.4	1.5	1.6	1.6	
less: Pledges for current year already counted last year					(1.3)	(1.4)	(1.5)	(1.6)	
Pledges taken into account				3.1	2.2	2.4	2.6	2.7	
Income from new sources (same as status quo)				0.0	0.1	0.3	0.5	0.7	
Total contributions taken into account			a	3.1	2.3	2.7	3.1	3.4	
Phase 2 for current year				1.8	1.5	1.4	1.5	1.5	
Phase 2 for next year -- portion due for renewal during period in which new round will be signed, if by **July**		7/12:	58%	0.9	0.8	0.9	0.9	0.9	
less: Phase 2 for current year already counted last year					(0.9)	(0.8)	(0.9)	(0.9)	
Phase 2 taken into account			b	2.7	1.4	1.5	1.5	1.5	
Amount available for new rounds	F		a-b	0.4	0.9	1.3	1.6	1.9	<<
Additional amount available for approval of new rounds, *compared to status quo*	G		F-E	***0.4***	***0.2***	***0.1***	***0.1***	***0.0***	

Coverage for remainder of next year's Phase 2: *(to check that Phase 2 will be fully covered)*

	2006	2007	2008	2009	2010
Remainder of next year's pledges	0.8	0.9	1.0	1.1	1.1
Remainder of next year's Phase 2	0.6	0.6	0.6	0.6	0.6
Surplus for next year's Phase 2	0.2	0.3	0.4	0.5	0.5

=> Next year's Phase 2 is fully covered

Note: Because the foregoing calculation takes account of pledges (and Phase 2 renewals) for a part year, provision would have to be made for any amount by which the remainder of Phase 2 renewals for that year exceeded the remainder of pledges for the same year. In the above example, this does not arise.

Scenario A1-- assumes that **100%** of grants are signed within **6 months** following Board approval on 1 November
(Note: For Round 4, **22%** of grants had been signed within 6 months of approval)

			$bn	**2006**	**2007**	**2008**	**2009**	**2010**	
Pledges for current year				1.8	2.1	2.3	2.5	2.7	[+50%]
Pledges for next year -- if 10% were contributed during period in which new round will be signed, if by **April**			10%	0.2	0.2	0.3	0.3	0.3	
less: Pledges for current year already counted last year					(0.2)	(0.2)	(0.3)	(0.3)	
Pledges taken into account				2.0	2.1	2.3	2.5	2.7	
Income from new sources (same as status quo)				0.0	0.1	0.3	0.5	0.7	
Total contributions taken into account			a	2.0	2.2	2.6	3.0	3.4	
Phase 2 for current year				1.8	1.5	1.4	1.5	1.5	
Phase 2 for next year -- portion due for renewal during period in which new round will be signed, if by **April**		4/12:	33%	0.5	0.5	0.5	0.5	0.5	
less: Phase 2 for current year already counted last year					(0.5)	(0.5)	(0.5)	(0.5)	
Phase 2 taken into account			b	2.3	1.5	1.4	1.5	1.5	
Amount available for new rounds	F		a-b	(0.3)	0.7	1.2	1.5	1.9	<<
Additional amount available for approval of new rounds, *compared to status quo*	G		F-E	***(0.3)***	***0.0***	***(0.0)***	***0.0***	***0.0***	

Assumptions

Main assumptions of Status Quo:

1 50% growth in pledges from 2006 to 2010

2 Phase 2 needs are based on new rounds of approximately $1.2bn per year from 2006

Further assumptions of Scenario A (and A1):

3 New Rounds are approved in November and grant signing occurs in the 9 month period between then and the following July. (For Round 4, 38% of grants had been signed 9 months after approval; hence this is a conservative estimate as compared to Round 4.) A variant of this scenario (Scenario A1) assumes that 100% of grants are signed within 6 months following Board approval.

4 60% of pledges for a year are contributed, in cash or promissory note, by 31 July of that year (and 10% by 30 April, per Scenario A1), based on the pattern of contributions in 2005. An increased use of promissory notes deposited early in the year (as encouraged by the replenishment process) would move contributions towards the start of the year.

5 Phase 2 renewals occur evenly throughout the year, with 58% (7/12) of the year's total approved by 31 July (and 33% approved by 30 April, per Scenario A1)

Sensitivity

a) If new Rounds were approved earlier in the year, a lesser amount of the following year's pledges and Phase 2 renewals would be taken into account. For example, if a Round were approved in April and the related grants were estimated to be signed over the following nine months (as above), i.e. by end of December, then none of the following year's pledges would be taken into account. In such circumstances, there would be no difference from the status quo.

b) If growth in pledges from 2006 to 2010 is other than the 50% assumed, then the amount of the next year's pledges taken into account will be impacted.

c) If grant signings were accelerated such that a round was fully signed in less than nine months following approval, then the period for which contributions due would be taken into account would be shortened. However, this may not correspondingly impact the amount of contributions counted, especially if contributions tend to be made earlier in the year (as mentioned at 4 above).

Calculation of the uncommitted amount available

1 Determination of the amount available for approval of proposals would be calculated by reference to pledges that have not already been committed[8] that are projected to be contributed before grant signing, less Phase 2 renewal needs. For those calculations, estimates would be made of:

a) <u>When the grants will be signed</u>. In the examples above, it is assumed that proposals are approved in November and that signing of the related grant agreements is completed by end of the following July (per Scenario A) or April (per Scenario A1).

b) <u>The amount of pledges that are projected to be contributed during the period of grant signing</u> (e.g. November through July or April). In the Scenario A, it is assumed that 60% of pledges for the following year will be contributed by end July. In the Scenario A1, it is assumed that 10% of pledges for the following year will be contributed by end April. These percentages reflect the contribution pattern in 2005, however an increased use of promissory notes would tend to increase the predictability of contribution timing.

c) <u>The amount of Phase 2 renewals that are projected to be approved during the period of grant signing.</u> In Scenario A, it is assumed that 58% of Phase 2 renewals in the following year will be approved by end July (7/12 of the total for the year), and in Scenario A1 33% by end April. This can be estimated based on Phase 1 end dates and assumed renewal rates, as is currently done for each calendar year prior to approving new proposals.

2 The estimates would, in practice, be computed for each month, so that any (temporary) shortfall in assets available is identified and taken into account. If actual contributions and grant signings were to differ from those estimates such that a shortfall arose, then grant signings would be postponed until the shortfall was eliminated.

3 Where the foregoing calculation takes account of pledges (and Phase 2 renewals) for a part year, provision would have to be made for any amount by which the remainder of Phase 2 renewals for that year exceeded the remainder of pledges for the same year.

4 The estimation bases used would be adjusted to take account of experience and changing circumstances. Estimation (of Phase 2 renewal needs) is already inherent in applying the Comprehensive Funding Policy since 2004.

5 FAC would monitor the calculation process.

---

[8] For previously approved grants or operating expenses

Aspects of the Comprehensive Funding Policy reviewed by FAC

1 With regard to approving proposals and signing grant agreements, the CFP defines the duration of funding commitment, nature of pledges and assets required to be on hand at time of Board approval and at subsequent signing of grant agreement, relative priorities for funding of Phase 1, Phase 2 and appeals, and frequency of calls for proposals. The issues most frequently raised in this regard refer to:

(i) The modality for counting pledges that can be used for approval of grant proposals (and renewals), which excludes pledges beyond the current calendar year (CFP paragraph 3a)

(ii) The definition of assets required for signing grant agreements and the perception that this has resulted in a large investment portfolio (CFP paragraph 3b)

2 Regarding (i), FAC has considered various options in the light of commentary on this topic leading to the recommendation of FAC as described in this paper. For information, the impact of other options considered by FAC but not recommended, is demonstrated in the scenarios outlined at the end of this Attachment. FAC considered that these other options did not meet the overall objective of its review of the CFP which was to better match the commitment and use of resources with their availability. FAC was conscious that refinement of the policy was not a way of generating additional resources.

3 Regarding (ii), FAC consideration led to the conclusion that it should not recommend any refinement to the CFP regarding the definition of assets required for signing grant agreements. This conclusion was guided by:

3.1 _Background_: The CFP requires that the Fund must have on hand assets, in the form of cash or promissory notes, sufficient to cover the entire amount of each grant before a grant agreement may be signed:

> *"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"* (CFP paragraph 3b)

This definition of assets excludes all future pledges and, because almost all contributions have been made in cash, has led to the accumulation of a large investment portfolio that has created adverse perceptions. Stakeholder commentary in this regard has been that:

(a) Some observers question whether this is the most effective use of the amounts pledged and contributed to the Fund to fight the three pandemics

(b) Others have difficulty reconciling the Fund's appeals for additional funding to finance new rounds of grants with the holding of such a large amount of liquid assets. (However, the magnitude of the investment portfolio could be reduced, regardless of the CFP, by donors moving towards an increased use of promissory notes instead of direct cash contributions.)

3.2 FAC observations:

(a) This requirement ensures that the Fund can honor its grant commitments regardless of the amount of future contributions to the Fund.

(b) Since grant commitments are typically of two or three years' duration with funds disbursed in installments over that period, the need to hold assets to cover the entire grant at the outset inevitably creates a large asset balance. Because almost all donors have contributed by cash rather than by promissory note, the cash element of these assets has, to date, been about 90%. A greater use of promissory notes would reduce the cash on hand, since the promissory notes would be encashed over a two to three year period, in line with grant disbursement needs.

<u>3.3 Potential refinement considered</u>: Extension of the qualifying assets (currently uncommitted cash and promissory notes) to include certain pledges, possibly defined based on the donor's record for honoring pledges, and time horizon (e.g. only pledges for the next one (or two) years). A further safeguard could be to allow only a defined percentage of qualifying pledges to be counted. This refinement would treat these pledges as being almost as secure as promissory notes, while the percentage discounted would provide a margin of safety for dishonoring of pledges. (To date, all pledges to the Fund have been fully honored.)

<u>3.4 Risks and benefits:</u>

The risk arising from such a refinement would be that if pledges counted to cover grant commitments were not honored the Fund would have to rely on other contributions in order to fulfill the grant commitments that were covered by the dishonored pledge.

The benefit would be a reduction in the investment portfolio and related adverse perceptions (though this would also reduce investment income), by allowing donors to contribute their pledges later than currently.

<u>FAC conclusions</u>:

3.5 While transparent criteria could be applied in 'rating' pledges that could be counted, it was recognized that such could be offensive to donors whose pledges were not eligible to be taken into account. On the other hand, the replenishment process had increased the predictability of future pledges, which at present could not be used to fund current needs. Importantly, some donors would be unable to count pledges as assets for the purposes of covering legally binding commitments (arising from signed grant agreements), unless such pledges were also legally binding. The Trustee advised that the other international funding organizations for which it acts as trustee typically require full coverage of legally binding commitments by cash and promissory notes.

3.6 FAC recognized that almost all the Global Fund's income was contributed by public donors and that the CFP was intended to cater for the fiduciary requirements and concerns of such donors within the norms of public finance. FAC concluded that any departure from the current policy of requiring 100% coverage of legally binding commitments by cash and promissory notes would be unacceptable to some donors. FAC further noted that the magnitude of the investment portfolio would not be an issue if donors had chosen to contribute in the form of promissory notes, as they do for other major multilateral funds. **Hence FAC decided not to consider further any refinement to the aspect of the policy regarding assets required for grant signing.**

Other options considered (but not recommended for further consideration)

6. As mentioned at 2 above, FAC also considered other options for refinement of the modality for counting pledges for approval of grant proposals (and renewals), which excludes pledges beyond the current calendar year (CFP paragraph 3a). However, FAC decided not to recommend these options for further consideration, because they did not meet the overall objective of its review of the CFP – to better match the commitment and use of resources with their availability. FAC was conscious that refinement of the policy was not a way of generating additional resources. The scenarios modeled for these other options are included below, for information.

Rolling-Year (Looks one year forward from time of round approval, instead of just to end of current calendar year)

Scenario 1: Pledges counted on a rolling year basis, with new Rounds approved in November

			$bn	2006	2007	2008	2009	2010	
Pledges for current year				1.8	2.1	2.3	2.5	2.7	
Pledges for next year, % known in November:	95%			2.0	2.2	2.4	2.6	2.6	
less: Pledges for current year already counted last year					(2.0)	(2.2)	(2.4)	(2.6)	
Pledges taken into account				3.8	2.3	2.5	2.7	2.7	
Income from new sources (same as status quo)				0.0	0.1	0.3	0.5	0.7	
Total contributions taken into account			a	3.8	2.4	2.8	3.2	3.4	
Phase 2 for current year				1.8	1.5	1.4	1.5	1.5	
Phase 2 for next year x 11/12				1.4	1.3	1.4	1.4	1.4	
less: Phase 2 for current year already counted last year					(1.4)	(1.3)	(1.4)	(1.4)	
Phase 2 taken into account			b	3.2	1.4	1.5	1.5	1.5	
Amount available for new rounds		F	a-b	0.6	1.0	1.3	1.7	1.9	<<
Additional amount available for approval of new rounds, *compared to status quo*		G	F-E	***0.6***	***0.3***	***0.1***	***0.2***	***0.0***	

Scenario 2: Pledges counted on a rolling year basis, assuming new Rounds are approved in April

			$bn	2006	2007	2008	2009	2010	
Pledges for current year				1.8	2.1	2.3	2.5	2.7	
Pledges for next year, % known in April:	80%			1.7	1.8	2.0	2.2	2.2	
less: Pledges for current year already counted last year					(1.7)	(1.8)	(2.0)	(2.2)	
Pledges taken into account				3.5	2.3	2.5	2.7	2.7	
Income from new sources (same as status quo)				0.0	0.1	0.3	0.5	0.7	
Total contributions taken into account			a	3.5	2.4	2.8	3.2	3.4	
Phase 2 for current year				1.8	1.5	1.4	1.5	1.5	
Phase 2 for next year x 4/12				0.5	0.5	0.5	0.5	0.5	
less: Phase 2 for current year already counted last year					(0.5)	(0.5)	(0.5)	(0.5)	
Phase 2 taken into account			b	2.3	1.5	1.4	1.5	1.5	
Amount available for new rounds		F	a-b	1.2	0.9	1.3	1.7	1.9	<<
Additional amount available for approval of new rounds, *compared to status quo*		G	F-E	***1.2***	***0.2***	***0.1***	***0.2***	***0.0***	

<u>Next Calendar Year</u> (Looks forward to end of next calendar year, instead of just to end of current calendar year)

Scenario 3: <u>Pledges</u> counted through end of next calendar year

			$bn	2006	2007	2008	2009	2010	
Pledges for current year				1.8	2.1	2.3	2.5	2.7	
Pledges for next year (assuming fully known)				2.1	2.3	2.5	2.7	2.7	
less: Pledges for current year already counted last year					(2.1)	(2.3)	(2.5)	(2.7)	
Pledges taken into account				3.9	2.3	2.5	2.7	2.7	
Income from new sources (same as status quo)				0.0	0.1	0.3	0.5	0.7	
Total contributions taken into account			a	3.9	2.4	2.8	3.2	3.4	
Phase 2 for current year				1.8	1.5	1.4	1.5	1.5	
Phase 2 for next year				1.5	1.4	1.5	1.5	1.5	
less: Phase 2 for current year already counted last year					(1.5)	(1.4)	(1.5)	(1.5)	
Phase 2 taken into account			b	3.3	1.4	1.5	1.5	1.5	
Amount available for new rounds		F	a-b	0.6	1.0	1.3	1.7	1.9	<<
Additional amount available for approval of new rounds, *compared to status quo*		G	F-E	***0.6***	***0.3***	***0.1***	***0.2***	***0.0***	

<u>Less than 100% coverage of approvals in year of approval</u> and remainder covered in next year

Scenario 4: 80% of grant approvals covered in year of approval

<u>If applied to Phase 2 only:</u>			$bn	2006	2007	2008	2009	2010	
Total contributions taken into account (*status quo*)			a	1.8	2.2	2.6	3.0	3.4	
Phase 2 for current year *(status quo)*				1.8	1.5	1.4	1.5	1.5	
Portion deferred for coverage until next year	**20%**			(0.4)	(0.3)	(0.3)	(0.3)	(0.3)	
Coverage of portion deferred from last year					0.4	0.3	0.3	0.3	
Phase 2 taken into account			b	1.4	1.6	1.4	1.5	1.5	
Amount available for new rounds		F	a-b	0.4	0.6	1.2	1.5	1.9	<<
Additional amount available for approval of new rounds, *compared to status quo*		G	F-E	***0.4***	***(0.1)***	***(0.0)***	***0.0***	***0.0***	

If this were <u>also applied to approval of new rounds</u>, it would allow a round to be approved with pledges on hand that represent 80% of the round total (for Phase 1):

If new rounds =		a	1.1	2.6	1.3	2.6	1.3
Portion deferred for coverage until next year	20%		(0.2)	(0.5)	(0.3)	(0.5)	(0.3)
Coverage of potion deferred last year				0.2	0.5	0.3	0.5
Pledges required to approve new rounds		b	0.9	2.3	1.6	2.3	1.6
Reduction of / (increase in) amount required to approve new rounds, *compared to status quo*		a-b	**0.2**	**0.3**	**(0.3)**	**0.3**	**(0.3)**

Scenario 5: First 2 years of Phase 2 approvals covered in year of approval

			$bn	2006	2007	2008	2009	2010	
Total contributions taken into account (*status quo*)			a	1.8	2.2	2.6	3.0	3.4	
Phase 2 for current year *(status quo)*				1.8	1.5	1.4	1.5	1.5	
Portion deferred for coverage until next year	**33%**			(0.4)	(0.3)	(0.3)	(0.3)	(0.3)	
Coverage of portion deferred from last year					0.4	0.3	0.3	0.3	
Phase 2 taken into account			b	1.4	1.6	1.4	1.5	1.5	
Amount available for new rounds		F	a-b	0.4	0.6	1.2	1.5	1.9	<<
Additional amount available for approval of new rounds, *compared to status quo*		G	F-E	***0.4***	***(0.1)***	***(0.0)***	***0.0***	***0.0***	

The Global Fund Comprehensive Funding Policy (Extract)
(Approved by the Sixth Board meeting, Chiang Mai, 15-17 October 2003)

1. Resource-mobilization should use a periodic replenishment model on a voluntary basis for all public donors, complemented by additional ad hoc contributions for all donors, including new public donors, the private sector, and individuals.

2. TRP-recommended proposals should be approved up to the total of resources available.

3. 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, with the following conditions:

   a. The Board may approve proposals and commit funds for two years up to the cumulative uncommitted amount pledged through the calendar year of the Board decision;

   b. 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;

   c. Based on successful implementation of a grant, funding beyond its first 2 years receives priority over the funding of new proposals;

   d. No funds for appeals should be reserved. Successful appeals should be funded immediately if resources are available or as soon as new resources become available.

4. Both cash and demand public promissory notes should be considered as assets.

5. The Board will announce a minimum of one Call for Proposals per calendar year. The Board can adjust this based on need and on resources available. A forecast of the resources available for the Round will be announced at the time that the Call for Proposals is issued.

6. At the final Board meeting of each year, beginning with the 2004 budget, the Global Fund will forecast resources and estimate demand for the next year. This estimate will show clearly the funds available for commitment. This estimate should be attached to the annual budget. This estimate should be updated at each Board meeting.

7. Technical merit will be the criteria used to determine proposal approval. The Technical Review Panel should refine its recommendations in category 2 in a way that will facilitate the Board's prioritization of proposals for approval.

8. If it is necessary to further prioritize within these sub-categories, the following additional criteria will be used by the Board: poverty, disease burden, repeated failures for the same component and other criteria which the Board deems appropriate.

9. The Board will not partially approve components.

A decision of the Seventh Board Meeting further defined what shall be considered as assets for the purposes of entering into grant agreements as follows:

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

CHARTER OF THE OFFICE OF THE INSPECTOR GENERAL

Charter

Introduction

1. The Office of Inspector General (OIG) was established to provide The Global Fund to Fight AIDS, Tuberculosis and Malaria (The Global Fund) with independent and objective oversight in order to ensure the integrity and effectiveness of programs and operations. The OIG operates as an independent unit and reports directly to the Board of Directors of the Global Fund (the Board). The Inspector General's primary point of contact with the Board will be the Finance and Audit Committee (FAC).

2. The Board approved the establishment of the OIG in July 2005, as recommended by the FAC, and the first Inspector General began work in December 2005.

3. This Charter defines the functions and responsibilities of the OIG as approved by the Board[9] and serves as the framework for the work to be carried out by the office.

Roles and Responsibilities of the OIG

4. The primary purpose of the OIG is to provide independent and objective oversight and to ensure the integrity, efficiency and effectiveness of the Global Fund's programs and operations, including compliance with established policies and procedures. To this end, the OIG has the following functional areas of responsibility:

- **Investigations** – The OIG is responsible for investigation of potential fraud, abuse, misappropriation, corruption and mismanagement within the Global Fund and in the programs and operations that it funds. The OIG will retain the authority, independence and flexibility to investigate any and all allegations and abuse as they arise and otherwise respond to events that occur.

  - Investigation Policy and Procedures. The OIG will establish procedures for carrying out investigations consistent with international standards and guidelines. All investigations will be carried out with objectivity and under strict confidentiality.

  - Whistle Blower Hotline. The OIG will create a system and procedures for the reporting of potential fraud, abuse, and misconduct. The system will include a process to evaluate reports and assess the need for an investigation. The procedures will ensure total confidentiality and assurance that all staff and others who report improprieties, as well as those who are the subject of such reports, are given protection in accordance with policies approved by the Board.

  - Internal Control Environment. The OIG is responsible for identifying systemic weaknesses that may provide opportunities for fraud, abuse and mismanagement in the Global Fund's programs, operations and activities and for making recommendations to correct them.

  - Training on Fraud Prevention. The OIG will develop and administer a training program (as resources permit), for the prevention and detection of fraud and abuse within the Global Fund programs and operations. The training program will be developed so that it is

[9] Refer to the Terms of Reference (TOR) approved by the Board in July 2005.

broadly communicated and can be accessed and utilized worldwide (it may be included on the OIG website).

- **Audits and Inspections** – The OIG will carry out audits and inspections of the Global Fund's activities and transactions including field sites where programs and operations financed by the Global Fund are undertaken. Audits/inspections will be performed in accordance with this Charter and consistent with the *Standards for the Professional Practice of Internal Auditing* and/or the OIG policies, practices and procedures (as appropriate).

  - <u>Internal Management Processes.</u> The OIG will review internal management processes, including the grant application and grant awards and funds disbursement process, to assess the effectiveness of internal controls and of the process.

  - <u>Risk Assessment Model.</u> Audits will be based on a risk assessment model that will give priority to areas of high risk, taking into account the level of internal controls effectively operating to mitigate risk.

  - <u>Economy and Efficiency.</u> The audits will provide independent and objective assessments of the internal control environment and will be designed to add value and improve Global Fund operations and program delivery.

Independence and Objectivity

5. The IG reports directly to the Board and no other entity or person shall interfere with his/her authority to: (a) determine the scope of the OIG's work; (b) perform the work; and (c) communicate the results of the work.

6. To ensure operational *independence,* only the Board may select, oversee, manage, or remove the Inspector General. The Inspector General has managerial responsibility and control over the human and financial resources of the OIG without impediments to his/her oversight function.

7. The OIG receives a special budget allocation, as approved by the Board.

8. All persons carrying out oversight engagements (including staff, consultants, or individuals under other contractual arrangements) must maintain *independence* and *objectivity* in their work and when drawing conclusions. The OIG will immediately notify the Board of any impairment (whether actual or potential) of its *independence* or *objectivity*, or of any hindrance to the carrying out or completion of an oversight assignment.

Scope of Work

9. The specific tasks and activities will be determined by: (a) the TOR approved by the Board; (b) direction from the Board; and (c) the discretion of the IG to achieve the objectives of the TOR. The OIG will prepare an Annual Plan at year-end, in consultation with the FAC, showing target areas of review and investigation for the upcoming year.

10. The scope of work[10] for investigations and audits/inspections will include all activities undertaken by: the Global Fund Secretariat, Principal Recipients *(PRs)*, Sub-Recipients (SRs), Country Coordinating Mechanisms (CCMs), and Local Fund Agents (LFAs), as well as other organs of the Fund (such as The Technical Review Panel, the Technical Evaluation Review Group, etc.). The scope will be determined by the IG, consistent with the TOR approved by the Board, and will focus on assessing whether:

[10] Transactions and activities of PRs, SRs, LFAs, etc. are within the scope of the OIG as permitted under applicable arrangement or agreement.

- The management environment encourages initiatives to prevent fraud, abuse and mismanagement;
- Risks are appropriately identified and managed;
- Financial, managerial and operating information is accurate, reliable and timely for decision-making;
- Actions of staff and other persons (including PRs, SRs, CCMs, and LFAs, etc.) are in compliance with applicable policies, standards, procedures, rules, and regulations;
- Interaction and coordination between the various organs of the Global Fund occurs, as needed;
- Resources are acquired economically, used efficiently, and adequately protected; and
- Quality of operations and programs are continually enhanced through the Fund's control processes.

Authority and Accountability

11. The OIG has the authority to:

- Access all books and records maintained by the Global Fund and all books and records relating to grants funded by the Global Fund, whether maintained by PRs, SRs, CCMs, LFAs or LFA subcontractors, or other organs of the Fund, where permitted under applicable arrangements;
- Seek information it requires from any personnel involved in the Global Fund's projects and require such personnel to cooperate with any request made by the OIG;
- Obtain independent professional advice and secure the involvement in its activities of outside persons with relevant experience and expertise, if and when determined necessary;
- Initiate, carry out and report on any action that it considers necessary to fulfill its responsibilities for the oversight function;
- Discharge its responsibilities without any hindrance, unnecessary delays, and/or need for prior clearance;
- Receive direct and prompt access to all staff, records, documents, and premises and to obtain necessary information and explanations, as required;
- Conduct regular as well as *ad hoc* investigations, audits, inspections, and/or evaluations of Global Fund operations and funded programs and other activities whenever there are reasons to believe that: (a) fraud and abuse may exist; (b) management controls and/or oversight are inadequate; or (c) there is a potential for non-attainment of objectives and/or waste of resources; and
- Cooperate and coordinate with UN internal oversight services (including the WHO Oversight office), and external auditors, with a view to harmonize and exchange information on oversight policies, procedures, practices, activities, professional standards and implementation of *Best Practices.*

12. The OIG and staff will not:

- Perform any operational duties that fall under the responsibility of other organs of the Global Fund ;

- Initiate or approve transactions that are external to the OIG; or
- Direct the activities of any staff member or consultant not employed by the OIG, except to the extent such persons have been appropriately assigned to the OIG teams or to otherwise assist the OIG staff.

13. The IG is accountable to ensure that:

- The OIG operates efficiently and effectively;
- The OIG services add value and improve the Global Fund's operations;
- Planning for audit/inspection assignments is either risk-based or on anticipated improvement potential and is consistent with this Charter;
- Policies, procedures and standards are established for all oversight activities; and
- Resources for oversight are sufficient, appropriate, and effectively deployed, in consultation with the Board.

14. Sole Authority of the OIG for Oversight Services and Activities. The OIG has sole authority to carry out the oversight services and activities including audit[11] and investigations through the responsibilities assigned by this Charter. All requests for such services will be sent to the IG who will assess the needs and priorities and determine if outside services are required.

15. Global Fund management and/or staff members are accountable for:

- Cooperating fully with the OIG and providing support, as required, at all levels;
- Providing timely response to all queries and requests made by the OIG;
- Providing prompt and unrestricted access to all records (paper and electronic), property, and personnel;
- Establishing and maintaining an effective internal control environment;
- Providing a written response to all the OIG reports and recommendations in a timely manner and carrying out implementation, as agreed; and
- Seeking the agreement of the OIG before carrying out activities or securing external services that fall within the OIG mandate.

16. Other Entities Subject to OIG Oversight[12] will:

- Cooperate fully with the OIG and provide information and support, as required, at all levels;
- Provide prompt and unrestricted access to all records (paper and electronic), property, and personnel; and
- Provide a timely response to all queries and requests made by the OIG.

Reporting

17. The OIG will be responsible for keeping the Board (and the Executive Director, where appropriate) informed fully and currently on the activities carried out by the OIG. The Secretariat may be informed, at the discretion of the OIG, on the status and ongoing results of investigations

[11] Except for external audit activities expressly delegated to the designated External Auditor.
[12] Including PRs, SRs, LFAs and other entities stated in paragraphs 10 and 11 of this Charter, as permitted under applicable arrangement.

where that information would help guide responsible management decisions (i.e. decisions on disbursements, possible changes of PR, etc.). The OIG may report specific activities or findings solely to the Board as a whole and not inform a particular committee, where the OIG deems the subject(s) and nature of the matter investigated or other circumstances so require. The OIG will inform the Board and appropriate senior management promptly of:

- Identified breakdowns or significant weaknesses in the Fund's internal control systems;
- Known or suspected cases of a criminal nature involving the Global Fund's funds, property and/or staff members;
- Information with respect to potential damage to the reputation of the Fund that has been discovered, including improprieties or misconduct reported and/or uncovered during an engagement or investigation; and
- Any impairment of *independence* or *objectivity* by the OIG in carrying out engagement(s).

18. At the beginning of each year, the OIG will prepare and submit to the Board an Annual Report that measures actual performance of the OIG against the Annual Plan, and summarizes the operations of the OIG during the preceding year. The report will be copied to the Executive Director and will be made available on the Global Fund's website through the OIG page after review by the Board and the Executive Director. The Annual Report will include information shown at Annex A to this *Charter.*

19. The IG will provide periodic reports regarding particular investigations or audits to the Board or an appropriate committee (normally the FAC and/or the Ethics Committee), with due consideration to confidentiality and other important concerns. The IG will inform the Executive Director of such matters where the IG deems it appropriate to do so. The IG will immediately bring matters to the attention of the Board and/or the Executive Director if and when circumstances so require.

20. Reports of particular investigations and audits will be made available on the website, when appropriate.

Working Relationships and Communication

21. The OIG will foster open communication at all levels and strive to keep managers and staff advised of its work and findings, as appropriate, on a timely basis. All planned audit/inspection assignments will be communicated to management at an early stage to allow for their feedback and consultation on an appropriate date for the engagement. The OIG will make maximum effort to minimize any disruption to the primary work of the unit/section.

22. The OIG will follow the procedures and guidelines established by the OIG, taking into account professional standards, when conducting interviews or discussions with staff, managers, and other persons. All interaction will be done with professionalism, respect, and in good faith.

ANNEX A

OFFICE OF INSPECTOR GENERAL'S ANNUAL REPORT

The Annual Report will include the following:

- A description of the mission, organization, staffing and resources of the Office of Inspector General;
- A quantitative summary of the Office of Inspector General's activities during the period, including: the number of reports received through the hotline and other whistleblower reporting mechanisms; and the number of audits and investigations undertaken, completed and/or pending;
- A description of any investigations of the Global Fund's internal operations and processes, including any description of significant problems, abuses, and deficiencies that were identified, and any recommendations for corrective action that the Office of Inspector General made during the period;
- A description of investigations of the Global Fund's external programs, including any description of significant problems, abuses, and deficiencies that were identified and any recommendations for corrective action that the Office of Inspector General made during the period;
- An identification of any significant recommendation described in a prior Annual Report for which corrective action has not yet been completed;
- A summary of any matters referred to relevant local law enforcement authorities and the outcome of such referrals;
- A description of other developments within the Office of Inspector General during the period including, for example, policy developments and new tools and resources;
- A listing of any entities, businesses, or persons whom the Global Fund has decided not to retain or not to award any grants, contracts, or other business for a stated period as a result of an Inspector General investigation; and
- Any other information that the Inspector General deems appropriate.

Annex 6

BUDGET PERFORMANCE 2005

Outline:

The Finance and Audit Committee is mandated to monitor expenditure of the budget in the course of the year and report to the Board thereon after the conclusion of each half-year. This paper reviews operating expenses and performance in 2005.

Part 1 provides an analysis of Operating Expenses in 2005 as compared to budget with an explanation of significant variances from budget, and shows the trend in operating expense ratios.

Part 2 reports on the achievement of the Key Performance Indicators set by the Board for 2005.

Part 1: Operating Expenses in 2005

1. **Highlights**

- Operating Expenses in 2005 amounted to $60.9 million – 8% less the budget of $66.3m.
- Secretariat Expenses and Local Fund Agent (LFA) Services were each less than budgeted (6% and 18% less, respectively).
- The resultant saving of $6.9m met the savings target of $1.6m and generated a net under-spend of $5.3m

Attachment 1 details the expenditure by each Secretariat unit which is summarized in the table below; the reasons underlying the savings are outlined in the following pages.

Operating Expenses	January-Dec 2005 (12 months)				Actual Jan-Dec as % of Year's Budget
	Actual $m	Budget $m	Variance $m	Variance As % of budget	
Secretariat Expenses	**41.7**	**44.5**	**2.8**	**6%**	**94%**
LFA Services	**19.2**	**23.4**	**4.2**	**18%**	**82%**
Sub-total	**60.9**	**67.9**	**6.9**	**10%**	**90%**
Efficiency target	0.0	(1.6)	(1.6)		
Total Operating Expenses	**60.9**	**66.3**	**5.4**	**8%**	**92%**
Secretariat expenses by function	**41.7**	**44.5**	**2.8**	**6%**	**94%**
Operations	15.5	15.3	(0.2)	-1%	101%
Strategic Information & Evaluation	2.8	4.0	1.2	31%	69%
External Relations	6.5	8.2	1.7	21%	79%
Office of the Executive Director	1.5	1.5	(0.0)	-1%	101%
Deputy E.D. / Corporate Strategy & Policy	0.8	1.0	0.2	24%	76%
Finance	3.4	3.4	0.0	0%	100%
Business Services	11.1	9.6	(1.5)	-15%	115%
Office of the Chair of the Board	0.2	0.3	0.1	45%	55%
Office of the Inspector General	0.1	0.2	0.1	67%	33%
Contingency	0.0	1.0	1.0		
Secretariat expenses by type	**41.7**	**44.5**	**2.8**	**6%**	**94%**
Staff	24.1	22.2	(2.0)	-9%	109%
Professional fees	5.2	8.1	2.9	36%	64%
Travel & meetings	5.6	6.9	1.3	18%	82%
Communications materials	1.1	1.8	0.7	37%	63%
Office expenses and infrastructure	5.5	4.2	(1.3)	-32%	132%
Office of the Chair of the Board	0.2	0.3	0.1	45%	55%
Office of the Inspector General	0.1	0.2	0.1	67%	33%
Contingency	0.0	1.0	1.0		

Totals may appear not to add because of rounding

2 **Local Fund Agent fees** for in-country oversight: $4.2m (18%) less than budget

Two factors contributed to the $4.2m under-spend on LFA services as compared to budget, as indicated by the table below:

(i) LFA fees for grant monitoring were $5.3m less than budget, while

(ii) Phase 2 renewal reviews cost $1.1m more than budget.

LFA Service	***Cost ($m)***				***Activity***				***Average Unit Cost ($k)***		
	Budget	**Actual**	**Saving**	Actual/ Budget Cost	Actual/ Budget Activity	Budgeted activity	Actual activity	Activity metric	Budget rate	Actual rate	Actual/ Budget Rate
Grant monitoring	18.3	13.0	5.3	71%	84%	334	281	No. of active grants (average)	55	46	84%
Assessments	3.0	3.0	0.0	100%	94%	89	84	No. of new grants signed	34	36	106%
Phase 2 reviews	2.1	3.2	(1.1)	152%	78%	139	109	No. of Phase 2 reviews	15	29	194%
Total	23.4	19.2	4.2	82%							

(i) Grant monitoring activity was 84% of what had been provided for in 2005, because of grants commencing later than had been assumed in the budget estimates. The average cost per grant was also less than budgeted, consistent with the measures implemented to optimize the use of LFA service.

(ii) Phase 2 renewal reviews are (on average) costing almost twice the amount per grant that was estimated when compiling the 2005 budget (which was in advance of actual experience of the Phase 2 process).

(iii) PR assessments (pre-grant signing) costs were as budgeted, with regard to price and volume of activity. (Activity, as compared to budget, was increased by grant commencements postponed from 2004 but this was offset by later-than-budgeted commencements in 2005.)

3 **Secretariat Expenses:** $2.8m (6%) less than budget

3.1 As advised to FAC and the Board early in 2005, the need to accelerate (from 2006 to 2005) relocation of the Secretariat to larger offices had not been provided for in the 2005 budget. The unplanned cost of the move resulted in the over-budget spending of $1.5m shown in the table above under 'Business Services'. As indicated at that time, efforts were made to accommodate that additional cost within the overall budget. This has been achieved through use of the $1m contingency and savings in other areas as outlined below.

3.2 The portion of the office relocation that was not covered by the contingency, and a 1% over-spend on Fund Portfolio Operations, were more than fully offset by under-budget outcomes in other areas, mainly:

(i) Strategic Information and Evaluation, which was $1.2m under budget because of activities postponed to 2006 (such as the five-year evaluation and aspects of work on impact modeling and data quality assurance), and

(ii) External Relations, which was $1.7m under budget due mainly to savings on travel and meetings, communications services and other consultants, and document translation (in some instances due to postponement of activities).

3.3 As a result of the foregoing, it is not necessary to seek consent to use any of the savings on LFA fees to fund the exceptional costs of the office move, as had been flagged in the FAC report to the Eleventh Board Meeting.

4 Operating Expense Ratios

The table below presents the key ratios for 2005, compared with 2003 and 2004.

Operating expenses, expressed relative to each of four measures of activity, show a decline in comparison to 2004 in every case.

Statement of Activities (Summary)	2003		2004		**2005**	
	$m		**$m**		**$m**	
Income						
Contributions	1,517	98%	1,253	97%	1,424	96%
Financial income	28	2%	34	3%	59	4%
	1,545	100%	1,287	100%	1,483	100%
Expenditure						
Grants[1]	1,063	97%	861	95%	1,524	96%
Operating expenses	33	3%	44	5%	61	4%
	1,096	100%	905	100%	1,585	100%
Excess of Income over Expenditure	**449**		**382**		**(102)**	
Uncommitted funds:						
Excess of income over expenditure	449		382		(102)	
Net impact of discounting (for IFRS)[2]	(1)		1		8	
Increase/(decrease) in funds	448		383		(94)	
Uncommitted funds - at start of year	727		1,175		1,558	
Uncommitted funds - at end of year	1,175		1,558		1,464	

(1) Amount of new grant commitments in the year
(2) Grants payable and contributions receivable are discounted to net present value in the IFRS compliant financial statements

Key Ratios		2003	2004	**2005**
Operating Expenses as % of:				
Total Expenditure		3.0%	4.9%	**3.8%**
Grant Disbursements		14.3%	7.0%	**5.5%**
Grants Under Management		3.0%	2.2%	**1.7%**
Operating Expenses per Active Grant		$489k	$241k	**$222k**
Activity data:				
Grants[1]	$m	1,063	861	1,524
Operating expenses	$m	33	44	61
Total Expenditure	$m	1,096	905	1,585
Grant Disbursements	$m	231	628	1,109
Grants Under Management [2]	$m	1,115	1,976	3,500
Number of Active Grants[3]		68	183	275

(1) Amount of new grant commitments in the period
(2) Commitments to grants that have not yet reached completion
(3) Average number grants that are active during the period

See Attachment 3 for a reconciliation of the above with the Audited Financial Statements

Part 2: Achievement of Key Performance Indicators for 2005

The Board set 14 key performance indicators (KPIs) for 2005. Status at year-end 2005 on the achievement of each KPI is outlined in the table below.

Objective		**Metric (KPI)**	**Target for 2005**	**2005 Result**	**% of Target Achieved**	**Remarks**	Units Responsible
Results and Impact							
Finance the rapid scale-up of effective means to prevent and treat the three pandemics	1	% of agreed targets reached by grants in Phase I (based on 18 months performance evaluation)	65% across the portfolio	74%	114%	Analysis is of the 108 grants that completed the 18 month performance evaluation by December 31, 2005	Operations & All Units
Core Business							
Raise it: Mobilize sufficient resources to implement GF mission and meet country needs	2	% of '05 funding needs contributed	100%	100%	100%	2005 need is calculated at $1.67 billion	External Relations
	3	% of '06 needs for current and next rounds pledged	70%	65%	93%	2006 need is calculated at $2.85 billion. Pledges for 2006 at end of 2005 were $1.86 billion.	
Spend it: Scale-up disbursement to well-performing grants through effective grant management	4	Amount $ disbursed to Rounds 1-4 grants	$1.1 billion	$1.053 billion	96%		Operations, SIE
	5	Average time between grant approval and first disbursement	<6 months	11.2 months	55%	Average of 3.3 months was used for TRP clarification, which the Secretariat does not control. Recognizing this, target set as >8 months for 2006.	
Prove it: Make performance-based funding a reality	6	Second and subsequent disbursements based on evidence of performance and expenditure (including disbursement to sub-recipients)	95%	94%	99%	Based on an analysis of a random sampling of 49 disbursements made throughout 2005	Operations, SIE
Communicate it: Drive consistent external communications	7	All major reports, including periodic grant progress updates, produced and available on website in a timely manner	80%	100%	125%	Based on 14 major reports prepared in 2005, including Annual Report and analyses for Replenishment Conferences	External Relations
Development and Innovation							
Develop strategy for sustainable success	8	Completion of well defined 3- year strategy, including future rounds, with targets and milestones	Strategy document completed for Board review by July 2005	Deadline changed. Situational assessment completed	N/A	At its 11th meeting, the Board agreed to extend the timeline for completion of a full strategy document until Nov. 2006	Deputy Executive Director
Organization and Talent							
Facilitate best-practice corporate governance	9	Regular review of quality of Secretariat support to Board and committees	70% rating "satisfactory" or "very satisfactory"	Survey in process	N/A	The Board survey will be conducted in April 2006 with the assistant of an experienced consultant firm	External Relations
Develop organizational capacity and people to benefit mission	10	Completion of plan for transition to a fully independent entity following signature of headquarters agreement	Complete plan by Nov '05	Board change in scope and deadline	N/A	The Board has requested an assessment of options for administrative services for Nov. 2006	Business Services & All Units
	11	% of staff with defined objectives and annual reviews of results, competencies and development	90%	91%	101%		
	12	Internal staff survey on professional satisfaction and motivation	70% rating "high" or "very high"	Survey in process	N/A	The survey is being conducted the week of March 12.	
	13	Operating expenses as % of grants under management and as a % of total expenditures	< 3%, <10%	1.8%, 3.9%	100%+		
	14	Performance against 3 agreed diversity targets (gender, ethnicity, communities)	80% of targets met	67% of targets met	84%	Gender: 64% E. Europe: 114% MENA: 83% E. Asia: 233% LAC: 100% PLWHA: 100%	

Annex 6, Attachment 1: Operating Expenses 2005 - Detail

The table below provides further detail of operating expenses as compared to budget, by expense category within each Secretariat Unit.

2005 Actual US$'000	LFA Fees	Staff	Professional services	Travel & Meetings	Communicat. materials	Office infrastructure	Contingency	**Total**	As % of budget
In-country Oversight (LFA fees)	**19,200**							**19,200**	82%
Secretariat Expenses		**24,275**	**5,152**	**5,688**	**1,109**	**5,523**		**41,748**	94%
Fund Portfolio Operations		11,967	466	2,710	338	38		15,519	101%
Strategic Information and Evaluation		2,103	314	268	57	12		2,754	69%
External Relations		3,055	538	2,170	710	37		6,510	79%
Office of the Executive Director		1,239	8	290	4	1		1,542	101%
Deputy E.D. / Corporate Strategy & Policy		667	75	28				770	76%
Finance		772	2,568	2		9		3,351	100%
Business Services		4,326	1,184	145		5,424		11,078	115%
Office of the Inspector General		146		12		3		161	56%
Office of the Chair of the Board				63				63	33%
Total	**19,200**	**24,275**	**5,152**	**5,688**	**1,109**	**5,523**		**60,948**	**92%**
As % of budget:	82%	110%	61%	82%	63%	131%		**92%**	

2005 Budget US$'000	LFA Fees	Staff	Professional services	Travel & Meetings	Communicat. materials	Office infrastructure	Contingency	**Total**
In-country Oversight (LFA fees)	**23,350**							**23,350**
Secretariat Expenses		**22,163**	**8,455**	**6,906**	**1,767**	**4,228**	**1,000**	**44,518**
Fund Portfolio Operations		10,463	1,671	2,544	656			15,333
Strategic Information and Evaluation		1,838	1,426	531	110	65		3,971
External Relations		3,085	970	3,158	981	30		8,224
Office of the Executive Director		1,073	90	357	10			1,530
Deputy E.D. / Corporate Strategy & Policy		756	175	88				1,018
Finance		964	2,375	11		15		3,365
Business Services		3,983	1,349	185	10	4,068		9,595
Office of the Inspector General			290					290
Office of the Chair of the Board			109	32		50		191
Contingency							1,000	1,000
Efficiency target							(1,600)	**(1,600)**
Total	**23,350**	**22,163**	**8,455**	**6,906**	**1,767**	**4,228**	**(600)**	**66,268**

2005 Variances US$'000	LFA Fees	Staff	Professional services	Travel & Meetings	Communicat. materials	Office infrastructure	Contingency	**Total**	As % of budget
In-country Oversight (LFA fees)	**4,150**							**4,150**	18%
Secretariat Expenses		**(2,113)**	**3,302**	**1,217**	**658**	**(1,295)**	**1,000**	**2,770**	6%
Fund Portfolio Operations		(1,505)	1,205	(166)	318	(38)		(186)	(1%)
Strategic Information and Evaluation		(265)	1,112	264	53	53		1,217	31%
External Relations		30	432	987	271	(7)		1,714	21%
Office of the Executive Director		(166)	82	67	6	(1)		(12)	(1%)
Deputy E.D. / Corporate Strategy & Policy		89	100	59				248	24%
Finance		192	(193)	9		6		14	0%
Business Services		(343)	165	41	10	(1,356)		(1,483)	(15%)
Office of the Inspector General		(146)	290	(12)		(3)		129	44%
Office of the Chair of the Board			109	(31)		50		128	67%
Contingency							1,000	1,000	
Efficiency target							(1,600)	**(1,600)**	
Total	**4,150**	**(2,113)**	**3,302**	**1,217**	**658**	**(1,295)**	**(600)**	**5,320**	**8%**
As % of budget:	18%	(10%)	39%	18%	37%	(31%)		**8%**	

Notes

(a) Variances are calculated as budget minus actual expenditure. Hence negative amounts (shown in partentheses) indicate unfavourable variances, since actual expenditure was greater than had been budgeted. Conversely, positive amounts indicate favourable variances, where actual expenditure was less than budgeted.

(b) 'Business Services' comprises Administration, Human Resources, Legal, Contracts and Information Management services.

Annex 6, Attachment 2: Transactions on Global Fund bank account in 2005

The table below summarizes the transactions on the Global Fund's bank account with Credit Suisse (which is reported to FAC after the end of each half-year).

Summary of transactions on Global Fund bank accounts 2005	**USD**
Balance at start of year	**1,880,832**
Net transfer from/(to) Trustee	(800,000)
	1,080,832
Receipts	
Contributions	1,154,286
Bank interest	5,425
Total receipts	1,159,712
Payments	
Office rent and utilities	984,318
Rent allowance element of ED compensation	105,216
Staff recruitment & relocation services	150,838
Salary adjustments	35,000
Staff training support	8,719
Refundable advances to staff	113,306
VAT recoverable	29,669
Travel and meeting expenses	139,143
Communications services and materials	34,993
External audit & tax/statutory filings	95,004
Professional services	8,167
Reference materials	17,522
Office catering	21,199
Office furniture	9,669
Office sundries	6,944
Exchange loss/(gain) and bank charges	6,445
Total payments	1,766,152
Balance at 31 December 2005	**474,391**

Annex 6, Attachment 3:

Reconciliation of the Audited Financial Statements with the Review of Operating Expenses

IFRS adjustments

The table below shows the adjustments made in arriving at the audited financial statements, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). These adjustments are:

(a) The addition to both income and expenditure of contributions received towards specific Secretariat expenses, which are deducted from that expense in the operating expenses as described herein.

(b) The addition to both income and expenditure of the estimated value of contributions-in-kind.

(c) The discounting to net present value of grants payable and contributions receivable in the future.

Statement of Activities Summary US$ million	**Per the Review of Operating Expenses**	Reverse the allocation of contributions towards Operating Expenditure	Contributions-in-kind (pro bono)	Discounting of long-term assets & liabilities to present value	**Per the IFRS Audited Financial Statements**
Income					
Contributions	1,424	1	12	(7)	**1,430**
Financial income	59				**59**
	1,483				**1,489**
Expenditure					
Grants	1,524			(15)	**1,509**
Operating expenses	61	1	12		**74**
	1,585				**1,583**
Increase in Funds for the year	(102)				**(94)**

Annex 6, Attachment 4:

Rules on Budget Flexibility

Decision of Seventh Board Meeting

The Board approves that, with regard to Secretariat flexibility to transfer budget between functions and expense types within the overall budget, the following rules shall apply:

a) Maintain the separation between the budget for LFA Fees and that for Secretariat Expenses. No transfers are allowed between these two items.

b) Within the budget for Secretariat Expenses, allow transfers between the following five groups of functions (Portfolio Management and TRP; Strategy, Evaluation and Program Support; External Relations; Executive Director and Board Relations; and Operations) subject to the approval of MEFA.

c) Within the budget for each functional grouping, allow unlimited transfers between expense lines.

d) That MEFA shall review and, if considered necessary, adjust this policy in the light of experience during 2004.

e) MEFA shall have the final approval authority for the use of contingency funds.

Note: Per the Report of MEFA to the Ninth Board Meeting (GF/B9/8), the functional groupings mentioned at (b) above were updated as follows:

- Fund Portfolio Operations
- Strategic Information and Measurement
- External Relations and Executive Director's Office, including Deputy Executive Director
- Business Services and Finance

Annex 7

AUDITED FINANCIAL STATEMENTS 2005

<u>Outline:</u> This paper contains the 2005 Financial Statements of the Global Fund which have been audited by the Fund's independent auditors, Ernst & Young, together with the draft Report of the Independent Auditors thereon. The Report of the Independent Auditors will be issued upon approval by the Board of the Financial Statements.

Financial Statements of

The Global Fund to Fight AIDS, Tuberculosis and Malaria

as of 31 December 2005

prepared in accordance with International Financial Reporting Standards

together with the Report of the Independent Auditors

ERNST & YOUNG

(Note: The following 14 pages of this paper are comprised of an external document and are numbered 1 through 14.)

ERNST & YOUNG

Ernst & Young Ltd
Assurance & Advisory
Business Services
Route de Chancy 59
P.O. Box
CH-1213 Geneva

Phone +41 58 286 56 56
Fax +41 58 286 56 57
www.ey.com/ch

To the general meeting of the Board of

The Global Fund to Fight AIDS, Tuberculosis and Malaria, Geneva

Geneva, xx April, 2006

Report of the independent auditors

We have audited the accompanying statement of financial position of The Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Global Fund") as of 31 December 2005, and the related statements of activities, cash flows and changes in funds, and notes for the year then ended.

These financial statements are the responsibility of the Global Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the requirements concerning professional qualification and independence.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Global Fund as of 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Ltd

Mark Hawkins (Auditor in charge) Thomas Madoery

Enclosures

- Financial statements (statement of financial position and the related statements of activities, cash flows and changes in funds, and notes)

Statement of Financial Position
at 31 December 2005

In thousands of US dollars	Notes	2005	2004
ASSETS			
Cash and bank balances	2.4, 3.1	474	1'881
Funds held in trust	2.4, 2.5, 3.1, 3.2	2'731'758	2'205'078
Promissory notes maturing within one year	2.6, 3.3	35'112	237'449
Contributions receivable within one year	2.6, 3.4	121'138	93'239
Prepayments and miscellaneous receivables		8'167	5'706
		2'896'649	2'543'353
Promissory notes maturing after one year	2.6, 3.3	33'857	-
Contributions receivable after one year	2.6, 3.4	103'947	129'204
		137'804	129'204
Total ASSETS		**3'034'453**	**2'672'557**
LIABILITIES and FUNDS			
Liabilities			
Undisbursed grants payable within one year	2.7, 3.6	1'170'878	919'047
Accrued expenses		5'026	4'235
		1'175'904	923'282
Undisbursed grants payable after one year	2.7, 3.6	394'155	191'040
Total LIABILITIES		**1'570'059**	**1'114'322**
FUNDS		**1'464'394**	**1'558'235**
Total LIABILITIES and FUNDS		**3'034'453**	**2'672'557**

The notes represent an integral part of the Statement of Financial Position

Statement of Activities
for the year ended 31 December 2005

In thousands of US dollars	Notes	2005	2004
INCOME			
Contributions	2.6, 3.5	1'430'329	1'254'688
Bank and trust fund income	2.9	58'941	33'819
Total INCOME		**1'489'270**	**1'288'507**
EXPENDITURE			
Grants	2.7, 3.7	1'509'271	854'368
Operating expenses	3.8	73'840	50'747
Total EXPENDITURE		**1'583'111**	**905'115**
(DECREASE) / INCREASE IN FUNDS for the year		**(93'841)**	**383'392**

The notes represent an integral part of the Statement of Activities

Statement of Cash Flows
for the year ended 31 December 2005

In thousands of US dollars	Notes	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Contributions received	3.5	1'584'342	1'101'008
Bank and trust fund income		58'941	34'329
		1'643'283	**1'135'337**
Grants disbursed	3.7	(1'054'325)	(627'506)
Payments to suppliers and personnel		(63'685)	(43'065)
		(1'118'010)	**(670'571)**
CASH FLOWS FROM OPERATING ACTIVITIES being the net increase in cash and cash equivalents		**525'273**	**464'766**
CASH AND CASH EQUIVALENTS at beginning of the year	2.4, 3.1	**2'206'959**	**1'742'193**
CASH AND CASH EQUIVALENTS at end of the year	2.4, 3.1	**2'732'232**	**2'206'959**

The notes represent an integral part of the Statement of Cash Flows

Statement of Changes in Funds
at 31 December 2005

In thousands of US dollars	Notes	2005	2004
FUNDS at the beginning of the year		**1'558'235**	**1'174'843**
(DECREASE) / INCREASE IN FUNDS for the year		**(93'841)**	**383'392**
FUNDS at the end of the year		**1'464'394**	**1'558'235**
Attributed as follows:			
Foundation capital		50	50
General Funds		1'464'344	1'558'185
		1'464'394	**1'558'235**

The notes represent an integral part of the Statement of Changes in Funds

Financial Statements

1. Activities and Organization

The Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Global Fund") is an independent, non-profit foundation that was incorporated in Geneva, Switzerland on 22 January 2002. The purpose of the Global Fund is to attract and disburse additional resources to prevent and treat AIDS, tuberculosis and malaria. The Global Fund provides grants to locally-developed programs, working in close collaboration with governments, non-governmental organizations, the private sector, development agencies and the communities affected by these diseases.

The Global Fund has been founded on the following principles:

- Rely on local experts to implement programs directly;
- Make available and leverage additional financial resources to combat the three diseases;
- Support programs that reflect national ownership and respect country-led formulation and implementation processes;
- Operate in a balanced manner in terms of different regions, diseases and interventions;
- Pursue an integrated and balanced approach covering prevention, treatment and care, and support in dealing with the three diseases;
- Evaluate proposals through independent review processes based on the most appropriate scientific and technical standards that take into account local realities and priorities;
- Seek to establish a simplified, rapid, innovative grant-making process and operate in a transparent and accountable manner based on clearly defined responsibilities. One accountability mechanism is the use of Local Fund Agents to assess local capacity to administer and manage the implementation of funded programs.

Financial contributions to the Global Fund are held in the Trust Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Trust Fund") until disbursed as grants or for operating expenses. The Trust Fund is administered by the International Bank for Reconstruction and Development (the "World Bank"), as Trustee. The responsibilities of the Trustee include management of contributions and investment of resources according to its own investment strategy. The Trustee makes disbursements from the Trust Fund only upon written instruction of the Global Fund.

Most contributions are received directly in the Trust Fund. Some contributions for the benefit of Global Fund are also received by the United Nations Foundation and are held in trust for the Global Fund until subsequently transferred to the Trust Fund.

Personnel and administrative services to support the operations of the Global Fund are provided by the World Health Organization ("WHO") under an agreement between WHO and the Global Fund. The Global Fund bears in full the cost of these personnel and services. Funds remitted to WHO for this purpose are treated as funds held in trust by WHO for the benefit of the Global Fund until an expenditure obligation is incurred.

These financial statements were authorized for issuance by the Board on xx April 2006.

2. Significant Accounting Policies

2.1 Statement of Compliance

The financial statements have been prepared in accordance with and comply with the International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These standards currently do not contain specific guidelines for non-profit organizations concerning the accounting treatment and presentation of the financial statements. Consequently Statement of Financial Accounting Standard ("SFAS") 116: "Accounting for Contributions Received and Contributions Made" has been applied in respect of the recognition of contributions and grants.

2.2 Basis of Presentation

The financial statements are presented in US dollars, the Global Fund's operating currency, rounded to the nearest thousand. Management elected not to operate and report in Swiss Francs, the domestic currency, as its cash flows are primarily in US dollars.

The financial statements are prepared under the historical cost convention. The fair value of non-current contributions receivable, promissory notes and undisbursed grants has been determined as indicated in Notes 2.6 and 2.7.

The preparation of the financial statements requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and reported amounts of income and expenses during the reporting period. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified through the statement of activities as appropriate in the year in which the circumstances change.

2.3 Foreign Currency

All transactions in other currencies are translated into US dollars at the exchange rate prevailing at the time of the transaction. Monetary assets and liabilities in other currencies are translated into US dollars at the year-end rate.

2.4 Cash and cash equivalents

The Global Fund considers that cash and cash equivalents include cash and bank balances and funds held in trust that are readily convertible to cash within three months.

2. Significant Accounting Policies (continued)

2.5 Funds held in Trust

The financial statements include funds that are held in trust solely for the benefit of the Global Fund by the World Bank, the World Health Organization and the United Nations Foundation.

Assets held in trust by the World Bank are maintained in a commingled investment portfolio for all of the trust funds administered by the World Bank. These investments are actively managed and invested in high-grade instruments according to the risk management strategy adopted by the World Bank. The objectives of the investment portfolio strategy are to maintain adequate liquidity to meet foreseeable cash flow needs, preserve capital (low probability of negative total returns over the course of a fiscal year) and maximize investment returns.

The movement of fair value of funds held in trust is recognized in the statement of activities.

2.6 Contributions

In accordance with SFAS 116 contributions governed by a written contribution agreement are recorded as income when the agreement is signed. Other contributions are recorded as income upon receipt of cash or cash equivalents, at the amount received.

Contributions are considered received when remitted in cash or cash equivalent, or deposited by a sovereign state as a promissory note, letter of credit or similar financial instrument.

Contributions receivable under written contribution agreements signed on or before the date of the statement of financial position but which have not been received at that date are recorded as an asset and as income. Contributions and promissory notes receivable later than one year after the date of the statement of financial position are discounted to estimate their present value at this same date.

Foreign currency exchange gains and losses realized between the date of the written contribution agreement and the date of the actual receipt of cash and those unrealized at the date of the statement of financial position are recorded as part of Contributions income.

Non-cash contributions donated in the form of goods or services (in-kind contributions) are recognized at the time of receipt and reported as equal contributions and expenses in the Statement of Activities, at their estimated economic value to the Global Fund.

2. Significant Accounting Policies (continued)

2.7 Grants

All grants are governed by a written grant agreement and, in accordance with SFAS 116, are expensed in full when the agreement is signed.

Grants or portions of grants that have not been disbursed at the date of the statement of financial position are recorded as liabilities. The long-term portion of such liabilities represents amounts that are due to be disbursed later than one year after the date of the statement of financial position, discounted to estimate its present value at this same date.

Foreign currency exchange gains and losses realized between the date of the written grant agreement and the date of the actual disbursement of cash and those unrealized at the date of the statement of financial position are recorded as part of Grants expenditure.

2.8 Local Fund Agent Fees

Fees to Local Fund Agents to assess local capacity prior to and during grant negotiation, and to manage and monitor implementation of funded programs as grants are disbursed, are expensed as the work is completed.

2.9 Bank and Trust Fund Income

Bank and trust fund income includes deposit interest on bank balances, realized and unrealized gains and losses on investments and currencies on funds held in trust.

2.10 Employee Benefits

All personnel and related costs, including current and post employment benefits are managed by the WHO and charged in full to the Global Fund. There are no additional obligations for employee benefits outside of the Global Fund's obligations to the WHO.

3. Details relating to the financial statements

In thousands of US dollars

3.1 Cash and Cash Equivalents

	2005	2004
Cash and bank balances	474	1'881
Funds held in Trust	2'731'758	2'205'078
	2'732'232	**2'206'959**

3.2 Funds held in Trust

	2005	2004
	2'717'288	2'192'288
World Health Organization	12'665	12'154
United Nations Foundation	1'805	636
	2'731'758	**2'205'078**

3.3 Promissory Notes

	2005	2004
Promissory notes to be encashed	72'391	216'201
Unrealized (losses) / gains on foreign currency promissory notes to be encashed	(3'422)	21'248
	68'969	**237'449**
Maturing in 2005	-	237'449
Maturing in 2006	35'112	-
Maturing in 2007	33'857	
	68'969	**237'449**

3.4 Contributions receivable

	2005	2004
Contributions receivable*	236'680	201'516
Unrealized (losses) / gains on foreign currency contributions receivable	(11'595)	20'927
	225'085	**222'443**
Receivable within one year	121'138	93'239
Receivable after one year	103'947	129'204
	225'085	**222'443**

* Comprises amounts receivable under written contribution agreements signed on or before 31 December 2005 and 2004 respectively that had not been received at that date.

3. Details relating to the financial statements (continued)

In thousands of US dollars

3.5 Contributions

	2005	2004
	1'416'945	1'195'170
	13'384	59'518
	1'430'329	**1'254'688**

Cash received including encashed promissory notes	1'584'342	1'101'008
(Decrease) / increase in promissory notes to be encashed	(168'480)	174'989
Increase / (decrease) in contributions receivable	2'642	(28'575)
Contributions in kind	11'825	7'266
	1'430'329	**1'254'688**

3.6 Undisbursed grants payable

	2005	2004
Undisbursed grants payable	1'566'457	1'110'087
Unrealized losses on foreign currency undisbursed grants payable	(1'424)	-
Total undisbursed grants payable	**1'565'033**	**1'110'087**
Payable within one year	1'170'878	919'047
Payable after one year	394'155	191'040
	1'565'033	**1'110'087**

3.7 Grants expenditure

	2005	2004
Disbursed in the year	1'054'325	627'506
Movement in undisbursed grants	454'946	226'862
	1'509'271	**854'368**

3. Details relating to the financial statements (continued)

In thousands of US dollars

3.8 Operating expenses

	2005	2004
Secretariat expenses		
Personnel	25’054	16’854
Trustee fee	2’300	2’150
Administrative services fee	986	982
Other professional services	5’985	3’521
Travel and meetings	5’925	4’673
Communication materials	8’867	7’729
Office rental	1’044	754
Office infrastructure costs	3’489	1’423
Other	990	485
	54’640	38’571
Local Fund Agent fees	19’200	12’176
	73’840	**50’747**

Included in Operating expenses above are contributions in kind attributed as follows:

	2005	2004
Contributions in kind		
Other professional services	4’077	706
Communication materials	7’748	6’560
	11’825	**7’266**

3.9 Personnel

As described in Note 1, personnel to support the operations of the Global Fund are provided by the WHO under an agreement between the WHO and the Global Fund. At 31 December 2005 there were 198 personnel assigned to the Global Fund (2004: 127). Of these, 117 (2004: 74) are assigned under fixed-term contracts, typically of two years duration. All other personnel are assigned under contracts of shorter duration.

3.10 Taxation

The Global Fund is exempt from tax on its activities in Switzerland.

3.11 Commitments

At 31 December 2005, the Global Fund has the following outstanding operating lease commitments:

Office space	Office equipment	Vehicle
1’686	27	9
1’686	27	3
1’686	27	-
1’686	27	-
1’686	27	-
5’762	-	-
14’192	**135**	**12**

4. Financial Instruments

As described in Note 2.5, those funds held in trust by the World Bank, acting as Trustee for the Global Fund, are actively managed and invested in a commingled investment portfolio in accordance with the investment strategy established for all trust funds administered by the World Bank.

Other than those funds held in trust by the World Bank, as mentioned above, the Global Fund employs the following risk management policies to financial instruments:

Currency risk: The risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Global Fund hedges its exposure to currency risk by matching grant liabilities in a given currency with assets in the same currency to the extent possible.

Interest rate risk: The risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Global Fund does not use derivative financial instruments to reduce its exposure risk on interest from variable rate bank balances and funds held in trust.

Market risk: The risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Global Fund has assigned the management of market risk primarily to the Trustee, and does not use derivative financial instruments to reduce its market risk exposure on other financial instruments.

Credit risk exposures: Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Global Fund does not use derivative financial instruments to reduce its credit risk exposure.

The Global Fund's maximum exposure to credit risk in relation to cash and bank balances, funds held in trust, promissory notes and contributions receivable is the carrying amount of those assets as indicated in the statement of financial position. The Global Fund places its available funds with high quality financial institutions to mitigate the risk of material loss in this regard. With respect to the Global Fund's contributions receivable, management believes these will be collected as they result from mutually signed contribution agreements primarily with governments.

5. Comparative financial information

Certain comparative balances have been itemized in the notes to the financial statements for compliance with the current year presentation. There is no other impact on the Statement of Changes in Funds.