



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Fourteenth Board Meeting
Guatemala City, 31 October – 3 November 2006

GF/B14/9

REPORT OF THE FINANCE AND AUDIT COMMITTEE

Outline: This report summarizes the deliberations of the Finance and Audit Committee (FAC) at its meeting on 21-23 September 2006 and in subsequent email communications, and its resultant recommendations to the Fourteenth Board Meeting.

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Introduction

The matters considered by the Finance and Audit Committee (FAC) at its 7th meeting on 21-23 September 2006 and in its subsequent communications are outlined in the following report.

Part 1: Transition Options Project

Introduction

1. The FAC considered the report from the Secretariat on the Transitions Options Project (GF/FAC7/03) and the memorandum from the Staff Council with accompanying analysis of the staff survey on this topic. The Board had asked the FAC to consider "... advantages and disadvantages of alternative arrangements" to the current provision of administrative services to the Secretariat and to make recommendations to the Fourteenth Board Meeting.

2. The Chair heard the initial comments of FAC members which included a shared view that any decision should be primarily focused on what administrative arrangement best aligned with the mission and mandate of the Global Fund; while there was recognition of the need to take into account employee views and to treat all employees equitably, the need to retain efficiency, and that any transition is unsettling and becomes more difficult with the passage of time and for this reason a decision, one way or the other, should be made now. Members sought more information on costs and one member expressed a lack of understanding of the advantages and disadvantages of a transition.

Positions of Switzerland, WHO and the Staff Council

3. **Switzerland:** The Chair welcomed Mr Jacques Martin who had been invited to outline the position of Switzerland. Mr Martin informed the FAC that the Swiss government favors the Global Fund being independent, in line with the understanding underpinning its offer in 2001 that led to the Headquarters Agreement between Switzerland and the Global Fund. That was the Swiss government's strong preference but it could consider alternatives.

4. **The Staff Council:** The FAC agreed to a request from the Staff Council to meet with its Chair, Mr Wilfried Thalmas. Mr Thalmas explained that the staff was not against change, but neither did it see the status quo as being problematic. The Staff Council felt that any options for a change should take account of feasibility, cost and impact on staff. Issues of concern to staff included maintenance of the link to the United Nations, including the protection offered by the UN Laissez-Passer when traveling on Global Fund business, pension and health insurance benefits, tax exemptions, and the need for processes to ensure equity and problem resolution for staff.

5. **WHO:** The FAC wished to understand the position of WHO and invited its representatives to attend. Mr Denis Aitken and Dr Susan Holck attended on behalf of WHO and outlined the evolution of the relationship from when, on the creation of the Global Fund as a small, non-UN entity, WHO had agreed to provide administrative services, through the subsequent growth of the Global Fund and its needs, to the development of WHO thinking with regard to its partnership arrangements and the consequences of these changes for the Global Fund:

- i) The WHO representatives informed the FAC that WHO had entered into the Administrative Services Agreement (ASA) in 2002 primarily to serve Global Fund wishes. In the intervening years, the Global Fund had grown well beyond the staff size initially envisaged; however, WHO was still willing to assist if this was the Board's wish.

ii) The WHO representatives told the FAC that, with the passage of time, WHO's own member States were becoming more interested in what arrangements WHO had with its partnerships and it was likely that they will want to become more involved in the principles underpinning these arrangements and in providing guidance. It is therefore no longer possible to have a multitude of options for different partners. The guiding principle will be whether the partnership serves the WHO mission.

iii) WHO would not be willing to continue the current level of exceptions (to its Rules) for the Global Fund (noting that, for example at a practical level, the organization-wide computerized system being developed for WHO allowed less scope for variations). Furthermore, WHO considered that the current arrangement was "pressing the limits" with regard to according privileges and immunities to WHO staff assigned to the Global Fund under current arrangements and this raised concerns for WHO.

iv) The WHO representatives referred to the situation of Global Fund personnel who, as employees of WHO, should take their instructions from the Director-General or the Governing Body of WHO. At the same time, the Global Fund has its own Board, which is comprised of nongovernmental as well as governmental constituencies. The WHO representatives observed that this dual governance has the potential to pose conflicts for personnel, noting that staff cannot be expected to serve "two masters". (See note below.)

v) WHO advised that if the ASA were to be renewed beyond 2007, the contractual fee would have to increase to reflect the actual cost to WHO of providing the services as it was no longer possible or appropriate for WHO to subsidize the Global Fund. This would potentially result in a doubling of the current fee to an amount in the region of US\$ 5 million per year.

vi) In the future, WHO would require the Global Fund to align its practices almost completely with those of WHO. WHO saw it as important that the administrative arrangements, with the tensions around dual governance, didn't impinge or hinder its primary working relationship with the Global Fund, which is its technical partnership

Note regarding dual governance: Staff are obliged to comply with WHO rules and, as employees of WHO, are not bound to comply with policies created by the Global Fund Board where there is a conflict between the two, unless an exception has been agreed. For example:

i) WHO have not accepted the jurisdiction of the Global Fund Ethics Committee over conflicts of interest of Global Fund personnel and staff have been advised that they are not obliged to submit the Conflict of Interest declaration requested by the Committee.

ii) Most recently, WHO has questioned the existence and operation of the Credit Suisse account which was set up by the Board explicitly to make payments of valid expenses "that cannot be acquired via WHO" because it is managed by Secretariat staff who are WHO employees and it is outside WHO rules.

iii) The Inspector General has also stated that dual governance has affected his ability to carry out his mandate.

Cost implications

6. The Secretariat advised the FAC further regarding to the cost implications of a transition, which would fall into two categories: recurring services and one-time transition measures. With regard to recurring costs, the Secretariat believes that it can acquire the necessary administrative services at no greater cost than the actual cost to WHO of providing comparable services to the Global Fund, which WHO has indicated would be the basis for future ASA fees. Hence the transition should be cost-neutral for recurring services.

7. The one-time transition measures relate mainly to equitable preservation of benefits for staff, notably for withdrawal from the UN Joint Pension Scheme, and for transitional income tax compensation for a number of years (to be defined) for those staff members who reside outside Switzerland¹, such as in neighboring France. The upper limit of these costs is estimated at US\$ 3.7 million. The major portion of this estimate relates to those pension fund contributions that have not yet vested in staff and hence would be retained by the UN pension scheme. Accordingly, this estimate would be greatly reduced if favorable terms were agreed for withdrawal from the scheme, which the Secretariat would seek to negotiate if so mandated by the Board. (See Annex 3 for further details of costs.)

8. The Secretariat explained that it had not been possible to provide full costings because a number of services were not prepared to provide detailed costing until the Secretariat had the mandate from the Board to go out and negotiate these services.

FAC recommendation

9. The FAC, by majority, concluded that in order to achieve appropriate and efficient governance it is now in the interest of the Global Fund to discontinue its present ASA with WHO after appropriate arrangements for administrative independence have been made, and decided to recommend this to the Board. The committee recognized that if the Board so decided, it would then be necessary to prepare a detailed implementation plan, with associated cost estimates, for approval by the Board. Such a plan would outline the timing and modalities for effecting the transition in a manner designed to minimise disruption of normal business.

10. In reaching this conclusion, the FAC was guided by the original decision to establish the Global Fund as an independent entity, the implications of the Headquarters Agreement with Switzerland, the evolution of the WHO position regarding the ASA and the resultant governance issues. The committee was also conscious of the need to preserve and enhance the technical partnership between WHO and the Global Fund.

11. The FAC agreed that in order to take account of the concerns of the staff, the recommended Board decision should refer to principles that would safeguard the interests of staff in the event of any transition from the current arrangement. These principles should seek to ensure, to the extent feasible, that:

- (i) staff interests are not adversely impacted on transition from the ASA, in particular with regard to health insurance, pension contributions and income tax;
- (ii) all necessary administrative services are in place before the transition; and
- (iii) the consequences for staff of traveling without a UN Laissez-Passer are mitigated.

12. The FAC recommended that a number of key principles should guide the Board's decision-making on this issue. These include:

- (i) The Board is the supreme governing body of the Foundation (By-laws, Article 7.4).
- (ii) The Executive Director is responsible to the Foundation Board for the day-to-day management of the Foundation, and for specific duties and responsibilities assigned to him or her by the Foundations Board (Bylaws, Article 8.1).
- (iii) The Global Fund should retain its independent legal personality.

¹ Under the Headquarters Agreement with Switzerland, staff members resident in Switzerland are exempt from income tax and social charges. Staff members who reside elsewhere would not enjoy a similar exemption, which they currently do enjoy as employees of WHO.

- (iv) The Global Fund should continue to operate with a high degree of efficiency and effectiveness, with operating costs, including the administrative expenses of the Secretariat, comprising a minimal portion of total annual expenditures.
- (v) The Global Fund should retain a close partnership with the UN system on operational issues.
- (vi) Current Global Fund staff should not be materially disadvantaged by any change in administrative arrangements.
- (vii) There should be minimum disruption or hindrance to core business of the Global Fund during or following any administrative transition.

13. The committee requested the Secretariat to revise the update report that had been provided to the FAC, to form a briefing paper to be annexed to the FAC report to the Board which would include the above-mentioned principles. The revised paper is attached as Annex 3.

Decision Point:

The Board endorses Part 1 of the Report of the Finance & Audit Committee (GF/B14/9), and considers that, in order to achieve appropriate and efficient governance, it is now in the interest of the Global Fund to discontinue its present ASA with WHO after appropriate preparations for administrative independence have been made.

The Board accordingly requests the FAC to work with the Secretariat to present for approval a detailed plan covering such preparations at the Fifteenth Board Meeting. The plan shall include proposed measures to be taken prior to termination of the ASA, their costs, and the timeline over which they are intended to occur. The plan shall be consistent with the principles set forth in GF/B14/9, Report of the Finance and Audit Committee.

The budgetary implications of this decision are US\$ 300,000 in 2007.

Part 2: Operating Expense Review

1. The FAC reviewed the report on operating expenses and budgetary performance for the first half of 2006 (GF/FAC7/04), noting that:
 - (a) Overall, 45 percent of the annual budget had been consumed in the six month-period (40 percent of the budget for Secretariat Expenses, 26 percent of the OIG budget and 54 percent of the budget for LFA Services).
 - (b) Operating expense ratios were higher than for 2005, because new grant commitments in the first six months were less than half of the 2005 whole-year amount. As Round 5 grant signings are completed in the second half of 2006, the ratios for the whole of 2006 should be lower than for the first half.
 - (c) Satisfactory progress was being made towards achieving the 2006 targets on key performance indicators.
2. Regarding LFA Services, the Secretariat advised that the US\$ 4 million savings target set by the FAC in the 2005 budget was unlikely to be achievable. However, some savings on the Secretariat budget were likely, which could potentially compensate. The Secretariat will further update the committee prior to the Fourteenth Board Meeting.
3. The Committee also reviewed the summary of transactions on the Global Fund bank account at Credit Suisse and was also provided with a detailed transaction listing.

Part 3: Currency Risk Management

1. The FAC reviewed the status of currency matching as at 31 August 2006 as reported in GF/FAC7/05 and noted that liabilities in each currency were fully covered by assets of the same currency.
2. The FAC, having kept this matter under review since Tenth Board Meeting, concluded that based on the experience to date the transitional policies approved by that meeting were providing the desired currency risk management framework. Accordingly, the committee saw no need to recommend any alterations to the framework. The Secretariat will continue to monitor the currency matching and will advise the FAC if it sees any need to alter the framework.

Part 4: Resource Mobilization Strategy

1. The Director of External Relations, Dr Christoph Benn, introduced the revised high-level resource mobilization strategy to the FAC and thanked them for the opportunity to discuss the issue once again. He was joined by the Team Leaders in the External Relations unit, who together provided an overview of the different components of the strategy. Dr Benn explained that the Policy and Strategy Committee (PSC) had also reviewed the draft strategy and that their deliberations had led to a recommendation to delay Board consideration of this part of the strategy until the proposed Task Team on Resource Mobilization had had a chance to complete its work. The PSC had thus requested the FAC to review the Terms of Reference (TORs) for the Task Team and to make recommendations to the Chair and Vice-Chair of the Board for the swift commencement of its work.

2. The FAC then discussed the strategy and raised several issues which would need to be taken up by the Task Team, including the role of civil society and the “Friends” organizations; policy governing the use of public sector funds for public sector lobbying; the value of pursuing debt conversion; the need for investment in private sector fundraising activities and what to do about the “virtual earmarking” this might require; and the appropriate mix and size of Secretariat resources to achieve the goals. The FAC noted the need for principles and guidelines in this area and for input on the cost-benefit analysis of investments to maximize the various resource streams. The committee then reviewed the TORs for the Task Team and made several revisions. The TORs are attached as Annex 4. Three members of the FAC have offered to participate in the Task Team.

3. The Chair concluded the issue by noting that there is clearly a need to increase the Global Fund’s income from 2007 on and that the Task Team may well assist the Global Fund in reaching a different order of magnitude. He expressed his appreciation for the comprehensive overview on the various activities within External Relations focused on resource mobilization and suggested that the Board might benefit from a similar presentation once the Task Team had concluded its deliberations.

Part 5: Plans for the Second Replenishment

1. Dr Benn presented the proposals for the Second Replenishment which emerged from the Mid-Term Review of the Replenishment in July 2006. He noted the arguments for a second replenishment that would cover a three-year period from 2008-2010, the preference to conclude the second replenishment in two meetings, with an option for a third one, and proposed a continuation of current leadership.

2. The FAC discussed the proposals and expressed some concern at a possible third meeting, noting that two meetings should be enough for the process. Committee members also noted the positive results of the replenishment and the opportunity it provides to donors to discuss issues of common concern, keeping in mind that it needs to be handled with flexibility and sensitivity to take into account the different needs of donors. The FAC expressed their appreciation that the current Vice-Chair, Mr Sven Sandström, had indicated his ongoing availability to manage the process. They also agreed that it would be appropriate for the Board to extend an invitation to Mr Kofi Annan in the hopes that he may be available to continue his role as Chair.

Decision Point:

The Board adopts the recommendations for a Second Voluntary Replenishment of the Global Fund as outlined in Annex 5 to GF/B14/9, Report of the Finance and Audit Committee.

The Board decides that the Second Voluntary Replenishment will cover a three-year period, 2008-2010.

The Board confirms the nomination of Mr Kofi Annan, current Secretary-General of the United Nations, as Chair and Mr Sven Sandström as Vice-Chair of the Second Voluntary Replenishment of the Global Fund. The Board expresses its appreciation to both Mr. Annan and Mr. Sandström for their excellent leadership during the First Replenishment and willingness to continue this important service.

Part 6: Suspension and Reinstatement of Grants to Uganda

1. The FAC considered the Secretariat status report on the suspension and reinstatement of grants to Uganda, including the findings of the Uganda Judicial Commission of Enquiry that was established following suspension of the grants (GF/FAC7/08).

2. The FAC noted the actions undertaken by the Global Fund following suspension of the grants in August 2005, which included:

- i) An immediate in-country mission that, in conjunction with the Government of Uganda, CCM, PR and other key stakeholders, determined the initial remedial actions to be undertaken and established a plan to ensure continuity of provision of lifesaving drugs.
- ii) Subsequent review of the actions taken by the government and the PR to address the issues that led to the suspension. These actions included the establishment of a Judicial Commission of Enquiry on instruction from the President, suspension of staff in the Programme Management Unit of the SR (the Ministry of Health) and the appointment of Ernst and Young as interim caretaker of grant activities.
- iii) Agreement of an Aide Memoire between the Global Fund, PR and CCM that provided a basis for lifting the suspension in November 2005. The Aide Memoire set out the time-bound corrective actions that were agreed to be implemented to address key issues. The Global Fund has since monitored progress towards addressing these issues, which relate primarily to governance, fiduciary management and responsibility, procurement and contracting practices, technical input and oversight, monitoring and evaluation, and recovery of funds.

3. Although still not publicly available, the full Report of the Judicial Commission of Enquiry was given to the Secretariat by the Chair of the Commission, Justice Ogoola, in May 2006. The Report detailed several instances of financial irregularities within the SR's (since disbanded) Programme Management Unit (PMU), misuse of funds by sub-recipients, and an overall lack of administrative competence. The report also identified weaknesses in the grant management structure, such as duplication of roles by the PMU, and lack of formal feedback arrangements between the LFA, CCM and PR.

4. The report recommended that the PR should actively pursue recovery of all misappropriated funds and seek further legal advice on possible criminal actions. The Commission estimated that over US\$ 600,000 had been misappropriated and the Secretariat has asked the PR to implement an action plan for recovery of these funds. Approximately US\$ 500,000 had been recovered by September 2006.

5. A key lesson for the Global Fund was the need to develop an overall risk management strategy for the Grant Program as a whole. The strategy should include more systematic risk rating of grants, enhanced coordination with other donors and proactive review of the implementation of Global Fund governance policies in-country. This will be pursued by the Secretariat, who will consult appropriately with the Portfolio Committee (PC), and details will be reported to the next FAC meeting.

Part 7: Report of the Inspector General on the Audit of Credit Suisse Bank Account

1. The audit of transactions on the Credit Suisse Bank account arose as a follow-up to the WHO IOS audit, and is included in the Inspector General's (IG's) work program for 2006. The purpose of the audit was to assess any risks to the Global Fund under current practices, evaluate the internal controls put in place by management and make any recommendations that could reduce risks or enhance efficiencies and effectiveness within the Global Fund. The audit looked at transactions on the account in 2004, 2005, and early 2006. About ten percent of the number of transactions was used for audit tests.

2. Guidelines governing the use of the account to receive remittances and pay valid expenses were approved by MEFA (now FAC) in May 2004. The relevant sections of these guidelines are as follows:-

“Receive remittances that are not part of a contribution agreement with the Trustee, such as contributions toward meeting costs and other support operating expenses, payment from staff payments for personal phone calls and use of parking facilities, and other minor amounts of general contributions.

Make payments for valid expenses of the Global Fund in any of the following circumstances:

- i. Where the Global Fund needs to acquire goods or services with an urgency that is not met by the WHO purchasing and payment process cycle;
- ii. Where the Global Fund needs to acquire goods or services that cannot be acquired via WHO or which can be acquired by the Global Fund on more advantageous terms than via WHO;
- iii. Where a necessary expense of the Global Fund is not catered for by WHO practices; or
- iv. Where a reimbursable advance payment is necessary to meet a need of the Global Fund or to alleviate difficulties for new staff pending payment by WHO.”

In retrospect, these guidelines were not sufficiently detailed and, in the opinion of the IG, any future such provisions should carry the status of policies approved by the Board.

3. The findings of the audit, in the main, center around the conflicts arising, on the one hand, from the requirement to adhere to WHO Rules and Regulations (save for agreed and logged exceptions), and, on the other, the Board's wish to provide an appropriate facility to management to transact business, perceived to be necessary but not accommodated efficiently within the functioning of the ASA. It has highlighted the problems and risks inherent in the “dual governance” arrangement deriving from the ASA. The legal position on the circumstances where exceptions and adaptations to WHO Rules could and could not be considered was set out in March 2006, in a memorandum from the Principal Legal Officer of WHO. In summary, as set out in the IG's report, these are:-

“The Director-General (DG) may make exceptions to WHO Rules when the governing regulation or rule authorises him to do so. Neither the Financial nor Staff Regulations include such authorization. Therefore, the DG cannot authorize the Global Fund to make exceptions to WHO's Financial and Staff Regulations.

The Financial Rules do not authorize the DG to make exceptions. Instead, he is empowered to apply and interpret them. The DG cannot authorize the Global Fund to make exceptions to WHO's Financial Rules.

The DG's authority to make exceptions to Staff Rules is limited to one-off exceptions in respect of individual staff members or small groups of staff but not to across-the-board exceptions affecting all or a substantial portion of GF staff.

The DG may authorize exceptions to WHO's Manual and similar issuances for the Global Fund if it is consistent with staff regulations and rules. In principle, across the board exceptions applicable to all GF Secretariat are possible"

4. The audit report does not find that there was any material loss to the Global Fund. It identifies a number of potential risks, comments on certain aspects of stewardship of the account, analyzes and comments on some credit card expenditures, and makes eighteen recommendations "to assist management in reducing risks as well as promoting efficiency and effectiveness within the Global Fund". Perhaps not surprisingly, given the understandable differences in understanding arising from the situation described in paragraphs 2 and 3 above, there are some unresolved differences between the IG and management on certain of the findings and, consequently, some of the recommendations. There are also matters which WHO wish to review further to determine if any action is necessary on their part.

5. The Committee has discussed the report, individually and then collectively, with the IG, representatives of management, and representatives of WHO. The Committee's emphasis has been on understanding the fundamental causes of the audit findings, and reaching an early and firm consensus on the recommendations which it should make to the Board in respect of relevant future policies. It has received full cooperation and assistance from all three parties in this task.

6. Arising from these discussions, the Committee has sought from the Executive Director a full and detailed reply to the audit report. The Committee has acknowledged that it will not be possible for the key staff involved to address this task until the Board papers have been prepared and dispatched. It has asked that, if at all possible, the response should be completed before the start of the Board meeting. Because of issues raised in the audit report, and pending the determination of policies which conform fully to the mutual obligations under the ASA, the use of the three credit cards authorized to use the Credit Suisse Account has been suspended. The arrangements for home search for new staff have also been discontinued.

7. The Committee will continue to give priority attention to all necessary action on the report, particularly the preparation of recommendations to the Board on future policies and cooperation with WHO in resolving all outstanding issues. It is understood that the IG will include reference to the report in his forthcoming Annual Report to the Board. A progress report on the activities of the Office of the Inspector General will be circulated shortly by the IG.

Part 8: Revision of Secretariat Procurement of Goods and Services

1. Pursuant to the Administrative Services Agreement between the Global Fund and WHO dated 24 May 2002, WHO provides to the Global Fund services in relation to procurement of goods and services. Such procurement is carried out under the applicable Regulations and Rules of WHO, and its related operating policies, practices and procedures for financial administration, procurement, and internal control, unless otherwise agreed to in the Log of Administrative Adaptations and Exceptions for the Global Fund.²

² WHO procedures with respect to procurement are set forth in WHO Financial Rule XI and in relevant parts of the WHO Manual. In addition, the rules governing review by the Contract Review Committee are set forth in WHO Information Note 18/2004.

2. In 2003, the Global Fund's Monitoring, Evaluation, Finance and Audit Committee proposed to the Board, with the agreement of WHO, the Global Fund Policy on Secretariat Procurement of Goods and Services (the "GFPP"). The GFPP was approved by the Board at its Fifth Meeting in June 2003.
3. In November 2005, following an investigation of allegations it had received, the Office of Internal Oversight Service of the WHO released a report (the "IOS Report"). The IOS Report highlighted certain ambiguities in the text of the GFPP. These included typographical errors and inconsistencies, lack of clarity with respect to exceptions to the requirement that procurement be carried out through competitive bidding, and the circumstances when proposed contracts must be reviewed by WHO's Contract Review Committee ("CRC").
4. At its twelfth meeting in December 2005, the Board established an ad hoc Oversight Committee ("ahOC") to oversee action taken in response to the IOS Report. The ahOC reviewed and approved the Secretariat's Management Action Plan³ (the "MAP"). The MAP provided for detailed follow-up with regard to a number of issues, including procurement. One of the items included in the MAP under "Contracting Actions" is to "Clarify GF procurement policy and align with WHO contracting policies."
5. The Global Fund's Legal Counsel has advised the Committee that it has worked closely with counterparts at WHO to prepare amendments to the GFPP that clarify ambiguities in that document. These are set out in Annex 6 to this Report in the form of a proposed "revised GFPP". The revised GFPP is marked to show proposed revisions to the original GFPP.
6. It should be noted that, in drafting the proposed revisions, the Legal Counsel and WHO sought to modify the GFPP as little as possible given its status as a Board-approved document, while clarifying the ambiguities that it contains.
7. A summary of the material proposed revisions to the GFPP may be found in the Report to the 7th Meeting of the Finance and Audit Committee Report entitled "Revisions to the Global Fund Policy on Secretariat Procurement of Goods and Services" (GF/FAC7/12).
8. The Committee believes that the proposed amendments to the GFPP help to clarify ambiguities in the GFPP and bring it up to date with underlying CRC rules and procedures. The Committee accordingly recommends that the Board approve following decision point:

Decision Point:

The Board approves the amendments to the document entitled "Global Fund Policy on Secretariat Procurement of Goods and Services" (approved at the Fifth Board Meeting and presented as Annex 4 to GF/B5/8) as presented in the Annex 6 to the Report of the Finance and Audit Committee (GF/B14/9).

³ Annex 1 to the Report of the ahOC to the Thirteenth Board Meeting (GF/B13/10)

Part 9: Policies for Activities Paid From Bank Account

1. The FAC reviewed the draft policies for activities that may be paid from Global Fund bank accounts (GF/FAC7/11). The policies had been prepared to supplement the procedures approved in 2004, and had been prompted by a recommendation of the WHO IOS report of November 2005. An early draft of the policies had been reviewed by the Committee in March 2006.
2. The Committee recommended some revisions to the text in finalizing the draft policies and asked the Secretariat to add a policy on write-offs.
3. The FAC decided that Board consideration of the draft policies should be postponed until the Board had decided on the nature of future administrative services arrangements (as discussed under Part 1 of this report). This was because many of the activities governed by the draft policies were likely to be disallowed by WHO under the current ASA, as WHO had indicated that it could not grant exceptions to its rules for activities that conferred any benefits on Global Fund personnel different to those of other WHO staff members. Accordingly, the Committee asked the Secretariat to discuss the draft policies with WHO in the light of any decisions made by the Fourteenth Board Meeting before it could recommend the policies for approval by the Board.

Part 10: Donations of Products and Services

1. The Chair summarized the process that had led to a renewed effort to develop a policy on the donation of products and services. This included discussions in the PSC and a joint meeting of Chairs and Vice-Chairs of the two committees with the Vice-Chair of the Board in Durban in July. It had been agreed that a paper outlining the process for developing such a policy should be brought to the Fourteenth Board Meeting but that the work on the actual policy would probably not be concluded before the Sixteenth Board Meeting in 2007. The World Economic Forum had offered the services of Dr Francois Bonnici to provide technical assistance in developing the first draft of this scoping paper.
2. The NGO North delegate, Peter van Rooijen, raised the concern that requesting only one consultant with a particular background might not lead to a balanced outcome that would be regarded as a good starting point by all constituencies. He suggested that Dr Mohga Kamal Smith, as a member of the NGO North delegation who is very knowledgeable on this subject, should be asked to collaborate with Dr Bonnici on the drafting of this paper.
3. The committee welcomed this suggestion and Dr Christoph Benn of the Secretariat agreed to contact both proposed experts to come up with a joint paper. Subsequently both agreed to collaborate on a scoping paper (attached to this report as Annex 7) describing a process that would lead to the development of a policy for consideration by the Board at the Sixteenth Board Meeting.

Decision Point:

The Board endorses the "Draft Paper on a Process to Develop a Policy on Donations of Products and Services" (GF/B14/9, Annex 7) and requests the Chair of the Finance and Audit Committee (FAC), in consultation with the Policy and Strategy Committee (PSC), to constitute the Joint Steering Group on Product and Service Donations as per the parameters outlined in Annex 7 of GF/B14/9. The Board requests the FAC to report back on progress at the Fifteenth Board meeting.

Part 11: Forecast of Resources Available for Round 6

1. The Chief Financial Officer (CFO) outlined the proposed calculation process for determining the amount of assets available for Round 6 grants, in accordance with the Comprehensive Funding Policy (CFP), as amended by the Thirteenth Board Meeting (GF/FAC7/09).
2. The CFO commented that, under the CFP as amended, the timing of contributions is critical to determining the amount of assets that will be available as grants become ready for signing. Also critical is the period over which new grants are assumed to be signed.
3. The FAC endorsed the calculation process as proposed, noting that:
 - (a) In accordance with the CFP, only confirmed pledges are taken into account in the determination.
 - (b) Where a donor has not indicated when within the year it will contribute its pledge, the timing is assumed to be as in previous years.
4. With regard to the period over which new grants are assumed to be signed, the committee noted that the Board had mandated that all grants should be signed within twelve months of approval and had set a target of six months for the average time from approval to a signing. For Rounds 4 and 5, signings had occurred over a twelve-month period, with an average of eight months. Taking this into account, the FAC decided that the calculation should assume that grants are signed over a period of nine months following approval by the Board.
5. The Committee noted that the Secretariat would finalise the calculation of funds available for Round 6 accordingly with updating for any new pledges, and circulate it to the Fourteenth Board Meeting as a separate paper.

Part 12: Proposed 2007 Budget for Operating Expenses

1. The FAC has reviewed the 2007 Budget for Operating Expenses as proposed by the Secretariat and adjusted in response to FAC, as outlined below. Following the FAC meeting on 21-23 September 2006 and further review by email, some FAC members did not find themselves in a position to support the budget proposal at this point. The FAC will continue to communicate by email in order, if possible, to reach an agreed position prior to the Board meeting.

Desirability of developing a budgetary policy

2. The FAC observed that as the volume of grant activity increases and as additional tasks and expectations are assigned to the Global Fund, there is an inevitable need to adjust operating resources. However, this need is sometimes in conflict with varying expectations of what a “lean and mean” Secretariat should mean. With the strategy development process now producing recommendations that will alter future operational processes, it is not apparent that the business model will undergo any radical change in the near future. Hence it is timely to reach an agreed understanding of the appropriate resources needed to run the Global Fund in the manner expected by the Board, and how these resources should be adjusted to handle ongoing changes of activity.

3. Accordingly, the FAC recommends that the Board develop a budgetary policy that would guide the FAC and the Board in arriving at Secretariat budgets for future years. Such a policy should facilitate clearer and better-aligned expectations of the resources that should be allocated to running the Global Fund. It should also guide the FAC in its budget reviews by setting parameters that would allow the Committee to focus its attention on matters outside the expected norm. The FAC recommends that a cross-committee task team be established to develop a policy for consideration by the Fifteenth Board Meeting.

Budget for 2007

4. As set out in Annex 8, the budget proposed for 2007 amounts to US\$ 105.5 million, comprising Secretariat expenses, in-country oversight (by LFAs) and expenses of the Office of the Inspector General (OIG). The increase of 22 percent over the 2006 budget results from:

- The increased number of grants following approval of Round 6;
- Additional in-country oversight measures to enhance performance-based funding in response to requests of the TERG and the Board; and
- Scaling-up of OIG activities towards full operating capacity.

5. The budget proposes an increase of staff in the Secretariat to 298 posts and in the OIG to 15 posts (fixed-term and short-term), to be filled in the course of 2007.

6. The FAC has reviewed the Secretariat Workplan that underlies the budget and other information provided by the Secretariat including in response to the queries of the FAC. As mentioned above, the FAC is continuing to communicate by email regarding the proposed budget, in order to make a recommendation to the Board.

7. The FAC notes that other decisions recommended to the Fourteenth Board Meeting, which are separate from this budget proposal, have budgetary implications totaling US \$15 million in 2007 that are additional to the above-mentioned budget amount. Almost the entirety of these budgetary implications would apply for the limited duration of the related projects and is not an ongoing addition to budgetary need. (See Annex 8, Part 1, paragraph 7).

Decision Point:

The Board approves the 2006 Operating Expense budget in the amount of US\$ [XXX] as set out in Annex 8 to GF/B14/9 and as recommended by the Finance and Audit Committee and proposed by the Secretariat.

(Amount to be inserted on conclusion of FAC consideration of the proposed budget.)

This document is part of an internal deliberative process of the Global Fund and as such cannot be made public. Please refer to the Global Fund's documents policy for further guidance.

Agenda of the 7th Meeting of the Finance and Audit Committee

Date :	21-23 September 2006
Venue :	Douglas Room, Movenpick Hotel, Geneva
Chair :	Jerry O'Dwyer
Vice –Chair :	Minghui Ren
Focal Point :	Barry Greene

Thursday, 21 September 2006

08:30	Agenda and preliminaries	Chair
	GF/FAC7/01 Approval of the Agenda	
09:00	GF/FAC7/03 Update on Transition Options Project	Helen Evans
	Final update/consultation before Board decision	
10:30	Coffee break	
10:45	GF/FAC7/04 Operating Expenses Review	Barry Greene
12:15	GF/FAC7/05 Currency Risk Management	Barry Greene
12.45	Lunch	
14:00	GF/PSC6/03 Resource Mobilization Strategy	Christoph Benn
	[Flexible coffee break during Session]	
17:00	GF/FAC7/07 Plan for Second Replenishment	Christoph Benn
18:00	GF/FAC7/08 Uganda Official Enquiry	Nosa Orobato
19:00	Meeting adjourns	

Friday, 22 September 2006

08:30	OIG matters	Ibrahim Zeekah
10:45	Coffee Break	
11:00	GF/FAC7/12 Revision of Procurement Policy	Bart Migone
11:30	GF/FAC7/11 Guidelines/Policy for activities paid from Bank account	Barry Greene
12:45	Lunch	
14:00	GF/FAC/10 Budget 2007 (To be continued on 23 September)	Barry Greene
16:00	Coffee Break	
16:15	Donations of products and services (Oral Update)	Rajesh Anandan
17:00	GF/FAC7/09 Forecast of funds available for Round 6	Barry Greene
18:00	GF//FAC7/02 Review of the FAC Workplan Review outline agenda for next meeting Any Other Business	Chair
18:30	Meeting adjourns	
19:30	Working dinner: Zeppelin Room, Movenpick Hotel	

Saturday, 23 September 2006

08:30	GF/FAC/10 Budget 2007 (continued from 22 September)	Barry Greene
13:00	Close of Meeting	

Participants in the 7th Meeting of the Finance and Audit Committee

Geneva, 21-23 September 2006

	Constituency	FAC Member	Attendee
1	Point Seven (Chair)	Jerry O'Dwyer	Jerry O'Dwyer
2	Western Pacific Region (Vice-Chair)	Ren Minghui	Ren Minghui
3	Developed Country NGO	Peter van Rooijen	Peter van Rooijen
4	European Commission	Paul Avontroodt	Paul Avontroodt
5	France	Sophie de Castelnaud	Sophie de Castelnaud
6	Japan	Yuka Fujino	Yuka Fujino
7	USA	Rebecca Hooper	Rebecca Hooper
8	World Bank	Susan McAdams	Pamela Crivelli

	Global Fund Secretariat & IG	Name	Function
9	Chief Financial Officer	Barry Greene	FAC Focal Point
10	Deputy Executive Director	Helen Evans	Observer
11	Inspector General	Ibrahim Zeekah	Ex Officio
12	Chief of Operations	Nosa Orobaton	Subject Matter Specialist
13	Director, External Relations	Christoph Benn	Subject Matter Specialist
14	Director, Strategic Information and Evaluation	Bernhard Schwartlander	Subject Matter Specialist
15	Director of Business Services	Mike Marchment	Subject Matter Specialist
16	Head, Board and Donor Relations	Dianne Stewart	Subject Matter Specialist
17	Legal Counsel	Bartolomeo Migone	Legal Counsel
18	Senior Accountant	David Ball	Rapporteur
<u>Staff, supporting the above, who attended for individual agenda items:</u>			
		Myrna Johnson	
		Jean-Claude Crépy	
		Rajesh Anandan	
		Robert Bourgoing	
		Jon Liden	
		Kingsley Moghalu	

	Others	Name	Function
19		Jacques Martin	Representing the Government of Switzerland
20		Denis Aitken	Representing WHO
21		Susan Holck	
22		Wilfried Thalmas	Representing the Staff Council
23		Carl Manlan	

	Constituencies not attending	FAC Member	
	Eastern Mediterranean Region	Huma Qureshi	<i>(Not attending)</i>

UPDATE ON TRANSITION OPTIONS PROJECT

Outline: This paper provides an analysis of options for the provision of administrative services for the Global Fund Secretariat as mandated by the Board at its Eleventh Meeting.

Decision Point:

The Board endorses Part 1 of the Report of the Finance and Audit Committee (GF/B14/9), and considers that, in order to achieve appropriate and efficient governance, it is now in the interest of the Global Fund to discontinue its present Administrative Services Agreement (ASA) with the World Health Organization (WHO) after appropriate preparations for administrative independence have been made.

The Board accordingly requests the FAC to work with the Secretariat to present for approval a detailed plan covering such preparations at the Fifteenth Board Meeting. The plan shall include proposed measures to be taken prior to termination of the ASA, their costs, and the timeline over which they are intended to occur. The plan shall be consistent with the principles set forth in GF/B14/9.

The budgetary implications of this decision point are US\$ 300,000 in 2007.

Part 1: Executive Summary

1. The Global Fund to Fight AIDS, Tuberculosis and Malaria was created to rapidly and effectively attract, manage and disburse additional resources to support the fight against the three diseases. Developed through a consultative process conducted throughout 2001 (the Transitional Working Group or TWG), the operations of the Global Fund are centered on a number of key principles, including accountability, efficiency, and local ownership, drawing on best practices and lessons learned in the field of development finance. Determining that the mandate of the Global Fund would be best realized if its Secretariat operated in a “non-traditional” and “flexible” manner¹, the Transitional Working Group decided that the organization should be established outside of the United Nations system².

2. However, at the time of the launch of the Global Fund in early 2002, with the first call for proposals having already been issued, there was a need to rapidly establish a Secretariat to design and manage the operations of the organization. As a result, the Global Fund’s Board accepted the offer from the World Health Organization (WHO) to provide administrative services to the Secretariat, enabling it to quickly begin functioning through the established policies and procedures of the agency. At the same time, the Board mandated the Secretariat to move forward with the necessary agreements with the government of Switzerland to provide the Global Fund with privileges and immunities.

3. Following nearly five years of experience and the signing of the Headquarters Agreement with the Swiss Government in December 2004, the Global Fund’s Board, at its Eleventh Meeting, requested that the Secretariat prepare an analysis “of the advantages and disadvantages of alternative arrangements” to the current provision of administrative services.³ To that end, the Secretariat launched the Transitions Options Project (TOP), which, with assistance from the firm Hewitt Associates, analyzed a range of options for the administrative services of the Global Fund and the associated implications for the organization.

4. During the course of the TOP process, it became clear that a number of assumptions on which the original ASA with WHO was based have changed. These include the size of the Secretariat, the functioning and autonomy of the Global Fund’s Board, and the expectations of the Swiss government when entering into the Headquarters Agreement with the Global Fund. Based in part on these changes and their reconsideration of the ASA four and a half years on, WHO has raised questions about the appropriateness of the current administrative arrangements. In addition, the Swiss Government has stated that it has a strong preference for the Global Fund to pursue an administrative independence.

5. As result, it is essential that the Board make a decision on which of the two primary routes for administrative services for the Global Fund it wishes the Secretariat to pursue: more thoroughly integrate the Global Fund into the UN system through consolidating its agreement with WHO or another UN agency, or secure administrative services independent of the UN through a combination of in-house provision and outsourcing, thereby becoming the employer of its own staff and provider of its own administrative services. To do this it is essential that the Board agree on the larger strategic question of what administrative arrangement best supports the mission and mandate of the Global Fund.

¹ Documents presented at the First Board Meeting, 28-29 January 2002, “Establishment of Secretariat and Recruitment of Executive Secretary and Core Staff” (GF/B1/Doc 13).

² Documents presented at the First Board Meeting, 28-29 January 2002, “Legal Organizational Memo” (GF/B1/Doc. 3b).

³ Decision point of the Eleventh Board Meeting (GF/B12/2, p. 30)

6. This document first describes the background of the current administrative arrangement and the Board's request for an analysis of alternative options. It then examines the current situation, including the positions of WHO and the Swiss Government and the opinions of current Secretariat staff. Lastly, the document summarizes the implications of both of the routes on five key areas of the Global Fund's operations: governance, relationships with UN partners, Secretariat efficiency, staff satisfaction and staff travel.

7. Due to the substantial governance challenges arising from the current arrangement, the FAC recommends that the Board instruct the Secretariat to conduct additional analysis and begin preparations for independent administrative arrangements. The committee further recommends that a report of the proposed measures, including detailed timelines and costing, should be considered by the Board at its Fifteenth Meeting.

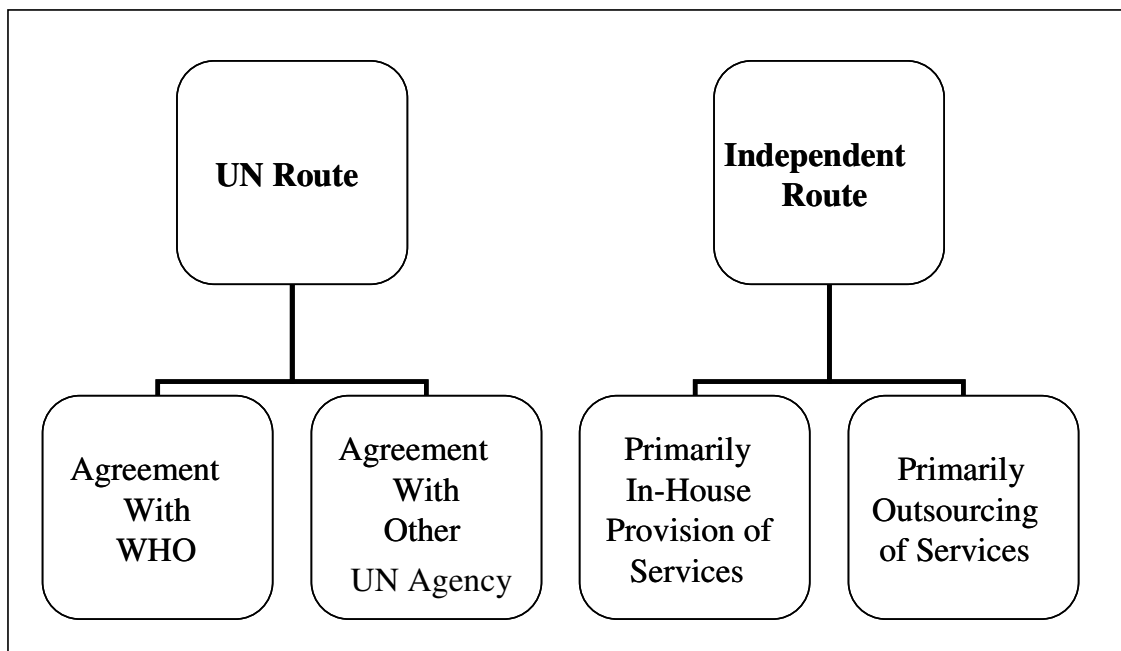


Figure 1: Options for Global Fund Administrative Services

Part 2: Mission and Principles

1. The foundational charter of the Global Fund, the Framework Document, states that the purpose of the organization 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”. That document further defines a number of principles for the operation of the organization, including that it should support local ownership, operate with a high level of transparency and accountability, and minimize transaction costs.

2. Realization of this mandate requires a Secretariat which can effectively and efficiently carry out the daily operations of the Global Fund. It is therefore essential that the Global Fund's Board decide on an administrative framework under which the Secretariat can best operate in this manner. Following nearly five years of operation under an interim arrangement, the Board must now decide on the direction for a lasting administrative framework.

3. A number of key principles should guide the Board's decision-making on this issue. These include:

- a. The Board is the supreme governing body of the Foundation (By-laws, Article 7.4).
- b. The Executive Director is responsible to the Foundation Board for the day-to-day management of the Foundation, and for specific duties and responsibilities assigned to him or her by the Foundation's Board (By-laws, Article 8.1).
- c. The Global Fund should retain its independent legal personality.
- d. The Global Fund should continue to operate with a high degree of efficiency and effectiveness, with operating costs, including the administrative expenses of the Secretariat, comprising a minimal portion of total annual expenditures.
- e. The Global Fund should retain a close partnership with the UN system on operational issues.
- f. Current Global Fund staff should not be materially disadvantaged by any change in administrative arrangements.
- g. There should be minimum disruption or hindrance to core business of the Global Fund during or following any administrative transition.

Part 3 : Background and chronological history

1. In 2001, the TWG, composed of representatives of governments, nongovernmental organizations, private companies, technical agencies and people living with the diseases, was established to create the structure of a new international mechanism to finance the fight against AIDS, TB and malaria. Among the issues addressed by this group was the legal status of the organization and arrangements for the provision of administrative services for its Secretariat. At a meeting in Brussels on 13-14 December 2001, the TWG decided that "the Global Fund would be an independent legal entity, not "nested" within any existing U.N.-affiliated organization."⁴ To that end, the TWG established the Global Fund as a foundation under Swiss law, which came into effect at the first meeting of the Global Fund's Board on 28-29 January 2002.

2. As a further basis for the independence of the Global Fund, the TWG began a process to secure privileges and immunities equivalent to those afforded to the UN and other international organizations in Switzerland. The TWG held initial discussions with the Swiss government for such treatment. Following the launch of the organization in January 2002, this process was taken forward by the Global Fund's Board, which examined the issue at its Second and Third Meetings in 2002.

3. Even as the TWG took steps to establish the Global Fund as a fully independent organization, it recognized that a solution was needed for the immediate creation and operation of the Secretariat. The Global Fund was launched amidst high expectations of the speed with which it would begin to have an impact on the fight against the diseases and it could not afford to wait the several months or years required for staff privileges and immunities to be obtained and administrative policies and procedures established. As a result, the TWG accepted the WHO's offer to provide the administrative services of the Secretariat. Legal advisors to the TWG negotiated a detailed ASA with WHO for this purpose, which was shared with the Global Fund's Board at its First Meeting⁴.

⁴ Documents presented at the First Board Meeting, 28-29 January 2002, "Legal Organizational Memo" (GF/B1/Doc. 3b).

4. Under the terms of this agreement, the Global Fund would pay a fee to WHO for services “such as payroll, health care, travel”. The expectation was that Global Fund staff would be WHO employees, but that the Global Fund “*would retain its independence vis-à-vis WHO, occupying space separate from WHO, and retaining full control over the recruitment and daily supervision of staff*”⁵. As WHO employees, Global Fund staff would receive privileges and immunities available to WHO staff, including tax benefits and use of the UN Laissez-Passer (UNLP)⁶. However, the Global Fund would not be a UN agency and staff would not be given some of the rights afforded to UN employees, such as the ability to transfer positions within WHO or to other agencies in the UN system. Challenges arising from the dual status of staff as both WHO and Global Fund employees, and the potential for confusion in reporting and accountability lines were raised in Board documents and discussions: “*the Global Fund is not completely independent of WHO. This is particularly nettlesome since there is an inherent conflict of interest when the Global Fund representative is himself or herself an employee of that same organization*”⁷

5. Negotiations on the first ASA with WHO were successfully concluded on 24 May 2002. The agreement pertained only to the administrative operations of the Global Fund Secretariat, which have accounted for less than three percent of the total expenditures of the organization over its nearly five years of operation; the other 97 percent of resources are related to the Global Fund’s core business of grants and are managed through a trust account with the World Bank. At the time the agreement was signed, the Global Fund Secretariat was expected to be small, with limited capacity and need to provide its own administrative services. Discussions at the First Board Meeting indicated that the Secretariat should be “*lean and efficient,*” and that it should “*consist of 20-25 professionals with associated support staff, making a total of 30-35 people*”⁸.

6. Although the agreement with WHO provided an immediate administrative solution, the Secretariat, at the request of the Board, continued to negotiate the granting of privileges to the Global Fund with the Swiss Government. The Board was consistently updated on the status of these negotiations and the associated implications. Among those implications was the expectation by the Swiss Government that the Global Fund would eventually directly employ at least some of its own staff. This was captured in a report presented at the Second Board Meeting describing how an agreement with the Swiss Government would require the Global Fund to “*further commit to maintain a certain number of employees as direct hires of the Global Fund – i.e., fully separated from the WHO personnel system.*”⁷

7. Negotiations concluded on 13 December 2004 with the Global Fund and the Swiss Government signing a Headquarters Agreement providing the Global Fund with privileges and immunities which were “*broad, and nearly unprecedented in Switzerland for a non-public entity.*”⁹ In the documentation provided to the Board about the Headquarters Agreement, it was again noted that “*the Swiss authorities have indicated an expectation that the Global Fund will, over time, begin to directly employ at least some Secretariat staff.*”⁹

⁵ Documents presented at the First Board Meeting, 28-29 January 2002, “Legal Organizational Memo” (GF/B1/Doc. 3b).

⁶ United Nations Laissez-Passer (UNLP) evidences that the holder has immunity from legal process, including immunity from arrest, detention and search when acting in their official capacity. It also entitles the holder and spouses and dependent relatives to repatriation in time of international crisis.

⁷ Documents presented at Second Board Meeting, 22-24 April 2002, “Quasi-Intergovernmental Organization” GF/B2/10

⁸ Documents presented at the First Board Meeting, 28-29 January 2002, “Establishment of Secretariat and Recruitment of Executive Secretary and Core Staff” (GF/B1/Doc 13).

⁹ Annex 4c to Report of the Governance and Partnership Committee to the Eighth Board Meeting, “Secretariat Paper on Headquarters Agreement” (GF/B8/7)

8. Following the signing of the Headquarters Agreement, the Board, at its Eleventh Meeting on 28-30 September 2005 decided that “with respect to a possible transition from current administrative arrangements with WHO, the Board requests the Secretariat to continue its *“analysis of advantages and disadvantages of alternative arrangements, including their costs, and report back, providing a proposed implementation plan if appropriate”*¹⁰. In response to this mandate, the Secretariat initiated the TOP to analyze thoroughly the options available for the administrative services, currently provided by WHO, of the Secretariat and the associated implications for the operations of the Global Fund. This project commenced at the start of 2006 following the enlistment of the firm Hewitt Associates through a competitive tender to assist in the analysis. The assessment of options was based on the principle of acquiring administrative and human resource management services and processes that were “as good as or better than” those provided through the current arrangement.

9. The TOP process concluded that there were two primary routes for the provision administrative services, with two specific options for the implementation of each route. The first route would be for the Global Fund to remain and become more integrated into the UN system. This could be done through continuing the arrangement with either WHO or by negotiating a similar agreement with another UN agency. The second route would be for the Global Fund, as an independent entity, to become the employer of its own staff and to pursue administrative service completely independently of the UN. The options in this case would be either for those services to be provided mainly within the Secretariat or for them to be outsourced to private providers. A detailed assessment of each option is provided in Annex 4.

Part 4: Current Situation

1. A number of changes have occurred since the founding of the Global Fund which it is essential to consider when reviewing the current administrative arrangements for the organization.

2. The first change is the growth in the size of the Secretariat. As was noted above, it was initially envisioned that the Secretariat would consist of only 30 to 35 staff members¹¹. Over the course of the past five years, however, it has become clear that more capacity was needed to effectively and responsibly fulfill the Global Fund’s mandate and that such increases could be made without jeopardizing the organization’s commitment to efficiency and low overhead costs. Currently, the Secretariat consists of approximately 250 staff members on a mixture of fixed-term and temporary contracts. This includes its own human resources, legal, financial, information technology and contracts units whose capacity has been strengthened over the last twelve months. The costs and other measures of the existing ASA with WHO is based on assumptions of staff numbers and administrative transactions of the original Secretariat. The sizeable increase in both has led WHO to estimate that a future ASA would be at least double the cost of the current agreement. At the same time, the increase in staff means that there are more individuals who may need to be compensated for potential differences in benefits if the Global Fund changes their current employment arrangement.

¹⁰ See GF/B12/2 – Report of the Eleventh Board Meeting

¹¹ Documents presented at the First Board Meeting, 28-29 January 2002, “Establishment of Secretariat and Recruitment of Executive Secretary and Core Staff” (GF/B1/Doc 13).

3. The second development has been in regard to the relationship of the Global Fund's Board to the staff of the Secretariat and therefore the operations of the organization. As was noted above, the expectation of the TWG and Board was that, while Global Fund staff would be WHO employees, the Board and Executive Director of the Global Fund would retain "full control over the recruitment and daily supervision of staff"¹² as well as decisions regarding the policies and funding allocations of the organization. Over the past five years, however, challenges have arisen from the fact that Global Fund staff is accountable to both the Executive Director and Board of the Global Fund and the Director-General and governance bodies of WHO due to their status as WHO employees. For example, WHO has not recognized the authority of the Global Fund Board's Ethics Committee – an outside entity for WHO purposes – over Global Fund employees because WHO requirements do not allow persons who are not WHO Staff Members decision-making power with respect to WHO Staff members. Most recently, WHO has questioned the existence and operation of the Credit Suisse account which was set up by the Board explicitly to make payments of valid expenses "that cannot be acquired via WHO" because it is managed by Secretariat staff who are WHO employees and it is outside WHO rules. In recent communications and at the 7th Finance and Audit Committee Meeting, WHO has raised concerns about the challenge of dual governance. The Global Fund's IG has also stated that this dual governance has affected his ability to carry out his mandate.

4. The final development was the signing of the Headquarters Agreement, which provides the Global Fund Board and staff with a broad range of privileges and immunities in Switzerland.

Position of Partners: WHO

5. As the current and potentially ongoing host of the Global Fund's administrative services and employer of its staff, it is important for the Board to consider WHO's position as it deliberates these options. In its role as a non-voting Board member and as an essential technical partner of the Global Fund, WHO has actively and constructively assisted the Secretariat in detailing the services provided under the ASA throughout the TOP process. This has been instrumental in the WHO itself reviewing the ASA and, in this context, WHO has sent two communications to the Secretariat during the past six months. These communications (a letter from then-Assistant Director-General for General Management, Anders Nordstrom, and an email from Director, General Management Susan Holck) are attached (Attachments 1 and 2).

6. Building on these communications, WHO, represented by Mr Denis Aitken, Adviser to the Director-General and Dr Susan Holck, Director, General Management clearly elaborated its current position at the 7th Meeting of the FAC in September 2006. Mr Aitken informed FAC that WHO had entered into the ASA in 2002 primarily to serve Global Fund needs. In the intervening years, the Global Fund had grown well beyond the staff size initially envisaged, however WHO was still willing to assist if this was the Board's wish.

7. Mr Aitken told the FAC that with the passage of time WHO's own member States were becoming more interested in what arrangements WHO had with its partnerships and the WHO Secretariat was working on principles which it will share with Member States for their guidance. It would no longer be possible to have a multitude of options for different partners. The guiding principle will be whether the partnership serves the WHO mission. WHO would not be willing to continue the current level of exceptions (to its rules) for the Global Fund, (noting that, for example on a practical level, the organization-wide computerized system being developed for WHO allowed less scope for variations). Furthermore, WHO considered that the current arrangement was "pressing the limits" with regard to according privileges and immunities to WHO staff assigned to the Global Fund under current arrangements and this raised concerns for WHO.

¹² Documents presented at the First Board Meeting, 28-29 January 2002, "Legal Organizational Memo" (GF/B1/Doc. 3b).

8. The WHO representatives referred to the situation of Global Fund staff who, as employees of WHO, have accountabilities within WHO. The WHO representatives observed that this dual governance has the potential to pose conflicts for personnel, noting that staff cannot be expected to serve two “masters”.

9. WHO advised that if the ASA were to be renewed beyond 2007, the contractual fee would have to increase to reflect the actual cost to WHO of providing the services as it was no longer possible or appropriate for WHO to subsidize the Global Fund. This would potentially result in a doubling of the current annual fee to approximately US\$ 5 million per annum.

10. In the future, WHO would require the Global Fund to align its practices almost completely with those of WHO. WHO saw it as important that the administrative arrangements, with the tensions around dual governance, didn't impinge or hinder its primary working relationship with the Global Fund which it sees as being the technical partnership between the two organizations.

11. These factors have led WHO to conclude that, while it will continue to provide administrative services to the Secretariat if the Board decides it wishes to pursue that route, it believes an independent administrative arrangement would be best for the working relationship between WHO and the Global Fund.

Position of Partners: Swiss Government

12. The Government of Switzerland acts as the host of the Global Fund, providing it with a range of privileges and immunities through the Headquarters Agreement and serving as a non-voting Member of its Board. As such, it is important for the Board to consider the position of the Swiss Government on the administrative arrangement for the Secretariat.

13. At the 7th FAC Meeting, the Swiss Government, represented by Jacques Martin, stated its position on the administrative options being considered by the Board. A written statement of this position is attached as an annex. He stated that “In view of the essence of the Headquarters Agreement signed with the Global Fund and the related privileges and immunities granted to this independent organization, the Swiss government favours an alignment of the Global Fund with its declared status, i.e., its formal administrative independence as reflected by its governance structure, its performance-based resource allocation philosophy and its business-like way to carry duties and responsibilities, a somewhat different *modus operandi* than UN.”¹³

14. At the time of signing the Headquarters Agreement, one option put forward was for the Global Fund to directly employ some staff while continuing to employ others through the WHO. However, WHO has recently stated that such a partial employment system would not be possible: “*we [WHO] cannot have some Global Fund staff on WHO contracts and others on different contracts*”.¹⁴

15. He concluded by stating that based on the Swiss Government's understanding that the Global Fund would eventually employ its own staff when the Headquarters Agreement was signed and the appearance that “*the merit of an ASA with WHO has become less evident*,” the Swiss Government “*strongly favours administrative independence, though it could live with alternatives*.”¹⁵

¹³ Jacques Martin, on behalf of the Swiss Government

¹⁴ Letter from then-Assistant Director-General for General Management, Anders Nordstrom, to the Chair of the Board and Executive Director of the Global Fund dated 19 May 2006

¹⁵ Jacques Martin, on behalf of the Swiss Government

Staff Opinion

16. A central element of the administrative framework for the Secretariat is the remuneration, benefits and working environment for Global Fund staff. While ensuring that current staff will not be materially disadvantaged in any change is a prerequisite for any administrative transition, the Board should also consider the opinions of current staff members on the administrative options.

17. Following the conclusion of the TOP process, the Staff Council conducted a survey based on the four options outlined in that paper which asked staff members to rate their satisfaction with the current administrative arrangement with WHO and their anticipated opinion of alternative arrangements. The results of that survey, as well as a communication from the Staff Council, which was shared with the FAC, are attached as annexes.

18. The FAC met with the Chair of the Staff Council, Mr Wilfried Thalmas. Mr Thalmas explained that the Staff Council was not against change, but neither did it see the status quo as being problematic. The Staff Council felt that any options for a change should take account of feasibility, cost and impact on staff. Issues of concern to staff included maintenance of the link to the United Nations, including particularly the protection offered by the UN Laissez-Passer when traveling on Global Fund business, pension and health insurance benefits, tax exemptions, and the need for processes to ensure equity and problem resolution for staff.

19. He told the FAC that the staff survey showed that the majority of staff feel that they would be more satisfied with the current arrangement with WHO than with an independent arrangement. In addition, a majority of staff (77 percent) agreed with the statement "it is important for me that the Global Fund maintains an organizational link with the UN."

Part 5: Analysis of Options

1. The Board faces two primary routes for the provision of those services with associated administrative, operational, governance, and strategic implications. The first route would be for the Global Fund to remain partially integrated with the United Nations system, either through a continued agreement with WHO or through a possible arrangement with another UN agency. In the second route, the Global Fund would reach an administrative arrangement independently of the UN system. This could include combinations of in-house and outsourced administrative services.

2. Within each route, there are a number of options for the delivery of specific administrative services for the Secretariat. These options have been examined in detail through the TOP. It is essential that the Board provide direction on which route to pursue, after which more thorough examination and costing of specific options can be conducted. While the Secretariat had hoped to be able to bring fully costed options to the FAC it emerged that this is not possible until the Secretariat has a clear mandate from the Board to undertake negotiations with possible providers.

3. Each of these routes has significant implications for a number of central areas of the work of the Global Fund. The key areas are:

- Governance – The authority of the Global Fund Board over Secretariat employees and operation of the organization;
- Working relationship with UN System;
- Secretariat Efficiency – The expenditures (both in terms of staff capacity and direct costs) required for administration and the quality and speed of services provided;
- Staff Satisfaction – The benefits, including tax benefits and pension plan, as well as intangible benefits of status as a UN employee, which contribute to attraction and retention of staff members;
- Staff Travel – The arrangements (e.g., UN Laissez-Passer) that facilitate and enable staff travel to a full range of countries.

4. Based on the outcomes of the TOP, the implications of both routes on each of these areas have been analyzed. Table 1 provides a summary of the implications for each area.

Issue	In the UN	Out of UN
Governance	Dual governance: Global Fund staff accountable to both Global Fund Board and ED and WHO Board and DG (or another UN agency). Possible requirement of greater accountability to WHO Executive Board, limiting authority of Global Fund Board or requiring a change of Global Fund governance structure to adapt to WHO requirements and compatibilities.	Staff would be employed directly by the Global Fund and accountable only to its Board and ED. No major changes to Global Fund governance structures would be required as all essential activities are already within the mandate of the Board and its committees. It would be appropriate to review the terms of reference of committees to ensure all aspects are covered. It would involve additional work for the Board and Committees. Remuneration and grievance processes would need to be established.
Relationship with UN	Working relationships with other UN organizations would continue as currently. Potential conflict of interest for GF staff reporting to two masters. Tensions created by the dual governance for WHO's key role as a technical partner and Board Member would need to be addressed.	The Global Fund would be fully administratively independent of the UN family and its policies but it would maintain close working relationships with WHO and other relevant UN agencies as key partners.
Secretariat Efficiency	WHO estimates costs for a new ASA would be at least double the current arrangement due to growth of the Secretariat and the fact that, to date, WHO has not implemented full cost recovery. Administrative Policies and procedures would primarily be those of WHO (or other UN agency), with limited exceptions and flexibility in the future to address Global Fund specific needs.	Initial costs required to transition and start-up new systems and policies, with potentially lower costs in mid- and long-term through greater efficiencies. Global Fund would have opportunity to determine all its own policies and procedures and tailor them to its specific needs. Similar health insurance plan at no extra cost
Staff Satisfaction	Staff benefits and privileges would remain unchanged. In addition, membership in the UN family and WHO employment is an intangible benefit for some staff.	Potential greater flexibility in salary system and improved pension and health insurance schemes. Possible one-time costs to compensate loss of employer contribution to UN pension fund. Compensation for a defined period for loss of tax benefits for current employees living in France and some other countries.
Staff Travel	UNLP evidences privileges and immunities and facilitates visa acquisition. Safety and security provided by local UN infrastructure. Staff cite "intangibles" such as sense of security this provides while operating in country.	Streamlined visa acquisition possible without UNLP, but there is no clear, immediate resolution to this concern. Bilateral agreements could be negotiated with countries. Private firm could provide safety and security services in country as they currently do for both UN organizations and NGOs. This could potentially be at a higher cost

Table 1: Overview of Implications for Administrative Options

Governance

UN Route

5. An arrangement in which Global Fund staff remain WHO (or UN) employees has significant implications for the ability of the Board and its committees to direct the work of the Secretariat. The challenges associated with the arrangement wherein Global Fund staff are WHO employees and therefore accountable to the WHO DG, but also accountable to the Global Fund's Board have been described above. As stated by WHO, a condition of a new ASA may be greater authority of the WHO DG over the staff and the operations of the Global Fund.

Independent Route

6. In this arrangement, staff would be directly employed by the Global Fund and thus directed by and fully accountable to its Board and Executive Director according to the policies and procedures established through its own governance mechanisms. As the Board and its committees are currently structured to oversee and guide all essential business of the Global Fund, no significant changes in governance structures or operations would be required. For example, the FAC has a mandate to provide oversight on all financial and administrative operations of the Global Fund, including those that have been provided through the agreement with WHO to date (the Terms of Reference of the FAC are included in Annex 3).

Working Relationships with UN System

7. The Global Fund's administrative arrangement – and the associated status – has an impact on the positioning of the organization in relation to its mandate and founding principles. The summaries below describe implications for working relationship the Global Fund would have with the UN under each route.

UN Route

8. While the Global Fund would not be a UN agency (although pursuing that status would be an option if this route was chosen), it would be closely associated with the UN family. Global Fund staff would remain WHO (or other UN agency) employees and would be ultimately accountable to the Director General and governing body of the agency. Working relationships with all UN agencies, including UNAIDS, UNICEF, UNDP, and others, would likely continue at the current level, though the Acting Director-General, Dr Nordstrom, has raised concerns about potential challenges to WHO's role as a technical partner and Board member of the Global Fund if it continues to provide administrative services: *"We feel strongly that it is crucial to preserve the technical relationship between the Global Fund and WHO, and that the Global Fund should be able to turn to WHO for technical support and advice, without that being prejudiced in any way by arrangements concerning administrative services. We also take seriously our role as a Board Member of the Global Fund. We have some concern that this role may be jeopardized by the difficulties and anomalies inherent in the current administrative services agreement between WHO and the Global Fund."*¹⁶

¹⁶ Letter from then-Assistant Director-General for General Management, Anders Nordstrom, to the Chair of the Board and Executive Director of the Global Fund dated 19 May 2006

Independent Route

9. The Global Fund is already registered as a Swiss Foundation. Under this route, it would have no direct legal ties to any UN agency. However, close relationships would be maintained with UN agencies at a programmatic and operational level. Dr Nordstrom has indicated that WHO is committed to sustaining two of the three aspects of its relationship with the Global Fund – technical collaboration and as a member of the Global Fund’s Board – regardless of whether the Global Fund decides to pursue an administrative arrangement independent of WHO and the UN: *“we want to stress, however, that whatever decisions are made about the administrative arrangements between WHO and the Global Fund, we value greatly our technical collaboration with the Global Fund and want above all to maintain and even strengthen that aspect of our collaboration”*¹⁷. There are no indications that the Global Fund’s current working relationships with other UN agencies would be affected by the Global Fund pursuing its administrative arrangements independently of the UN.

Secretariat Efficiency

10. An important consideration in the choice of which administrative arrangement to pursue is a comparison of total costs incurred to the quality and speed of services delivered. At present, indicative costs for the two routes are available based on communication with WHO and initial exploration with private providers (Table 2 below). More comprehensive costing will only be possible once the Board has decided which route to pursue.

	WHO/UN Route		Independent Route	
	Set Up Cost	Ongoing Operational Costs	Set Up Cost	Ongoing Operational Costs
Administrative Systems	N/A	\$5.0 million (indicative)	\$0.2 million ¹	\$1.5 million ² (per annum)
Pension Fund	N/A	included in above	\$3.5 million ³	None ⁴
Health Insurance	N/A	included in above	0	None ⁵
Tax Equalization ⁶	N/A	included in above	0	\$2.4 million (per annum)

Table 2: Comparison of Indicative Costs

¹ Estimates of costs for consultancies to assist in establishment of new policies and systems

² Estimates of costs for outsourcing and additional staff to manage core administrative services

³ Worst-case scenario of once only compensation by Global Fund for unsuccessful negotiation for transfer of employers contribution portion

⁴ Assumes no change in pension fund scheme. Administrative costs related to pension fund borne fully by private providers in the model as done by other organizations, resulting in no running charges to TGF

⁵ Assumes no changes in health insurance scheme. Administrative costs related to health insurance (i.e. claims handling, staff briefing, etc.) borne fully by private providers as is done by other organizations. This results in no running charges to the Global Fund

⁶ Applies to French residents and US citizens: For a limited number of years.

¹⁷ Letter from then-Assistant Director-General for General Management, Anders Nordstrom, to the Chair of the Board and Executive Director of the Global Fund dated 19 May 2006

UN Route

11. Under this route, the provision of the Global Fund's administrative services would closely resemble the current system with a number of notable differences. Given the growth of the Global Fund Secretariat and the associated increased administrative burden, WHO has estimated that the cost of a new ASA would be at least double that of the current agreement. They have indicated that this could bring the annual administrative expenses of the Secretariat to approximately US\$ 5 million. In addition, under this route, administrative policies and procedures would be almost exclusively those of the host UN agency. A primary benefit of this route is that relatively few changes would be required to the current systems and therefore there would be less short-term transition costs.

Independent Route

12. The exact costs associated with the Global Fund securing its administrative services independent of the UN system will depend on the combination of in-house provision and outsourcing solutions chosen. In general, initial analysis indicates that leaving the UN system would lead to higher costs in the short-term during the start-up and transition period, with potentially substantially lower costs in the medium- to long-term due to greater efficiencies.

13. Outsourcing administrative services and support such as travel, payroll and health insurance to a third-party organization would require limited setup and transition costs (as the outsourcing provider typically absorbs those costs, and amortizes the costs over the lifetime of the contract). The usual cost structure assumes the acquisition or development of vendor management skills within the Global Fund Business Services function. Under this option, it is estimated that the set-up cost would amount to approximately US\$ 200,000, and managing the outsourced services would require another US\$ 1.0 to US\$ 1.5 million annually. Furthermore, it is important to note that the administrative cost of some key elements such as the pension fund and the health insurance could be borne by another party than the Global Fund. In the case of the pension fund, the cost of administering it would be recharged to the pension itself. = In the case of the health insurance (and all other insurances), the cost of its administration (i.e. claims handling and filing, staff briefing, etc) would be absorbed by the brokerage firm or by the insurance company managing the Global Fund's insurance portfolio. This has been successfully implemented by other organizations of a similar size to the Global Fund.

14. Under the in-sourcing alternative, the cost implications would be dependent on the cost of setting up its own operations plus the cost of transitioning from an existing arrangement. In this case, the major transition costs would include the time and cost associated with the design of new policies and procedures, the design and implementation of new systems, and the training of new/existing staff. The cost of maintaining existing systems during this implementation period would also need to be taken into consideration.

15. An essential aspect of managing and improving the delivery of effective administrative services is the ability to measure performance against pre-defined objectives and targets. This may be more easily realized outside of the UN system, either through internal management arrangements with staff or Service Level Agreements with an experienced private provider.

16. Moreover, under this arrangement, the Global Fund would have the opportunity to design its own policies and procedures for a range of core services such as recruitment, contracting, and travel. While there would be additional costs associated with this process, it would enable essential services to be closely aligned with the specific needs of the organization. As key administrative areas of the Secretariat, such as human resources, contracting, and legal services have already been strengthened over the past year, it is anticipated that an independent arrangement would require only a small number of additional staff, notably in the Finance Unit.

Staff Satisfaction

17. The level and flexibility of employment conditions and benefits contributes significantly to the Global Fund's ability to recruit and retain high-quality staff. However, currently staff have concerns about proposed changes. These have been outlined in paragraphs 16 to 19 of Part 4.

UN Route

18. Global Fund staff members currently receive their compensation and benefits through the WHO based on the UN system. These include: salary, health insurance and other standard employee benefits, tax benefits for staff living in both Switzerland and France, and enrollment in the United Nations Joint Staff Pension Fund. In addition, some staff have indicated that status associated with being a UN employee contributed to their decision to seek and retain a position at the Global Fund. If the Global Fund were to pursue an option within the UN system, the current compensation and benefit scheme would remain unchanged.

Independent Route

19. Initial analysis shows that most of the benefits afforded to staff could be secured at least the same standard as under the current arrangement. In some areas, there are potential advantages. Salary, for example, could be managed through a more flexible system. Among the central concerns raised by staff over the past two years (as discussed in the reports of the Deputy Executive Director to Eleventh and Thirteenth Board Meetings)¹⁸ has been the lack of opportunity for advancement and appropriate compensation for performance within the Global Fund. If independent, the Global Fund would be able to adopt recruitment and salary systems that were more responsive to performance. Initial exploration with private sources has shown that health insurance could be provided at the same standard for equal or lower costs.¹⁹ In addition, through the Headquarters Agreement with the Swiss Government, Global Fund staff living in Switzerland would be afforded the same tax benefits as enjoyed currently.

20. There are some additional costs associated with this route. If the Global Fund leaves the UN system, it may not be able to secure tax benefits for employees living in France. The Global Fund may decide to therefore compensate current staff members living in France for income taxes paid in France for a transition period. Initial estimates value the cost of compensation (for French residents only) at approximately US\$ 1.2 million per annum. Further, staff of certain nationalities residing in Switzerland would no longer receive compensation from the WHO for taxes paid to their home country or tax exemptions in their own country. If the Board were to decide that staff should not be disadvantaged by a transition away from the WHO, the Global Fund would need to compensate staff for any reduction in their after-tax financial position.

21. Initial investigation has indicated that the Global Fund could not remain in the UN pension fund if it were to leave the UN system without terminating its status as a Swiss Foundation. Such a separation from the pension fund would mean that employees who have been part of the fund for less than five years may not receive the employer contribution to their account. The Global Fund may therefore decide to compensate affected employees during the transition period. In place of the UN fund, the Global Fund would have the option of implementing a number of existing private pension schemes or starting a new scheme, both of which may provide greater flexibility for employees.

¹⁸ Secretariat Update presented to the Eleventh Board Meeting (GF/B11/14) and Secretariat Update presented to the Thirteenth Board Meeting (GF/B13/16).

¹⁹ Page 50: Options Case, Transition Options Project, The Global Fund, September 5, 2006

Staff Travel

22. Staff travel is essential to the operation of the Global Fund, particularly for facilitation and oversight of grant implementation and mobilization of resources. Some positions, most particularly in the Operations Unit, require frequent travel. In the 18-month period from January 2005 to June 2006, 89 percent of Global Fund staff traveled at least once, while 38 percent of staff traveled five or more times. Of the total trips during that period, roughly 68 percent were to countries outside of Western Europe and North America.

UN Route

23. As WHO employees, Global Fund staff members currently have access to the UN Laissez-Passer (UNLP). This document – and the status associated with it – has a number of benefits for staff. Firstly, it facilitates the acquisition of visas for staff members of certain nationalities or traveling to certain nations, reducing processing times. Secondly, it evidences that staff members have the privileges and immunities of WHO, including immunity from arrest and detention, while traveling in more than 100 countries. In addition, as WHO employees, Global Fund staff benefit from UN security and safety services, including travel warnings and emergency evacuation and medical services. Lastly, Global Fund staff cite intangible benefits of being a UN employee while operating in-country, such as the respect and status afforded to the UN and a general sense of security while conducting challenging work.

Independent Route

24. If the Global Fund were to pursue an arrangement outside of the UN system, the UNLP and associated benefits would not be available to its staff members. It would therefore need to pursue other means of facilitating and ensuring both the swift processing of visa requests and the safety of staff during travel on behalf of the Global Fund. One option, similar to that used by the International Federation of Red Cross and Red Crescent Societies, would be to negotiate bilateral agreements with the countries in which the Global Fund operates to ensure privileges and immunities in such countries. This approach, however, would require significant additional time and effort by the Secretariat.

25. Short of full-fledged bilateral agreements, initial investigation has found that other independent organizations that do not enjoy the use of UNLPs have successfully facilitated efficient visa processes even for staff with challenging nationalities. However, it is not certain that visa applications arrangements as efficient as those available with the UNLP could be established in the event of a transition from WHO. This remains an area where this is no clear, immediate resolution. With regard to staff safety, many international organizations in Geneva rely on private service providers for most travel security needs. Initial analysis of typical providers in this area has found that they are capable of providing the full range of services secured through the current arrangement, including emergency evacuation and comprehensive medical services, though costs for these services may be greater than through the UN.

Communication from WHO, 19 May 2006



World Health
Organization

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19 May 2006

ED'S OFFICE	
TO DEAN (SECRET)	
23 MAY 2006	
TO DRAFT REPLY	
TO COMMENT	
FOR INFO	HNE
FILE	TOP - WHO

Dear Carol and Richard,

As you know, WHO participated in the recent meeting of the Board of the Global Fund that took place here in Geneva. I myself was present for a number of the discussions of the Board. We also participated in the briefings prior to the Board, notably on the Transitional Options Project (TOP).

In parallel, we have been working with Global Fund staff on reviewing the annual administrative services agreement between the Fund and WHO, in order to update it for 2006 and presumably also for 2007.

We listened carefully to the comments during the Board meeting concerning the current administrative arrangements between the Fund and WHO. We noted the concerns that were expressed by some Board members that the present arrangements are not optimal for the Fund, especially as it grows and evolves.

While WHO is a willing partner in providing administrative services for the Global Fund, we believe it is important to note that this is not really one of WHO's core functions. We feel it is important at this stage to realistically assess the advantages and constraints of the current arrangement, for both the Global Fund and WHO, especially in light of the Board's request for options to be presented to its next meeting in November. With respect to the review of the various options, we are actively assisting the Fund Secretariat and the consulting group Hewitt Associates, in the Transition Options Project (TOP) mandated by the Board of the Global Fund.

cc: Director-General

ADG/HNM

We want to stress, however, that whatever decisions are made about administrative arrangements between WHO and the Global Fund, we value greatly our technical collaboration with the Fund and want above all to maintain and even strengthen that aspect of our collaboration. We feel strongly that it is crucial to preserve the technical relationship between the Global Fund and WHO, and that the Fund should be able to turn to WHO for technical support and advice, without that being prejudiced in any way by arrangements concerning administrative services. We also take seriously our role as a Board Member of the Global Fund. We have some concern that this role may be jeopardized by the difficulties and anomalies inherent in the current administrative services agreement between WHO and the Global Fund.

We fully understand that any change in the current situation cannot happen "overnight" and that should a decision be taken to change the current arrangements, there would need to be a smooth transition period envisaged. However, any transition would need to include provisions for a "one-off" change in the status of all Global Fund staff. In other words, we cannot have some Global Fund staff on WHO contracts and others on different contracts, with different conditions of employment and accordingly rules and regulations. So whatever transitional measures would eventually be planned would need to take this into account.

In summary, WHO is of the opinion that at this point the Global Fund could possibly be better served by options other than the current arrangement. Accordingly, we will encourage the consultants to explore all options so as to identify the most appropriate, that best meets the needs of the Fund. We will be supportive in helping to explore the options and in looking for ways to make any transition as smooth as possible.

With best regards,

Yours sincerely,



Anders Nordström
Assistant Director-General
General Management

Communication from WHO, 20 July 2006

From: Holck, Susan Elaine [mailto:holcks@who.int]
Sent: jeudi, 20. juillet 2006 15:07
To: Mike Marchment
Cc: Burci, Gian Luca; Aitken, Denis Gillon; Kean, Bill; McKeough, Joanne
Subject: Draft options paper for the Global Fund Board

Dear Mike,

Thanks very much for sending an advance copy of the draft "options paper". I had a call from Michael Williams from Hewitt (before I read the paper) to discuss WHO's perspective on the current arrangements and the viability of continuing with a similar arrangement in the future.

Thanks, too, for the updated version you sent yesterday. As I mentioned, I had already prepared some initial comments on the earlier draft. Looking through the new draft I think most of them are still relevant, so I'm sending them without much modification. I will circulate the updated draft among relevant people in WHO, as you encouraged.

First, some general comments:

The administrative services agreement (ASA) with WHO was initially developed and agreed on under much different circumstances than the current situation with the Global Fund. The intent was for WHO to provide an interim arrangement, for a small GF secretariat (of some 30 to 40 staff), to enable the Fund to get up and running smoothly more quickly than if it had to develop all of its own administrative arrangements from scratch, "overnight". I emphasize that this was intended as **an interim arrangement**:

- The founders of the GF explicitly wanted the Fund not to be part of the United Nations system, but rather wanted a separate, independent legal entity with a different governance structure. Thus, it was founded not as a new UN agency or even as part of an existing UN agency (e.g. WHO or UNAIDS), but rather as an independent Foundation, registered in Switzerland under Swiss law. This arrangement, especially with respect to its governance, gives it flexibility and autonomy it would not have within the UN system.
- The Fund Secretariat was initially small, which meant that the implications for WHO in providing administrative services were similarly limited.
- WHO, as a Board member of the Fund, wanted to help the Fund get started as soon as possible, and thus offered to provide administrative services in a gesture of good will and support.

Clearly, the situation has changed since then. The Secretariat of the Fund has grown substantially to some 280 people, and continues to increase. The Fund is no longer in "start-up mode"; this can no longer be considered an interim arrangement. And with the growing number of GF staff and the growing administrative burden on WHO, the administrative services provided to the Fund account for an increasing proportion of WHO's administrative work. The core business of WHO is not providing administrative services to external entities.

The problem, which has been present from the time the Global Fund was established, is that the Fund is a private entity, yet its secretariat is comprised of WHO staff members, subject to WHO's Staff Rules and Regulations. They are accountable to WHO and in principle have a constitutional obligation not to follow instructions of any outside entity.

To date, this structural anomaly has been addressed -- in writing at least -- by presenting the individual acts to be performed by the Global Fund secretariat as obligations of WHO to the Global Fund, as provided for in the ASA. We have always tried to find an acceptable balance between not being able to have WHO staff formally carry out legal acts and instructions of a separate legal entity, and the wish to provide all the practical support possible to the Fund because of WHO's commitment to the goals the Fund was established to achieve. However, we have reached the point now where, reluctantly, we must conclude that we do not consider it to be in WHO's interest for the status quo to continue.

In addition, as the initial ASA was developed for a small GF Secretariat, a substantial number of WHO administrative services were not included in the charges to the Fund, as WHO was able to absorb them as part of its ongoing work (such as senior managers' time in dealing with policies of the Fund and requests for exceptions, as one example). Should WHO continue to provide administrative services beyond the 2006-2007 period, a total reconsideration of the costing model would need to be carried out to align it with the current situation and the real costs to WHO in providing administrative services to the Fund. This would result in a substantially greater cost to the Fund, which should be taken into account in the options paper. I can not give you an estimate now of what the increase would be, but it would be substantial.

More specific comments on the paper are as follows:

1. We find there is one option missing that, though perhaps unlikely to be approved by the Board, should nevertheless be included for reasons of comparison, namely, that of the Global Fund becoming part of the UN system - for example, as an autonomous programme of an existing organization such as UNICEF or UNDP in the case of the UN or IARC in the case of WHO. This "option" would provide a useful benchmark at least, for what the pros and cons are to being in or out of the UN system. This would be particularly important to have as an explicit option if neither A nor B would be feasible.

2. I recall that your view from the beginning of this exercise was that the Secretariat should not present a recommendation, but rather genuine options for the Board to consider and decide upon. One gets the impression in reading the paper that Option A is preferred not so much because it meets the "business needs" of the Fund as a foundation, but rather because it meets the preferences of the staff for continuing with the status quo in terms of their WHO contracts, such as participation in the UN pension fund, their tax exempt status if they live outside Switzerland, their Laissez-Passer, etc. These are precisely privileges reserved for staff of UN organizations employed to do the work of those organizations, not staff of foundations doing the work of those foundations. If these are indeed the main considerations, there should be the additional option presented of transforming the Fund into a UN system agency -- or incorporating it into an already-existing UN system agency.

3. There is a key issue missing in terms of considering the feasibility of the options presented: the longer-term willingness (and legality) of WHO (or another UN partner) to continue with the arrangement whereby Global Fund staff would remain UN staff. Our Legal Counsel Office has reservations about the long-term legal viability of this situation, and is looking into the legal considerations, should this be the recommendation of the Board. Basically, WHO is assuming responsibility (and liability) for the work and behaviour of staff over which it has no real authority on a day-to-day basis and where it could be difficult, if not impossible, to characterize the work performed as being work on behalf of WHO. This is because, as events have transpired, the Global Fund Secretariat appears to consider itself accountable to the Board and the Executive Director of the Fund, not the Director-General of WHO (in accordance with the Staff Regulations under which they are employed) and, ultimately, the governing bodies of WHO. Although this has been tolerated as an interim arrangement, it is far from certain that it is viable and in the interest of either the Global Fund or WHO in the longer term.

4. Option A includes reference to the need to "improve the delivery of administrative services" if the Fund would remain with the current arrangement and subsequent references to the "speed and flexibility required" to meet the business needs of the Fund. This is consistent with the continuing criticism we hear from GF staff of WHO's administrative rules and the services provided by WHO. Nevertheless, there are no specific examples of inadequate administrative services from WHO mentioned in the paper, just references to the need to improve services.

As we have discussed, to date the exceptions to WHO's rules and regulations that the Fund has requested are largely related to either special privileges for the Executive Director or special assistance to individual staff members of the Global Fund. Few of the exceptions requested relate to the particular nature of the work of the Global Fund and adaptations that might be needed in order for the Global Fund to carry out its work more effectively. This contrasts with the statement in the options paper that WHO's "policies, procedures and systems ... are not always appropriate for The Global Fund".... The Global Fund may not able (sic) to deliver administrative support consistent with the needs of the business (i.e. with the speed and flexibility required). The degree to which The Global Fund is able to make its own decisions is fundamental to its ability to improve administrative systems and services as well as employ, retain, reward and engage its own people".

What is striking is that the attractiveness of the "WHO staff package", with the privileges and immunities, tax exemptions both in and outside Switzerland, the UN Pension Fund, and Laissez-Passer, seem to carry the most weight in the options paper, along with the cost to the Fund of paying a third party for the administrative services currently provided by WHO. In other words, while the options paper acknowledges that the current arrangement does not meet the needs of the Global Fund, in that the Fund is not able "to make its own decisions", the conclusion is effectively that the other options considered are not really viable.

Our recommendation is that the paper be strengthened in the following ways:

- Another option be included, namely, that of incorporating the Global Fund into an existing UN system agency, or of transforming it into a separate UN system agency
- The likely future cost to the Fund of continuing the current arrangement with WHO be modified to reflect the (substantially greater) real costs to WHO, which will need to be included in any ASAs beyond 2007
- The risk that WHO (or another UN partner) may be unwilling or unable to continue to provide administrative services, especially the arrangement whereby Global Fund staff are WHO staff, be addressed more fully in the paper as we see this as a real possibility that the Board should be aware of
- The inevitable trade-offs between time (speed), quality and cost should be acknowledged more directly. To change any one of the three requires changing another; to improve speed either quality has to suffer or the cost has to increase; to improve quality it takes either more time or more money (or both), etc. The increased quality of administrative services, including greater speed and flexibility, that the Fund is seeking comes at a price.
- Similarly, being part of the UN system brings advantages but also requires adaptation to UN policies, procedures and governance structures. This needs to be more fully recognized in the presentation of the options.

I hope this feedback is helpful. My intention is to give you a sense of what WHO's reaction is likely to be, to enable you to review the paper accordingly before finalizing it. WHO will probably be represented at the Board meeting in October with a "technical" representative as well as with a senior official who is both in a position and has the authority on behalf of the Acting Director-General to articulate WHO's position on the administrative services agreement and the discussion of the Options paper. Thus, it would be helpful at least to have thoroughly understood each others' positions before the Board meeting.

Please do not hesitate to contact me if you have any questions about these comments.

With warm regards,
Susan

Terms of Reference of the Finance and Audit Committee (FAC)

- Responsible for providing advice on all policy and strategy issues relating to Finance and Audit
- Review and provide advice on the Global Fund's budget for Operating Expenses, applying a rolling three-year term perspective;
- Make recommendations to the Board on the annual budget proposed by the Secretariat; monitor expenditure of the budget in the course of the year and report to the Board thereon after the conclusion of each half-year;
- Recommend to the Board the selection of external auditors of the Global Fund, receive and consider the reports of the auditors and report to the Board thereon;
- Review the Global Fund's Audited Financial Statements for each year, and make recommendations to the Board regarding the approval of the Financial Statements;
- Provide advice to the Board on the Global Fund's fiscal management policies and processes, including asset-liability coverage, financial forecasts, modalities of contributions and investment policies for the Global Fund's financial assets;
- Serve as the lead committee for the Office of the Inspector General and pass on OIG recommendations to the Board along with comments of the committee;
- Serve as lead committee for conducting the replenishment process.
- Identify and evaluate all Global Fund risks relevant to the terms of reference of the committee and ensure that proper controls are in place to reduce the risks to an acceptable level (all Committees).

**Annex 3
Attachment 4**

This attachment is the draft report of Hewitt Associates SA, the consultants engaged by the Secretariat for the Transition Options Project. The 53-page report is entitled:

“Options Case: Transitions Options Project, The Global Fund, September 5, 2006”

This report can be found on the (password-protected) section of Global Fund website reserved for Board members as: [GF-FAC7-03 Annex 4 Transitions Options \(Hewitt\).doc](#)

(Due to the length of the document, it has not been inserted within this Report of the FAC.)

Terms Of Reference For The Task Team On Resource Mobilization

Background

1. Since the creation of the Global Fund, its annual income has grown steadily, usually in two-year increments. The largest increase – from US\$ 1.5 billion to at least US\$ 2.2 billion – occurred between 2005 and 2006, coinciding with the establishment of the Global Fund's voluntary replenishment mechanism. As a result of the amount of resources the Global Fund has mobilized, the Board has been able to approve all technically-recommended proposals and all successful continued funding requests, ensuring that not a single high-quality proposal has had to be turned down as a result of resource constraints.
2. However, for the Global Fund to meet the growing needs of recipient countries arising from improved technical assistance and the G8 and United Nations' commitment to achieving as-close-as-possible to universal access by 2010, its resources need to increase as well. There is growing consensus that maintaining the current annual income level of the Global Fund is not adequate if the Global Fund desires to go beyond maintenance of current programs and have a significant impact towards meeting the targets of Universal Access to HIV/AIDS treatment and the Millennium Development Goals (MDGs).
3. The Board is in the process of considering the appropriate size of the Global Fund which is likely to be much larger than the current annual income level. Once this target has been established the Global Fund will no doubt have to ensure that sufficient resources are mobilized to support this size. It is highly likely that the current rate of increase will not be able to meet this target and additional efforts will be required.
4. The Global Fund Board and Secretariat therefore welcome expert advice provided by a special Task Team to complement and expand ongoing efforts in resource mobilization.

Composition and Reporting Lines

5. The Task Team on Resource Mobilization will consist of two members each from the Policy and Strategy Committee (PSC) and the Finance and Audit Committee (FAC), not more than four on private sector fundraising, at least two experts on public sector resource flows and one focal point from the Secretariat.
6. The Task Team can draw on additional expert advice as required.
7. The Task Team reports to the FAC and will inform the Chair and Vice-Chair of this Committee regularly about the progress of its work.
8. The Task Team will be chaired by an appropriate person appointed by the Chair of the Board after consultation with relevant stakeholders. The chair will be responsible for providing support to the operations, research and drafting of the Task Team.
9. The focal point within the Global Fund Secretariat will act as the key liaison person between the Task Team and the Secretariat and will be the principal resource on the issue.

Objectives

10. Advise the Board on ways and means to increase resources to meet the year 2010 target set by the Board, and:

- (a) Review the current draft resource mobilization strategy and activities and make recommendations as to the most cost effective and beneficial ways of raising money, as well as the most appropriate way to substantially and rapidly increase resource flows to the Global Fund;
- (b) Provide recommendations on the best mix of sources of income (public, private, innovative finance) and to provide advice on strategic approaches in each of these areas of resource mobilization;
- (c) Provide advice on potential expansion of fund raising activities with the private sector keeping in mind the mandate of the Global Fund and noting any changes in resources that would be required to achieve this expansion; and
- (d) Explore options to optimize investment returns within an investment policy consistent with best practices of publicly-funded institutions

11 Make recommendations on the optimal structure, capacity and skill set for the Secretariat resource mobilization team, and assess the need for any additional resources needed or outsourcing of development functions.

12 Make recommendations on policy issues that need further development.

Time frame [Dates per original plan, to be finalized]

- **1 October 2006:** Approval of the creation of a Task Team on Resource Mobilization by the Chair and Vice-Chair of the Board and appointment of chair for the Task Team by the Board Chair.
- **Mid-October 2006:** Task Team convenes and develops a workplan and schedule for additional meetings between November 2006 and February 2007.
- **15 February 2007:** Submission of a full report with recommendations to the PSC and FAC with adjusted strategy from Secretariat, for preparation and consideration at Fifteenth Board Meeting

The Second Voluntary Replenishment Of The Global Fund

Part 1: Purpose of the Paper

1. This paper sets out a plan for the Second Voluntary Replenishment of the Global Fund. This plan had been discussed at the Mid-Term Review in Durban on 4-5 July 2006 as summarized in the Chair's Report. Its purpose is to obtain a mandate from the Board to carry out the Second Replenishment, which would take place in 2007 and is recommended to cover the period of 2008 to 2010, and to confirm the current leadership of the Global Fund replenishment.

Part 2: The Global Fund Voluntary Replenishment Process

1. The replenishment process was established by the Board of the Global Fund in 2004 and the first replenishment was held in 2005, covering the two-year period 2006 and 2007. The first meeting took place in Stockholm in March 2005, followed by a second meeting in Rome in June 2005 and a third and final meeting in London in September 2005. The Board had received a report on the first replenishment at its Eleventh Board Meeting (GF/B11/5).

2. The replenishment process has been tailor-made for the Global Fund. It is intended to be lighter than replenishment processes for other international institutions. Other replenishments typically involve at least four meetings over one year compared to three meetings over six months for the first Global Fund replenishment. The final report of the first Global Fund replenishment (the Chair's Report and the Communiqué) runs to about ten pages and is significantly lighter than the final reports of other replenishments.

Part 3: The First Replenishment - Lessons and Follow-up

1. During the First Replenishment it became clear that future replenishments would benefit greatly if the Global Fund would develop a long-term strategy and estimate the associated resource requirements. This would enable donors during the replenishment to respond to clearly articulated proposals and advise the Global Fund on their feasibility from a financing perspective. The Global Fund has made great progress in these areas since the completion of the First Replenishment in September 2005 and donors will at the start of the Second Replenishment be able to review the Fund's strategy and estimated resource requirements. The mid-term review held in Durban in July 2006 provided updates on the preparation of these.

Part 4: Proposals for the Second Voluntary Replenishment

Objectives and timeframe

1. The principal objective for the Second Replenishment is to ensure that the Global Fund receives sufficient resources in the coming two to three years to respond to growing demands and rising expectations.

2. The First Replenishment covered two years (2006-2007) while replenishments for most other similar institutions, such as the soft windows of the Multilateral Development Banks, cover three years. The first replenishment period was limited to two years because the Global Fund was still a young organization without a fully articulated long-term vision and strategy and with only a short track record of performance. However, the Board might want to consider that the Global Fund is now a more experienced and established organization in development financing thus enabling a longer-term perspective. The Global Fund strategy currently developed by the Board will cover the period through 2010. The next replenishment period might more appropriately be aligned with this process.

3. A three-year period might also be more efficient in reducing transaction costs for the replenishment. Long-term predictability is one of the key objectives of the Global Fund resource mobilization strategy and of the replenishment as an important part of this effort. Firm commitments of significant resources from donors covering a three-year period would provide the Global Fund and its recipients with greater security for their long term planning as they will make important strategic decisions depending on the availability of sufficient and sustainable financing. It is therefore recommended that the second replenishment of the Global Fund will cover the three year period 2008-2010.

Number, Timing and Location of Meetings

4. As noted above, three meetings were held during the First Replenishment. Other replenishments typically require at least four meetings and involve very active discussion by donors of policy, institutional performance, resource requirements and other subjects. The mid-term replenishment review expressed a preference for the second replenishment to be completed in two meetings but agreed to assess the need for additional meetings at the time of the first meeting in 2007. The Global Fund has received with gratitude invitations from Norway to host the first replenishment meeting and from Germany to host the final meeting in 2007. It is expected that these meetings will take place in March and September 2007.

Part 5: Replenishment Leadership

1. The first replenishment was chaired by the UN Secretary-General Kofi Annan and co-chaired by Mr Sven Sandström. Mr Annan and Mr Sandström have provided outstanding leadership to guide the Global Fund in its first replenishment process. Provided that Mr Annan and Mr Sandström would be agreeable to a continuation of their services, the FAC recommends extending the mandate of their leadership to the second replenishment.

GLOBAL FUND POLICY
(Approved 5 June 5, 2003 and updated 3 November 2006)
ON SECRETARIAT PROCUREMENT OF GOODS AND SERVICES

Guiding Principles

1. In carrying out procurement of goods and services, the Global Fund seeks to:
 - a) enter into mutually beneficial contracts that ensure maximal contractual performance;
 - b) carry out its functions and programs within international law and agreements;
 - c) make use of existing international mechanisms wherever possible;
 - d) obtain the best value in terms of quality and cost, using competitive procedures, including competitive negotiation, to the maximum extent practical;
 - e) promote public/private partnerships at all levels in the Global Fund; and
 - f) focus on greatest needs, streamlined processes, innovation, accountability, results and transparency.

General Requirements

2. In consideration of the Global Fund's agreement with WHO to provide certain administrative services, including assistance with procurement, it is the policy of the Global Fund to follow the applicable rules Regulations and Rules of the World Health Organization, and its related operating policies, practices and procedures for financial administration, procurement and internal control, unless otherwise agreed to in the Log of Administrative Adaptations and Exceptions for the Fund.
3. WHO procurement procedures are set forth in WHO Financial Rule XI and in relevant parts of the WHO Manual.²⁰ The Rules governing review by the Contract Review Committee are set out in Information Note 18/2004. In the event that the relevant monetary thresholds in the WHO procurement procedures are increased, the corresponding monetary thresholds referred to in this document (see paragraphs 6, 8, 9, 10, 13 and 17 below) shall also be increased so as to be equivalent to higher thresholds in the amended WHO procurement procedures. In the event of any other conflict or inconsistency between the provisions of this Policy document and the WHO procurement procedures or the WHO Manual, the provisions of this Policy document shall prevail. In the event that an issue is not addressed by this policy, but is addressed in the WHO Regulations and Rules, the WHO Manual or the procurement procedures, the latter documents shall apply.

Code of Conduct

- ~~3.~~ 4. The following standards of conduct shall govern the performance of personnel working at the Global Fund engaged in the award and administration of contracts:

²⁰ As of 16 March 2006, the relevant parts of the WHO Manual are as follows: the procedures for procurement of project supplies, reimbursable purchases, non-project supplies and various contractual services are set forth in Part VI of the Manual, the procedures for procurement of insurance coverage are set forth in Part IV, Section 8; and the procedures for the procurement of printing, publishing and library products and services are set forth in Part VIII, Section 1.

- a) No employee, officer, Board member, or agent (including the Technical Review Panel) shall participate in the selection, award, or administration of a contract or grant awarded by or on behalf of the Global Fund if a real or apparent conflict of interest would be involved. Such conflict would arise when the employee, officer, Board members or agent, or such person's spouse, domestic partner, minor children, business partner or associate, or an organization which employs or is about to employ and of the parties indicated herein, has a financial or other interest in the firm considered for an award.
- b) The officers, employees, Board members and agents of the Global Fund, and any such person's spouse, domestic partner and minor children, shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or grantees of the Global Fund, provided, however, this prohibition shall not apply to a gift that is an unsolicited item of nominal value.
- c) Global Fund personnel shall be alert to organizational conflicts of interest as well as non-competitive practices among vendors that may restrict competition. Global Fund personnel shall comply with the organization's general conflict of interest policy covering individual and institutional conflicts, whereby personnel who may potentially receive a financial benefit from the selection of a particular vendor may not participate in any part of the procurement process, from independently defining the scope of work to defining the proposed list of bidders or evaluating those who responded.
- d) Disciplinary action may be applied for violations of such standards by staff. Violation for such standards by members of the Board will be addressed by the Chair or Vice-Chair in the Chair's absence. Violations by agents contractors may result in contract terminations or other legal action.

Purchase Authorization

- 4. 5. The individual requiring a purchase authorization for goods or services shall submit a written request with the following minimum information to the Global Fund's contract specialist.
 - a) What goods or services are to be obtained, including specific requirements;
 - b) The dates by which such goods or services are required;
 - c) Possible sources for the goods or services;
 - d) Confirmation that the funds are available for the procurement.

Competitive Contracting

- ~~5.~~ 6. All procurement is on a competitive basis to the maximum practical extent, including solicitation of written quotations from all such qualified sources as are deemed necessary to ensure full and free competition consistent with the types of goods and services necessary to meet the requirements of the Global Fund. Whenever a single purchase of goods or services is likely to exceed US\$ 25,000 or the equivalent, tenders from at least three vendors are sought by formal invitation to bid,²¹ unless:
 - a) small quantities of similar or broadly similar items of low monetary value are required, the total value of which does not exceed US\$ 30,000 and the value of any individual item does not exceed US\$ 3,000; or

²¹ As used in this document, "invitation to bid" and "bids" includes those that may be subject to further negotiation with the selected bidder, as provided in the applicable tender documents.

- b) there are valid price lists or quotations confirmed with the supplier within the previous twelve months as being applicable until further notice and the market has not in the meantime receded; such price lists and quotations may be considered the equivalent of bids; or
 - c) standardization of equipment, inter-changeability of parts or maintenance services must be ensured; or
 - d) a contract is awarded under the circumstances of a compelling urgency; or
 - e) the expertise and skills needed for the scope of work can only be fulfilled by one vendor or the products or services required are proprietary; or
 - f) a recent (i.e. within the last 12 months) competitive process has yielded an acceptable short list of vendors to select from; or
 - g) the contract is awarded to a qualified United Nations organization, public international organization or governmental entity that is competitive in skills and costs; or
 - h) a qualified vendor is willing to fully perform a scope of work on a pro bono or in kind basis; or
 - i) the Contract Review Committee, where particular circumstances exist, determines otherwise.
6. 7. Invitations to bid must be issued simultaneously to vendors by letter, fax or e-mail. In special circumstances they may be issued by newspaper advertisements. They may not be issued by telephone except in an emergency, when the supplier should be requested to confirm its bid in writing.
7. 8. For purchases estimated to cost less than US\$ 150,000 ~~120,000~~ but more than US\$ 25,000:
- a) suppliers or service providers are sent a request for proposals (RFP) which includes a description of the material required by the Global Fund and an invitation to make a bid to provide all or part of it, including the possibility of proposing a substitute(s). They are asked to return their bids not later than a specified date ~~in an envelope marked by mail, fax or email~~ for the attention of the Contract Specialist;
 - b) bids are opened at the closing date, evaluated and attached to the work assignment;
 - c) the responsible Contract Specialist prepares an adjudication report, if required [see ~~Sections paragraphs~~ 12-14 ~~13~~], and a contract in favor of the bidder recommended by him/her. Both documents are sent to the official authorized to approve purchases;
 - d) any supplier who has submitted a valid bid for certain items may, at its request, be given an explanation why no order was awarded or why it was unsuccessful.

Sealed Bids

- ~~8.~~ 9. For purchases estimated to exceed US\$ 150,000 ~~120,000~~ in value for which it is practical to issue a general specification to bidders, the following conditions apply for inviting bids unless the Contract Review Committee exceptionally decides otherwise:
- a) the supplier must be informed that bids will be opened at a time and place specified in the invitation. Envelopes containing bids are kept unopened and are opened only at the time and place specified in the invitation. The supplier must be asked to send, not later than a specified date and time, a sealed bid in an envelope addressed for the attention of the contract specialist, and on which it is clearly indicated that the envelope contains a bid which must not be opened until the date set for the public opening;

b) In order to ensure objective vendor performance and eliminate unfair competitive advantage, vendors that develop or draft specifications, requirements, statements of work, invitations for bids, or requests for proposals shall be excluded from competing for such procurements, unless the Global Fund determines otherwise after consultation with the Contract Review Committee.

9. ~~10.~~ When it is not practicable to issue a general specification to bidders, even though the cost of the purchases exceeds US\$ 150,000 ~~120,000~~ in value, bids are invited as described in paragraph ~~7~~ 8.

~~10.~~ 11. At least one member of the Contract Review Committee or a staff member designated by ~~a contract specialist~~ the Chair of the Contract Review Committee, not connected with the project, attends the opening of sealed bids. At the opening all bids are initialed, dated and the names of suppliers listed. The list is signed by the responsible officer or his/her alternate and by the representative(s) of the Contract Review Committee. Neither discussion of bids nor award of contract takes place at that time. As soon as possible after the opening, the bids are evaluated, tabulated and submitted with an adjudication report and recommendation to the Contract Review Committee [see ~~Section 19~~ paragraph 16 to 20]. Any supplier who has submitted a valid bid may, at its request, be given an explanation why no order was awarded or why it was unsuccessful.

Award of Order or Contract

~~11.~~ Open competition is the preferred method for practices at the Global Fund. However the Global Fund may award a contract to an entity on the basis of other than a bidding process under the following circumstances:

- ~~o A contract is awarded under the circumstances of a compelling urgency;~~
- ~~o The expertise and skills needed for the scope of work can only be fulfilled by one vendor or is proprietary;~~
- ~~o A recent competitive process has yielded an acceptable short list of vendors to select from;~~
- ~~o The contract is awarded to a qualified United Nations organization, public international organization or governmental entity that is competitive in skills and costs;~~
- ~~o A qualified vendor is willing to fully perform a scope of work on a pro bono or in kind basis.~~

~~12.~~ An adjudication report will fully document the reasons and rationale for the exception.

~~13.~~ 12. Should any of the conditions stated in paragraph ~~11~~ 6 apply, the Global Fund contract specialist shall prepare a memorandum (aka. adjudication report) setting forth the specific rationale for the recommendation for a non-competitive contract award. The memorandum shall be submitted to the individual ~~executing the~~ authorized to approve contract awards in accordance with ~~Section 20~~ paragraph 21 to 23 below for approval in writing.

~~14.~~ 13. In addition, A adjudication reports (describing how the recommendation to award the contract was made) are prepared on a memorandum by the contract specialist (or other official proposing the purchase of goods or services from a specific supplier at a specific price) for all purchases exceeding US\$ 25,000 unless:

- a) at least three offers have been requested or solicited and the order is being placed with the supplier making the lowest bid; or
- b) it is a repeat order to a supplier for the same or similar items or services for which an adjudication report is on file and the circumstances of the market have not changed since the previous adjudication; or

- c) it is a purchase of a proprietary item not exceeding US\$1250,000 in value for which adequate justification has been received and which is to be obtained from the manufacturer or a distributor known to offer the best prices (as shown, for example, by a prior bidding process or other credible evidence);
- d) ~~the type of solicitation of offers applied was in conformity with paragraph~~

~~15.~~ 14. The adjudication report containing the recommendations of the contract specialist is reviewed and approved by the person authorized to ~~execute the~~ approve contract awards, in accordance with paragraph 21 ~~to 23~~ below. ~~It is, however, at the discretion of the~~ The adjudication report for a purchase exceeding US\$ 150,000 ~~120,000~~ in value (or in the other circumstances required under the Rules of the Contract Review Committee) shall be submitted to the Contract Review Committee with a full justification for the selection of the contractor and supported by written documentation. In addition, the authorizing person may, in his or her discretion, decide to refer any recommendation or selection to the Contract Review Committee for a final determination in cases where submission to the Contract Review Committee would not otherwise be required under this Policy or the Rules of the Contract Review Committee.

Documentation and Administration

~~16.~~ 15. A system for contract administration shall be maintained to ensure contractor conformance with terms, conditions, and specifications of the contract and to ensure accurate and timely follow up of all purchases or services rendered. The Global Fund staff shall evaluate contractor performance, document and take the appropriate action when contractors have not met the terms, conditions, and specifications of the contract, including contract termination.

Contract Review Committee

~~17.~~ The Contract Review Committee is comprised of designated WHO officials from legal, the controller's office, procurement and key operational areas who review proposed contract awards whenever the contract value exceeds \$120,000

~~18.~~ 16. ~~The Contract Review Committee may accept a bid other than the lowest when, in its opinion, service, delivery or other conditions or circumstances make it desirable. The composition, terms of reference and method of work of the Contract Review Committee and the rules governing submission to the Contract Review Committee are set out in paragraphs 330 and 340 of the WHO Manual and the document entitled "Revision of the Contract Review Committee (CRC)" adopted by WHO Information Note 18/2004 ("New Rules for the Contract Review Committee").~~

17. The Contract Review Committee is responsible for reviewing contractual arrangements under the circumstances set forth in the Rules of the Contract Review Committee (i.e., most notably, when the contractual amount exceeds US\$ 150,000; all insurance arrangements or commercial concessions on WHO premises; certain amendments increasing previous contractual arrangements; where the contracted work is part of a larger piece of work involving a total expenditure that may exceed US\$ 150,000; whenever the responsible procurement officer so decides.)²²

²² See, in particular, CRC Rules, paragraphs 11 and 12, Information Note 18/2004.

18. The Contract Review Committee is responsible for verifying that the selection process has been carried out in accordance with the relevant procurement procedures and that it has been based on fairness, integrity and transparency and that the proposed selection of a contractor is in the best interest of the Global Fund. As a general rule, the lowest responsive bid is presumed to be in the best interest of the Global Fund, but other conditions or circumstances, relating in particular to quality, time or to the financial implications of the proposed arrangement, could make it desirable to choose a bid other than the lowest. The Contract Review Committee may reject any or all bids when it considers this to be in the interests of the Global Fund.
19. Since the choice of the vendor to whom the contract is to be awarded may be predetermined by the specification of the item prepared by the requisitioner, the Contract Review Committee may request additional justification for purchasing from a particular vendor or a change in the specification in order not to preclude the possibility of obtaining competitive bids if, in its opinion, the interests of the Global Fund so require.
20. All decisions are recorded and filed. The files are retained for at least three years.

Authority to Execute Contracts

21. ~~The Chief Operating Officer~~ Director, Business Services, or a designated alternate in his/her absence, will approve on behalf of the Global Fund the recommendations of the Contract Review Committee or those of the Global Fund contract specialist as the case may be. ~~The Chief Operating Officer or a designated alternate in his/her absence will sign the related contracts awarded by the Global Fund. However, if the Director, Business Services~~ him/herself has requisitioned the contract, the Deputy Executive Director, or a designated alternate in his/her absence, will approve the recommendations of the Contract Review Committee or those of the Global Fund contract specialist, as the case may be, with respect to such contract.
22. Authority to designate the Global Fund Secretariat officials authorized to raise obligations and incur expenditures on behalf of the Global Fund (acting in accordance with WHO Financial Regulations and Rules and related procedures for internal control and where appropriate in accordance with the Log of Administrative Adaptations and Exceptions for the Global Fund) has been delegated by the Director General of the WHO to the Executive Director of the Global Fund pursuant to a letter dated December 16, 2002 from Gro Harlem Brundtland to Richard Feachem.
23. Moreover, pursuant to the above referenced letter of December 16, 2002, the authority to execute contracts awarded by the Fund is as stipulated by the Executive Director of the Global Fund from time to time.

Draft Paper on A Process to Develop a Policy On Donations of Products and Services

Part 1: Background

1 The matter of donations of products and services was considered by the Global Fund Board and its committees on several occasions. The Board minutes from the Report of the Eighth Board Meeting the (GF/B9/2, Agenda Item 11, Point 16) state “Subsequent to the Board further considering the original recommendations set out in the Board papers, no decision was taken by the Board in regard to In-Kind Donations²³”

2 The potential scope of donations of products and services includes pro bono consulting services, management expertise, drugs, medical equipment and non-health related commodities. Some argue that donations represent a significant opportunity for the Global Fund, while others argue that they represent a threat to the Global Fund and the country programs.

3 The board requested the Chair of the Finance and Audit Committee (FAC), Mr Jerry O’Dwyer, to lead a renewed discussion on product and service donations as part of the Resource Mobilization Framework. The Policy and Strategy Committee (PSC) has also had the opportunity to review the prospect for product and service donations during the development of strategies and options for “Optimizing Global Fund Resource Mobilization” as part of Batch 2 of strategic issues.

4 The sections below propose the structure and process to enable the Global Fund to renew a discussion on product and service donations. A Joint Steering Group composed of PSC and FAC members has been nominated by the two committees. In addition, a Technical Working Group is proposed that would undertake the necessary work and engage technical and expert advisers.

Part 2: Guiding Principles For Process

- (a) Follow transparent, consultative and results-driven process throughout;
- (b) Work with the relevant, existing committees of the Global Fund;
- (c) Build on existing work to date at the Global Fund and consider the lessons learned;
- (d) Rely on technical working group that is composed of experts on the issues;
- (e) Address key concerns of stakeholders and potential recipients;
- (f) Aspire to achieve long-term dynamics based on a competitive market for all products and services of assured quality with uninterrupted sources of supply;
- (g) Develop a fair and objective process for issue analysis, option development that is based on consultations and reliable information supplied by a technical expert group (with full economic and impact assessments on market mechanisms as well as on programmes) - *before* recommendations are made to the relevant Global Fund committees.

²³ The discussion on in-kind donations at the 8th Board Meeting was based on the Report of the Portfolio Management and Procurement Committee (GF/B8/9), which proposed a decision point to “a. Accept in principle in-kind donations of non-pharmaceutical products and services, and b. Explore the potential of in-kind donations of pharmaceutical products”. The Board did not approve this decision point, nor did it approve several amended versions of this decision point proposed during the discussion. Thus, no decision point was recorded in the final Decision Points of the 8th Board Meeting. The discussion that took place is summarized in the Report of the Eighth Board Meeting ((GF/B9/2, Agenda Item 11, Point 16).

Part 3: Proposed Structure And Terms Of Reference Of Working Groups

Joint Steering Group on Product & Service Donations

Structure:

This group would represent a joint steering group of the PSC and FAC committees

Roles:

- (i) To define the process through which this issue will be addressed
- (ii) To guide the analysis, key questions and review discussion papers submitted by the Technical Working Group (see below)
- (iii) To carry out the final consultative process with Board members, especially with recipients prior to submission of recommendations
- (iv) To submit recommendations to the Board on appropriate policies on product and service donations

Composition:

- (i) Chaired by Chair of FAC, as mandated by the Board leadership
- (ii) Committee composed of two members of PSC and two members of FAC and the Chair.
- (iii) Considering the functions of the group and the complexity of the issue, nominated PSC and FAC members should be committed to an open, constructive dialogue and be influential within their respective committees.
- (iv) Representation of at least one recipient country, one donor country, one private sector and one NGO delegate.

Technical Working Group on Product & Service Donations

Structure:

The Technical Working Group is the entity that undertakes the work necessary to develop discussion papers for submission to the Joint Steering Group on Product and Service Donations

Roles:

- (i) To review previous assessments discussed at the Global Fund Board and identify new developments since last board decision on donations;
- (ii) To identify the lessons learned, potential positive and negative impacts of product and service donations to the Global Fund based on learning from on going donations of products and services relevant to Global Fund;
- (iii) To set the key questions for analysis;
- (iv) To lead the analyses of key questions by engaging experts, economists, consultants, recipients, procurement agencies and a broad range of both NGOs and private sector companies with experience in these types of donations;
- (v) To develop policy options from the output of the analysis;
- (vi) To carry out the consultative process with key experts (from the fields mentioned above); and
- (vii) To submit discussion papers to the Joint Steering Group on Product and Service Donations.

Composition:

- (i) Core working group of four to six members with sufficient knowledge of the Global Fund, its recipients, donors and board as well as insight and in-depth experience in product and service donations and procurement.
- (ii) The members will be nominated by members of Joint Steering Group on Product and Service Donations.
- (iii) Additional experts would be invited to join regularly or on an ad-hoc basis. Participation of experienced government, academics, UN and procurement agencies as well a broad range of private sector organisations (e.g. both brand and generic pharmaceutical manufacturers) as well as NGOs (e.g. both those that handle in-kind donations and those that advocate against it) that have specific areas of relevant expertise will be invited to meetings and will be consulted.

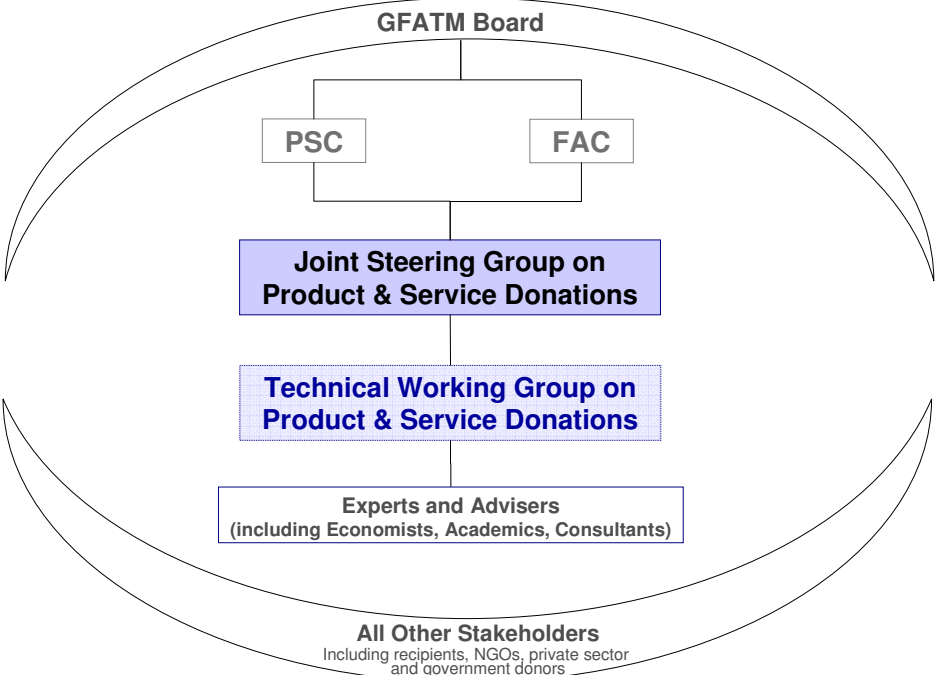


Figure 1: Proposed architecture for Steering and Technical Working Groups on Product and Service Donations

Part 4: Proposed Process and Timings

Overall process driven by Steering Group

The overall process would require guidance from the Steering Group through the following important iterative phases before submission of a discussion paper with recommendations to the Board.

- (i) Definition of overall process;
- (ii) Situation analysis & identification of key questions;
- (iii) Consultation of all stakeholders;
- (iv) Development of strategic options;
- (v) Submission of recommendations.

Process of analysis driven by Working Group

The analysis would require a phased process of reviewing existing work and practices, categorization and quantification of potential pledges of products and services, mapping of the issues within each category, exploration of market impact before strategic options and their implications could be developed. This should include, but not be limited to, the following steps:

- (i) Perform review of existing assessments on product & service donations undertaken at the Global Fund and elsewhere (both formal and informal), identifying areas of work that needing updating and attention (e.g. market sizing).
- (ii) Perform a review of selected existing donation programmes and practices, considering both positive and negative impacts, best practices and major issues of concern
- (iii) Segment major donations categories (product & services, health & non-health, drug & non-drug etc), quantify financial implications and identify key issues, concerns and questions* to be addressed for each category of donations
- (iv) Focus on key questions* by conducting discrete economic analyses with defined scope to determine:
 - a. the cost-benefit balance and actual savings achieved by other agencies (e.g. UNICEF) and NGOs (e.g. Direct Relief) that have direct experience in handling donations, considering the resources required to coordinate and administer donations of products and services
 - b. the predicted savings for the Global Fund with donations, compared to lowest cost of recommended and priority products and services of assured quality
 - c. the potential market impact of donations of products and services, in terms of encouraging or discouraging competition, considering impact country government systems and non-Global Fund health programmes.
- (v) Identify specific strategic options for each major donation category, outlining assumptions and implications of each option

* Key issues and concerns previously raised include:

- Sustainability and scalability of product and service donations;
- Conflicts of interest; and undue influence on Global Fund decision making;
- Market distortions considering international and local competition & pricing;
- Cost vs. savings of coordination mechanism and absorptive capacity of Global Fund;
- Financial and administrative costs for recipient countries to receive donations;
- Potential impacts on other programs;
- Conditions under which companies (as donors) will be motivated to donate significant amounts and the conditions they may require for their donations;
- Quality assurance of donations;
- Valuation of donations.

Proposed Timelines

Selection of Steering Group on Product & Service Donations	already done
Fourteenth Board Meeting	November 2006
1 st meeting of Joint Steering Group on Product & Service Donations	November 2006
Selection of Technical Working Group on Product & Service Donations	November 2006
Technical Working Group submission of discussion paper to Steering Group	February 2007
2 nd meeting of Joint Steering Group on Product & Service Donations	February 2007
Round of consultations	Feb-April 2007
Studies and analysis	Feb- August 2007
Fifteenth Board Meeting	April 2007
Technical Group strategic option paper submission to Steering Group	September 2007
3 rd meeting of Joint Steering Group on Product & Service Donations	September t 2007
Round of consultations with stakeholders	Aug-Oct 2007
Steering Group submission of recommendations to Board	October 2007
Sixteenth Board Meeting	November 2007

PROPOSED 2007 BUDGET
FOR OPERATING EXPENSES OF THE GLOBAL FUND
Subject to further adjustment on conclusion of consideration by FAC

Introduction

This paper outlines the 2007 proposed budget for Operating Expenses of the Global Fund, as proposed by the Secretariat (and by the Inspector General in respect of the OIG budget) and as adjusted following review by the FAC. The budget is subject to further adjustment on conclusion of continuing discussion by the FAC in order, if possible, to reach an agreed position on the budget prior to making a recommendation to the Board.

Part 1: Overview of the 2007 Proposed Budget

Part 2: Secretariat Expenses

Part 3: In-country Oversight

Part 4: Office of the Inspector General

Part 1: Overview of the 2007 Proposed Budget***Introduction***

- 1 The Operating Expense budget proposed for 2007 totals **US\$ 105.5 million**, representing an increase of 22 percent on the 2006 budget.
- 2 The principal factors underlying the budgetary increase are:
 - a. Growth in the grant portfolio, which is expected to increase by 19 percent from 2006 to 2007 as Round 6 grants commence, before taking account of any further new rounds.
 - b. Additional in-country oversight services to enhance performance based funding. These measures are directed at strengthening monitoring and evaluation capacity at country level and improving the quality of programmatic data reported by grant recipients, in response to the recommendations of the TERG and as requested by the Board.
 - c. Increased activity of the Office of the Inspector General as the office scales up towards full operating capacity.
- 3 The budget is derived from detailed workplans for each Secretariat team, which have been consolidated by unit into a Summary Workplan and Budget that has been reviewed by the FAC.
- 4 The Fourteenth Board Meeting will consider a number of separate decisions arising mainly from the strategy development process. These decisions have budgetary implications totaling US\$ 15 million in 2007. If all of these decisions were approved, the overall budget for 2007 would expand to US\$ 120.6 million.

The Main Numbers

5 Prior to taking account of the budgetary implications of the separate decisions regarding strategy and other matters, and without provision for any new rounds after Round 6, the budget amount totals **US\$ 105.5 million**, as summarised below:

US\$ millions	2006	2006	2007	% Increase on 2006 Budget	2008	2009
	Budget	Forecast	Budget		Indicative	
Secretariat	64.1	60.5	74.7	16%	80.9	84.7
Office of the Inspector General	2.0	2.0	2.8	37%	3.3	3.3
In-country Oversight	22.8	26.0	31.1	37%	29.6	27.8
Total Operating Expenses (before new Rounds after Round 6)	88.9	88.5	108.5	22%	113.8	115.8
less: Efficiency/savings Target	(2.5)	(2.5)	(3.0)	20%		
Net of Efficiency/Savings Target	86.4	86.0	105.5	22%	113.8	115.8

Staff numbers: (Fixed-term and short-term)	2006	2006	2007 Proposed		% Increase on 2006 Budget	2008	2009
	Posts	Posts	FTEs	Posts		Posts	Posts
	Approved	Forecast	Budget	Budget		Indicative	
Secretariat	252	252	284	298	18%	317	333
Office of the Inspector General	8	8	12	15	88%	15	15
Total Staff	260	260	296	313	20%	332	348

Note: The indicative numbers for 2008 and 2009 are as estimated by the Secretariat and will be revised prior to Board consideration of the budgets for those years; these indicative numbers have not been reviewed by the FAC and are provided for information only.

6 The budget proposes an increase of staff in the Secretariat to 298 posts (including 42 short-term) and in the OIG to 15 posts. Taking account of the dates during which additional staff would commence in the course of 2007, the staffing need during 2007 would equate to 296 full-time equivalents (FTE). By the end of 2007, the workforce would total 313 (including OIG).

7 If all of the decisions regarding strategy and other matters being considered separately by the Board were approved, the budget and staffing would increase for the duration of the projects, impacting 2007 as follows:

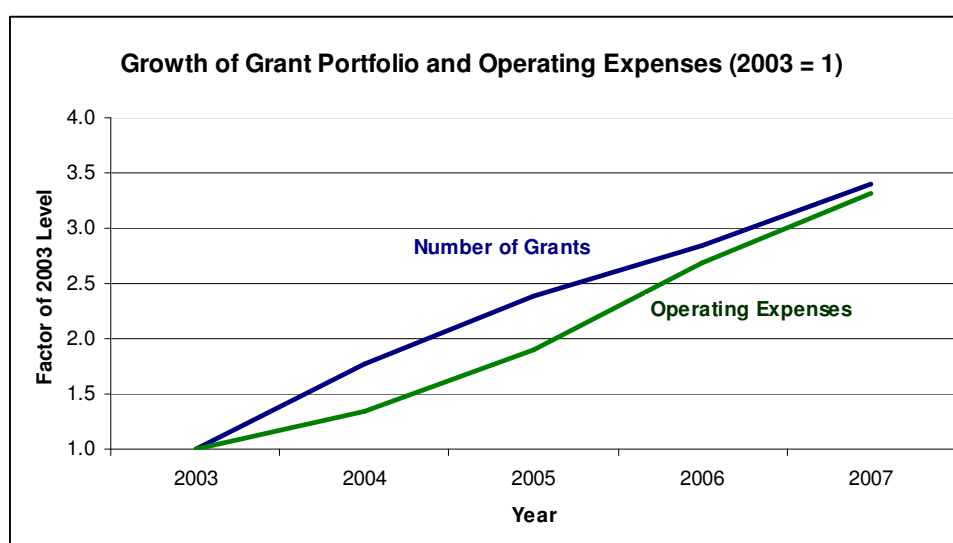
Overall Budget, if all decisions are approved		2007		For project duration only		Ongoing need	
		US\$ '000	Staffing (Posts)				
Budget, prior to separate decision points		105,549	313				
Budgetary implications in 2007 of other decision points being considered at 14th Board meeting:							
PSC	Grant consolidation*	1,148	4.0	4.0			
PSC	Five-year evaluation	12,592	2.5	2.5			
PSC/FAC	Resource Mobilization Strategy	631	2.0	1.0	1.0		
PSC	'Rolling Continuation' of Grants	269	2.0	1.0	1.0		
FAC	Transitions Options Project - 2 nd phase	300	-				
PSC	2008 Partnership Forum, preparation	100	1.0	1.0			
		15,040	11.5	9.5		2.0	
Total, if all above decisions are approved		120,589	325				

* Grant consolidation includes US\$ 240,000 for In-country Oversight services

- Of the 11.5 staff related to these decisions, 9.5 are needed for the duration of the projects only, and two positions would be required to continue beyond the project duration.
- Of the US\$ 15 million additional costs, approximately 95 percent would end on completion of the projects (ranging from six months to two years, approximately). Costs of an ongoing nature arise only in the case of implementing the resource mobilization strategy and the Rolling Continuation of Grants.

Comparison with growth of grant portfolio

8 The chart below compares growth in Operating Expenses (i.e., all costs other than grant expenditures), with the growth in the grant portfolio (number of active grants) since 2003. Taking the 2003 levels as “1”, the grant portfolio is forecast to have grown to a factor of 3.4 by the end of 2007, and Operating Expenses to a factor of 3.3 over the same period. This is a simple comparison based on grant numbers and does not take into account the growth in grant management complexity over that period.



Ratios

9 Based on the budget as proposed and taking account of growth in the grant portfolio following approval of Round 6, the evolution of key operating expense ratios is as follows:

Key Ratios	2004	2005	2006	2007
	Actual	Actual	Forecast	Budget
Operating Expenses as:				
As % of Expenditure ^(a)	4.8%	3.9%	3.9%	4.6%
As % of Disbursements ^(b)	6.8%	5.8%	5.7%	6.2%
As % of Value of Active Grants ^(c)	2.2%	1.7%	1.5%	1.3%
Operating Expenses per Active Grant ^(d)	\$230k	\$217k	\$243k	\$250k

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

Note: The above chart and ratio table do not include the budgetary implications of the separate Board decisions mentioned at 7 above, which could increase the 2007 budget by up to US\$15 million.

Part 2: Secretariat Expenses

1 The Secretariat budget, which has been compiled through detailed work plans for each team, is summarised below. The Secretariat workplan has been reviewed by the FAC (GF/FAC7/10 Annex 3).

In US\$m	2006	2006	2007	Change	
	Budget	Forecast	Budget		
<i>By Function</i>					
Secretariat Expenses					
Operations	21.1	19.9	24.3	3.3	16%
Performance Evaluation & Policy	5.1	5.1	6.1	1.0	19%
External Relations	10.0	10.3	11.7	1.6	16%
Office of the Executive Director	3.9	2.7	4.4	0.4	10%
Business Services	17.0	16.9	20.6	3.6	21%
Finance	3.9	3.9	4.4	0.5	12%
Legal	1.8	1.5	2.1	0.3	16%
Office of the Chair of the Board	0.2	0.2	0.1	(0.1)	-51%
Contingency	1.0		1.0		
Secretariat	64.1	60.5	74.7	10.5	16%
Office of the Inspector General	2.0	2.0	2.8	0.7	37%
In-country Oversight	22.8	26.0	31.1	8.3	37%
Total Operating Expenses	88.9	88.5	108.5	19.6	22%
Efficiency Target	(2.5)	(2.5)	(3.0)	0.5	-20%
Net of Efficiency Target	86.4	86.0	105.5	20.1	23%
<i>By Expense Type</i>					
In US\$m	2006	2006	2007	Change	
	Budget	Forecast	Budget		
Staff	32.0	33.1	39.5	7.4	23%
Professional fees	10.9	8.9	13.5	2.6	24%
Travel & meetings	10.6	9.1	13.0	2.4	22%
Office infrastructure	7.8	7.3	7.5	(0.3)	-4%
Communication materials & services	1.8	2.0	1.4	(0.4)	-21%
External co-funding			(1.2)	(1.2)	
Contingency	1.0		1.0		
Secretariat	64.1	60.5	74.7	10.5	16%
Office of the Inspector General	2.0	2.0	2.8	0.7	37%
In-country Oversight	22.8	26.0	31.1	8.3	37%
Total Operating Expenses	88.9	88.5	108.5	19.6	22%
Efficiency Target	(2.5)	(2.5)	(3.0)	(0.5)	20%
Net of Efficiency Target	86.4	86.0	105.5	19.1	22%

2 The increase of 16 percent in Secretariat expenses is in the context of a 19 percent increase in the number of grants being managed, from 354 grants in 2006 to 433 in 2007 (average number of active grants throughout the year).

Comparison with 2006

3 Further details of the budget composition and the changes that comprise the 16 percent increase in the Secretariat budget from 2006 to 2007 are provided below:

Budget 2006	Budget 2006 (US\$'000)									
	TOTAL	Staff	Professional fees	Travel	Meetings	Office infra-structure	Communication materials & services	External co-funding	LFA Services	Contingency; Efficiency target
Secretariat:										
Operations	24%	21,052	13,574	2,004	3,747	1,087	60	580	-	-
Performance Evaluation & Policy	6%	5,146	3,507	933	313	270	34	89	-	-
External Relations	12%	10,047	4,344	1,015	2,325	1,374	38	951	-	-
Office of the Executive Director	5%	3,949	2,541	723	488	151	18	28	-	-
Business Services	20%	17,020	5,648	3,115	443	93	7,617	105	-	-
Finance	5%	3,945	1,317	2,590	11	3	25	-	-	-
Legal	2%	1,786	1,108	410	267	-	-	-	-	-
Office of the Chair of the Board	0%	193	-	109	52	-	32	-	-	-
Contingency	1%	1,000	-	-	-	-	-	-	-	1,000
Secretariat	74%	64,139	32,039	10,899	7,646	2,977	7,824	1,753	-	1,000
Office of the Inspector General	2%	2,014	1,340	300	100	-	235	40	-	-
In-country Oversight	26%	22,764	-	-	-	-	-	-	22,764	-
Total, before efficiency target		88,917								
Efficiency target	-3%	(2,500)								(2,500)
Total Operating Expenses	100%	86,417	33,379	11,199	7,746	2,977	8,059	1,793	22,764	(1,500)

\$86m

Budget 2007	Budget 2007 (US\$'000)									
	TOTAL	Staff	Professional fees	Travel	Meetings	Office infra-structure	Communication materials & services	External co-funding	LFA Services	Contingency; Efficiency target
Before new Rounds after Round 6										
Secretariat:										
Operations	23%	24,336	16,941	1,134	4,096	1,766	-	399	-	-
Performance Evaluation & Policy	6%	6,145	4,215	1,027	407	370	20	106	-	-
External Relations	11%	11,651	5,695	2,155	3,007	1,121	126	732	(1,185)	-
Office of the Executive Director	4%	4,358	2,647	960	500	191	22	39	-	-
Business Services	20%	20,602	7,058	5,042	1,036	90	7,266	110	-	-
Finance	4%	4,427	1,645	2,740	15	3	25	-	-	-
Legal	2%	2,068	1,283	430	355	-	-	-	-	-
Office of the Chair of the Board	0%	95	-	55	24	-	16	-	-	-
Contingency	1%	1,000	-	-	-	-	-	-	-	1,000
Secretariat	71%	74,682	39,484	13,542	9,439	3,541	7,475	1,386	(1,185)	1,000
Office of the Inspector General	3%	2,761	1,921	306	163	-	351	20	-	-
In-country Oversight	29%	31,107	-	-	-	-	-	-	31,107	-
Total, before efficiency target		108,549								
Efficiency target	-3%	(3,000)								(3,000)
Total Operating Expenses	100%	105,549	41,405	13,848	9,602	3,541	7,826	1,406	(1,185)	31,107

\$106m

Changes from 2006 to 2007	Changes from Budget 2006 to 2007 (US\$'000)									
	TOTAL	Staff	Professional fees	Travel	Meetings	Office infra-structure	Communication materials & services	External co-funding	LFA Services	Contingency; Efficiency target
(These are incremental amounts)										
Secretariat:										
Operations	16%	3,284	3,367	(870)	348	679	(60)	(181)	-	-
Performance Evaluation & Policy	19%	998	708	93	94	100	(14)	17	-	-
External Relations	16%	1,604	1,351	1,140	682	(253)	88	(219)	(1,185)	-
Office of the Executive Director	10%	409	105	237	12	39	4	11	-	-
Business Services	21%	3,582	1,410	1,927	593	(2)	(350)	5	-	-
Finance	12%	482	328	150	4	-	-	-	-	-
Legal	16%	283	175	20	88	-	-	-	-	-
Office of the Chair of the Board	-51%	(99)	-	(55)	(28)	-	(16)	-	-	-
Contingency		-	-	-	-	-	-	-	-	-
Secretariat	16%	10,542	7,445	2,643	1,793	563	(349)	(367)	(1,185)	-
Office of the Inspector General	37%	746	581	6	63	-	116	(20)	-	-
In-country Oversight	37%	8,344	-	-	-	-	-	-	8,344	-
Total, before efficiency target	22%	19,632								
Efficiency target	20%	(500)								(500)
Total change on prior year	22%	19,132	8,026	2,649	1,856	563	(233)	(387)	(1,185)	8,344

\$19m

Staff Numbers

4 The budget proposes an increase of staff in the Secretariat to 298 posts and in the OIG to 15 posts (fixed-term and short-term). Taking account of the dates during which additional staff would commence in the course of 2007, the staffing need during 2007 would equate to 296 full-time equivalents (FTE). By the end of 2007, the workforce would total 313 (including OIG).

5 Of the total staff budgeted, 13 percent are on short-term contracts (up to 11 months) and the remainder are on fixed-term contracts (typically of a two-year duration).

Staff numbers: (Fixed-term and short-term)	2006	2007 Proposed		Change	
	Posts	FTEs	Posts	Posts	%
	Approved	Budget	Budget		
Operations	106	124	132	26	25%
Performance Evaluation & Policy	28	30	31	3	11%
External Relations	35	41	43	8	24%
Office of the Executive Director	17	17	18	1	6%
Business Services	49	52	54	6	11%
Finance	10	12	12	2	20%
Legal	8	9	9	1	13%
Secretariat	252	284	298	46	18%
Office of the Inspector General	8	12	15	7	88%
Total Staff	260	296	313	53	20%

Fixed-term (2 year)	206	271	87%
Short-term (up to 11 months)	54	42	13%

Causes of the 16 Percent Increase in Secretariat budget

6 The factors causing the 16 percent increase in the Secretariat budget needs for 2007 are detailed for each unit in the Secretariat work plan that has been reviewed by the FAC (GF/FAC7/10 Annex 3).

7 The US\$ 10.5 million increase in Secretariat expenses is comprised as follows:

Staff costs	US\$ 7.4 million
Professional Services	US\$ 1.5 million (net of external co-funding)
Travel & Meetings	US\$ 2.3 million
Office costs	US\$ 0.7 million (reduction on 2006 needs)

8 Staff costs (US\$ 7.4 million): Staff numbers will increase by 18 percent in total, with cost increases in the following areas:

- US\$ 4.1 million in Global Fund Portfolio Operations and Performance Evaluation and Policy, which will manage 19 percent more grants in 2007.
- US\$ 1.4 million in External Relations. Of this, 60 percent is for the further development of private sector partnerships (including Product RED) and global partnerships (including IDPF-UNITAID and GFDC). A further 25 percent is to support Board and Donor Relations, including for replenishment.
- US\$ 1.4 million in Business Services, to strengthen the HR, IT and contracting teams and to provide further support to Operations and to PRs on grant-related procurement matters.
- The remaining US\$ 0.5 million is in Finance, Legal and OED, due mainly to increased workload as the grant portfolio increases.

9 Professional fees (US\$ 1.5 million), comprised:

- a. US\$ 0.5 million for Secretariat-wide training. This one-time investment is urgently required and has been postponed in previous years' budgets
- b. US\$ 0.4 million to upgrade staff performance management process and develop associated systems (one-time investment)
- c. US\$ 0.4 million for IT systems development to support mainly PEP and HR needs.
- d. US\$ 0.6 million to provide for increased Administrative Services Agreement fee.
- e. -US\$ 0.4 million from net reductions in other needs

10 Travel and meetings (2.3 million), comprised:

- a. US\$ 1.0 million for Global Fund Portfolio Operations, for visits to an increased number of grants as well as visits and meetings in response to Board and donor mandated-initiatives such as efforts to harmonize and align programs with partners in-country, fulfill GTT requirements, strengthen CCMs and undertake joint missions and build partnerships in-country.
- b. US\$ 0.4 million for Board and Donor Relations, mainly for Replenishment
- c. US\$ 0.2 million for to support the TERG and for harmonisation of M&E and data systems.
- d. US\$ 0.5 million for recruitment travel
- e. US\$ 0.2 million for in-country support on procurement matters and legal support to grant management

Part 3: In-country Oversight (LFA services)

1. The in-country oversight provided by Local Fund Agents (LFA) is a key element of the Global Fund's fiduciary architecture. The Global Fund relies upon the LFA to assess Principal Recipient (PR) capacity prior to grant signing and to provide ongoing oversight and verification of the use of Global Fund financing by monitoring the grants throughout the life of the grant agreement. These LFA functions are further described below.

2. The in-country oversight budget proposed for 2007 shows a **37 percent** increase compared to 2007, however only 7 percent results from "usual" LFA activities. The increase is comprised as follows:

- a. 7 percent (US\$ 1.5 million) relates to the usual LFA services, driven mainly by an increased number of grants to be monitored by LFAs in 2007 (when Round 6 is included). This increase is partially offset by there being fewer Phase 2 renewal requests to be reviewed by LFAs in 2007.
- b. 18 percent (US\$ 4 million) arises from comparing 2007 with a 2006 budget that had been reduced by a US\$ 4m savings target (that is unlikely to be achievable and hence has not been applied in 2007)
- c. 12 percent (US\$ 2.8 million) is for new measures to enhance in-country data quality and M&E capacity in response to Board and TERG requests, of which five percent is a one-time investment.

3. Hence the main additional cost that has been provided for in 2007 is to finance a number of measures that require LFA involvement to improve aspects of in-country data quality and monitoring and evaluation capacity that have been requested by TERG and the Board on a number of occasions, as outlined further below. To implement these measures, an investment of **US\$ 2.8 million** is proposed for 2007, comprised as follows:

- a. US\$ 1.2 million is a one-time cost to apply the enhanced M&E assessment to existing PRs. (In response to FAC guidance, this catch-up exercise will be phase over 2007 and 2008, with a further US\$ 1.2 million to be invested in 2008 to complete the coverage of existing PRs).
- b. US\$ 1.1 million is provided to perform Data Quality Audits on five percent of grants in 2007. These audits, by specialist firms, are to ensure that appropriate data management systems are in place, and to verify the quality of reported data for key indicators at selected sites. There will be two triggers for launching such audits: random selection of grants each year, and targeting of high-risk or problematic grants (especially in the lead-up to Phase 2 renewal decisions. (In response to FAC guidance, five percent of grants will be audited in 2007, scaling up to ten percent in 2008.)
- c. US\$ 0.5 million is for special verification of programmatic results for selected grants that represent a significant element of overall performance of the portfolio in a particular area. This is required when such performance is being consolidated for reporting to Replenishment, Board or other major fora. The additional verification is necessary in cases where the most recent verified data (i.e. for the last disbursement, which may be six months prior) is out-of-date.

4. In summary, the expansion of budget is as follows:

2006 Budget:	US\$ 22.8 m <u>US\$ 4.0 m</u> US\$ 26.8 m	Budgeted for 2006 Add-back 2006 savings target
Increases in 2007:	US\$ 1.5 m <u>US\$ 2.8 m</u>	Increased grant volume, for 'usual' activities To enhance in-country data quality and M&E capacity
2007 Budget: <u>US\$ 31.1 m</u>		

The LFA functions (including new measures in 2007 to improve PR data quality and M&E capacity)

5. The functions performed by the LFA over the grant lifecycle fall into the following categories:

- (1) **Assessments** of PR capacity, prior to grant signing, in four areas: Financial Management and Systems, Institutional and Programmatic arrangements, Procurement and Supply Management, and Monitoring and Evaluation. This phase also includes review by the LFA of the grant budgets, workplan and indicators, and review of the first disbursement request.

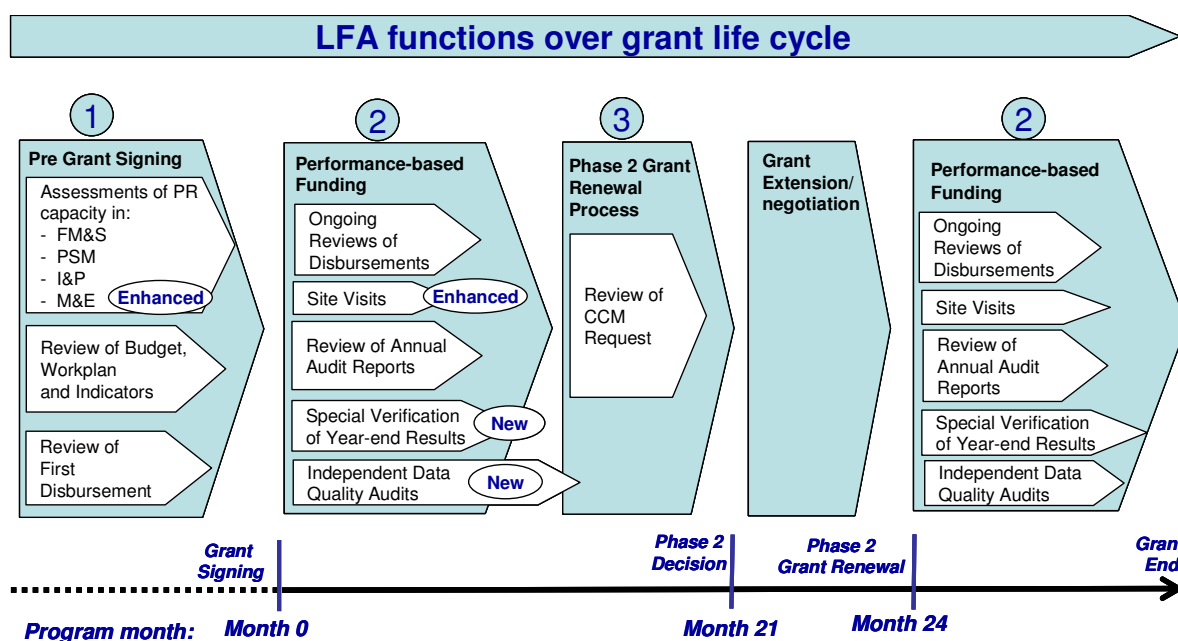
In 2007, the M&E assessment process will be upgraded and expanded in scope using a mechanism co-developed with PEPFAR, WHO and other partners, as described further in the table at 9 below. This will be incorporated into the assessment process for new PRs, and a one-time catch-up exercise will be undertaken to apply the enhanced assessment process to existing PRs, as mentioned above.

- (2) **Verification of Implementation**, which provides oversight of performance-based funding throughout Phase 1 and Phase 2 of the grant. This includes review of grant disbursement requests and associated visits to PR and review of external audit reports. In 2007, the number of LFA site visits for each grant will be increased to include at least one data verification visit to two or more sites that account for key programmatic indicators.

Also in 2007, LFAs will be asked to undertake two new activities:

- i) special verification of year-end programmatic results to better fulfill reporting needs to the Replenishment, the Board and other stakeholders; and
 - ii) (ii) Data Quality Audits: the roll-out of assessment and audit tools to improve the quality of programmatic data and systems in grants and countries.
- (3) **Phase 2 Review** of the CCM Request for Continued Funding, to inform the decision whether to renew a grant at the end of Phase 1.
- (4) **Ad hoc tasks** may be assigned to the LFA as required to supplement the planned oversight activities. Such tasks include grant closures, reviews by Procurement and Supply Management experts, assessment of sub-recipients in Additional Safeguard countries, activities to support OIG missions, and handover tasks when an LFA is changed.

6. The chart below summarises the LFA functions over the grant lifecycle, flagging the services planned to be enhanced or added in 2007.



7. As mentioned above, some enhanced and some new measures to improve aspects of data quality and monitoring and evaluation capacity are planned for 2007. These improvements to strengthen the performance-based funding architecture are being implemented in response to requests of the Board and of the TERG, which recommended that "Quality Assurance mechanism be developed ... [including] tools that PRs can use to improve their internal quality assurance procedures as well as external assessments by the LFAs and sample quality audits".

8. Previously, all in-country oversight services have been provided by the Global Fund's "traditional" Local Fund Agents, which are mainly audit and accountancy firms. It is proposed to seek the services of other specialist firms for some elements of new measures planned for 2007, in instances where such firms offer expertise that is more appropriate to the need. Having regard to the Board-mandated separation of the budget for LFA Services from all other expenses, the attention of the Board is drawn to this.

9. The proposed budget for In-country Oversight is as follows:

In-country Oversight		2006 Budget		Before new rounds after Round 6		2007		Change	
		US\$		US\$		US\$ million			
1	Assessments of PRs (To assess PR capacity prior to grant signing and on change of PR)	No. of new grants Average cost Budget	84 \$53,252 4,473,168	79 \$51,647 4,080,113				(0.4)	
2	Verification of Implementation (To monitor implementation throughout the grant duration)	No. of active grants Average cost Budget	371 \$42,900 15,915,900	422 \$47,721 20,138,262				4.2	
3	Phase 2 Renewal Reviews (To inform decision making on Phase 2 renewal request)	No. of Phase 2 reviews Average cost Budget	126 \$30,750 3,874,500	71 \$29,810 2,116,510				(1.8)	
4	Ad-hoc Tasks (Including grant closures, reviews by Procurement and Supply Management experts, assessment of sub-recipients in Additional Safeguard countries, activities to support OIG missions, LFA handovers, etc.)		2,500,000	1,975,000				(0.5)	
Total, before savings target (note a)			26,763,568	28,309,885				1.5	7%
Savings target (2006)			(4,000,000)					4.0	18%
Total before new services planned for 2007			22,763,568	28,309,885				5.5	
			\$ 22.8 m						
<u>New measures planned for 2007, to enhance in-country data quality and M&E capacity, in response to requests of the Board and the TERG:</u>									
5	One-time catch-up to apply the new M&E self assessment to existing PRs The current M&E assessment process will be upgraded and expanded in scope using a mechanism co-developed with PEPFAR, USAID, MEASURE Evaluation, HNM, WHO and other partners. The new mechanism is designed to improve M&E capacity, under one common system consistent with the 'three-ones' principle. Previously, the LFA was solely in charge of the M&E assessment. Under the new mechanism, the PRs perform a detailed self-assessment through a workshop with relevant stakeholders. The LFA is in charge of reviewing and analyzing the completed M&E self-assessment and recommending adjustments to grant budgets, work plans and M&E plans. (Note: For new PRs, the M&E self-assessment costs will form part of the normal LFA Assessment work; the task below is a one-time catch-up for existing PRs.)								
	<u>Cost, if applied to 50% of PRs in 2007 (and the remainder in 2008):</u>	No. of countries		55					
	Review and follow-up by LFA of M&E self-assessment	Cost per country		\$13,825	760,375				
	Workshops - venue and facilitation costs (note b)	Cost per country		\$7,500	412,500				
		Total			1,172,875			One-time	5%
6	Independent Data Quality Audit (note b) <u>Cost, if applied to 5% of grants in 2007 (scaling-up to 10% in 2008):</u> This is for the roll-out of assessment and audit tools to improve the quality of programmatic data and systems in grants and countries.	No. of grants Cost per grant		21 \$52,400	1,100,400				5%
7	Special verification of end-of-year programmatic results To be performed each year for a selection of grants where additional verification is required of results that are reported to donors, the Board and the Replenishment.				524,000				2%
Sub-total: Cost of the additional services in 2007					2,797,275			2.8	12%
Overall cost, including the additional data quality and M&E measures in 2007					31,107,160			Increase	
			2006: \$ 22.8 m		2007: \$ 31.1 m		\$ 8.3 m 37%		

Notes

- (a) The 2006 budget was after deduction of an aspirational savings target of US\$ 4 million that is unlikely to be achievable. The proposed budget for 2007 before new services represents a 6% increase on the 2006 budget before the savings target. This reflects provision for a 3% increase in LFA fee rates on renegotiation of contracts (due in 2007, after more than two years) and an increased number of grants following approval of Round 6. It also allows for additional LFA site visits for data verification and application of the new M&E self-assessment to new PRs.
- (b) For these tasks, it is proposed to seek the services of specialist firms other than the traditional LFAs, in instances where such firms offer programmatic expertise that is more appropriate to the need.

Part 4: Office of the Inspector General

The budget proposed by the Inspector General for 2007, totaling US\$ 2.8 million, is set out below.

	2006			Proposed 2007			Indicative 2008		
Staff	1,264,589			1,844,147			2,424,104		
Travel (incl. meetings)	100,000			163,200			228,888		
Training	75,000			76,500			78,030		
Professional Fees	300,000			306,000			312,120		
Office Infrastructure	234,624			350,660			357,673		
Communications Materials	40,000			20,000			20,400		
Total	2,014,213			2,760,507			3,421,215		
% Change on prior year	8			37%			24%		
Total staff	20			32			44		
No. of trips	20			32			44		
Staff	Unit Cost	Qty	Budget	Unit Cost	Qty	Budget	Unit Cost	Qty	Budget
D2F	242,029	1	242,029	246,870	1.0	246,870	251,807	1	251,807
P5F	177,980	1	177,980	181,540	1.5	272,309	185,170	2	370,341
P4F	156,729	4	626,914	159,863	6.0	959,179	163,060	8	1,304,484
P3F	143,447	1	143,447	146,315	1.5	219,473	149,242	2	298,484
G5F	74,219	1	74,219	97,544	1.5	146,315	99,495	2	198,989
				Total FTE	11.5				
				Adjust to Posts	3.5				
		8	1,264,589	Total POSTS	15.0	1,844,147		15	2,424,104
Travel (incl. meetings)	Unit Cost	Qty	Budget	Unit Cost	Qty	Budget	Unit Cost	Qty	Budget
			0			0			0
	5,000	20	100,000	5,100	32	163,200	5,202	44	228,888
		20	100,000		32	163,200		44	228,888
	Av. Cost/Trip		5,000	Av. Cost/Trip		5,100	Av. Cost/Trip		5,202
Training	Unit Cost	Qty	Budget	Unit Cost	Qty	Budget	Unit Cost	Qty	Budget
PR SR Personnel	50,000	1	50,000	51,000	1	51,000	52,020	1	52,020
TGF Personnel	25,000	1	25,000	25,500	1	25,500	26,010	1	26,010
		2	75,000		2	76,500		2	78,030
Professional Fees	Unit Cost	Qty	Budget	Unit Cost	Qty	Budget	Unit Cost	Qty	Budget
			0			0			0
Contractual Services (Investig)	150,000	2	300,000	153,000	2	306,000	156,060	2	312,120
		2	300,000		2	306,000		2	312,120
Office Infrastructure	Unit Cost	Qty	Budget	Unit Cost	Qty	Budget	Unit Cost	Qty	Budget
Office Rent	10,392	8	83,136	10,600	15	158,998	10,812	15	162,178
Equipment and furniture	12,017	8	96,136	12,257	7	85,801	12,502	7	87,517
Office Expenses	6,919	8	55,352	7,057	15.0	105,861	7,199	15	107,978
			234,624			350,660			357,673
Communications Materials									
OIG Webpage (start-up)			40,000			0			0
OIG Webpage/Hot Line Maint.			0			20,000			20,400
			40,000			20,000			20,400