



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Report of the Finance and Audit Committee

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Matters for decision:

- **Comprehensive Funding Policy**
- **Audited Financial Statements**
- **Office of the Inspector General**
- **Resource Mobilization Framework**
- **Replenishment**

Other matters considered by FAC

Consideration of the Comprehensive Funding Policy (Part 3 of FAC Report)

Background

- **11th Board asked FAC to review the CFP**
- **FAC focused on how to better relate grant approval capacity to the assets available when needed for grant signing**
- **FAC was mindful that the long-term value of the CFP should be preserved**
- **Refinement of CFP was not a way of creating additional resources, but could lead to better use of resources**

FAC Review

- **FAC considered various options before reaching consensus**
- **Important to maintain the principle of having sufficient assets at time of signing grant (CFP 3b)**
- **Recognised that linking approval to pledges for a particular calendar year had caused anomalies**
- **FAC recommends a refinement that would more directly link the approval process with the availability of assets at the time of grant signing**
- **Trustee consulted and had no objection**

Conclusions

- **FAC recommends amendment to paragraph 3a of the CFP (and a technical amendment to para. 3c)**

CFP - 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:

- 1. 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 ~~[Delete: 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);*

CFP - Decision Point (continued)

Technical amendment to (c):

- 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.**

2005 Audited Financial Statements and Budget Performance

(Part 5 of FAC Report)

*Thirteenth Board Meeting
Geneva, 27-28 April 2006*

2005 Budget Performance

Operating Expenses	January-Dec 2005 (12 months)				Actual Jan-Dec as % of Year's Budget
	Actual \$m	Budget \$m	Variance \$m	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%

- Overall, 8% under budget (spent \$5.4m less than budgeted)
- Efficiency target of \$1.6m was met

Budget Variances

LFA Fees \$4.2m (18%) less than budget

- Fees for grant monitoring were less than budgeted
(combination of lower activity and lower costs)
- Fees for Phase 2 renewal reviews were more than budgeted
(more work involved than originally envisaged)

Secretariat Expenses \$2.8m (6%) less than budget

- Savings on professional fees, travel and meeting costs, etc.
- Reflects cost economies and postponement of tasks to 2006

Overall saving of \$5.4m (8% of total budget)

after meeting the \$1.6m efficiency target

Operating expense ratios

Key Ratios	<u>2003</u>	<u>2004</u>	<u>2005</u>
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

- Favourable (downward) trend in each ratio

2005 Audited Financial Statements

- **Audited by Ernst & Young:**
 - “True and fair” opinion
 - Free of any qualification
- **E&Y partner-in charge attended FAC meeting, explained the audit processes and observations, responded to FAC queries**
- **FAC agreed to recommend approval of the 2005 Audited Financial Statements (per Annex 7)**

2005 Audited Financial Statements

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).

Office of the Inspector General

(Part 5 of FAC Report)

- **Charter**
- **2006 Budget and Work Plan**

Charter

Draft OIG Charter is presented for approval (per Annex 5)

2006 Budget (including Work Plan)

As proposed by OIG and recommended by FAC:

	USD'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	<u>40</u>
Total	<u>2,015</u>

Budget (continued)

- Supersedes the tentative budget of US\$823,000 already approved
- The incremental US\$1,192,000 may be offset by any savings on budget for Secretariat Expenses and LFA fees

Note: Office space solution identified would increase rent in 2007 by approximately US\$277,000 overall, of which US\$77,000 would be attributable to OIG space and US\$200,000 to Secretariat space.

Preliminary 2006 work plan discussed with FAC. Includes:

- Review and investigation of incoming allegations
- Four areas of audit:
 - Local Funding Agent (LFA) System & Management
 - Travel Management
 - PR and SR Transactions
 - Credit Suisse Payments at the Secretariat

OIG – 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 USD2,015,000 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 USD823,000 which was allocated to the OIG in the 2006 Secretariat Operating Expenses Budget approved at the 12th Board Meeting.***

The budgetary implications of this decision are a maximum of USD1,192,000 in 2006 which would be reduced by any savings achieved on the budget approved for LFA fees and Secretariat expenses



Resource Mobilization

(Part 1 of FAC Report)

Guiding Principles for a Resource Mobilization Framework

- **Maximum Board ownership and partnership;**
- **Cultivation of stakeholders' support;**
- **Appeal to diverse donor interests;**
- **Accommodate donor engagement and recognition within the context of the Global Fund;**
- **Secretariat support and engagement with innovative financing mechanisms and private sector initiatives;**
- **Enhance the organizational culture, management policies and structures of the Fund Secretariat.**

Sources of Funding

The Global Fund must retain the confidence of the public -sector donors that are the major source of current funding. However, this source of funding needs to be complemented by

- New donors
- Innovative Finance Mechanisms
- Private Sector Initiatives

Role of the Board

- **Acting as advocates and spokespeople for the Fund;**
- **Regularly providing relevant information to the Secretariat;**
- **Assist in building and maintaining a network of key decision-makers who know and understand the Fund;**
- **Ensuring effective and accountable governance of the Fund.**

Role of the Secretariat

- Providing wide selection of information channels in multiple languages and formats;
- Working with the international and national media;
- Providing regular contact with donors through Geneva and capitals;
- Working closely with all relevant partners to educate them on the Global Fund's activities and procedures;
- Support replenishment process and Board resource mobilization activities.

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.***

Report of FAC



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Replenishment

(Part 2 of FAC Report)

*Thirteenth Board Meeting
Geneva, 27-28 April 2006*

Replenishment

- Sven Sandstrom, Replenishment Vice Chair, provided FAC with a report on process
- Sven Sandstrom and FAC in regular discussion and consultation
- Sven Sandstrom to provide Board with recommendations for next replenishment cycle after the Mid Term Replenishment in July for consideration at the Fourteenth Board meeting
- Provisional agenda for Mid-Term Review per Annex 3 to FAC Report

Decision point:

- 1. 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.***

Other matters considered by FAC

– **not for decision**

(Parts 6 & 7 of FAC Report)

- **Currency Risk Management**
- **Budget Planning**
- **Guidelines for activities paid for from Global Fund Bank accounts**
- **Budget for the Partnership Forum**
- **Transition Options Project**