



Investing in our future

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To Fight AIDS, Tuberculosis and Malaria

Report of the Finance and Audit Committee

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

1. Resource Mobilization Task Team
2. Preparing for the Second Voluntary Replenishment
3. Process to Develop a Policy on Donations of Products and Services

Friday:

1. Transition Options Project
2. Revision of Policy on Secretariat Procurement of Goods and services
3. 2006 Operating Expenses at Mid-Year
4. 2007 Proposed Budget for Operating Expenses



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Establishment of a Resource Mobilization Task Team

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

Background

- The Board has recognized the need to intensify efforts in resource mobilization and has mandated PSC and FAC to develop a Resource Mobilization Strategy.
- The committees recommended to seek additional expert advice provided by a special Task Team to complement and expand ongoing efforts in resource mobilization.

Objectives for the Task Team

- Review the current draft resource mobilization strategy and make recommendations as to the most cost effective and beneficial ways of raising additional resources
- 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
- Provide advice on potential expansion of fund raising activities with the private sector and noting any changes in resources that would be required to achieve this expansion
- Explore options to optimize investment returns within an investment policy consistent with best practices of publicly funded institutions

Link to Strategic Discussion on the Size of the Global Fund



- The Board requests the Task Team to develop a resource mobilization strategy for how to achieve the following two target levels, and to highlight in each case the associated implications:
 - US\$ 4-6 billion; and
 - US\$ 8-10 billion annually by 2010.

Composition

- The Task Team on Resource Mobilization will consist of two members each from the Policy and Strategy Committee and the Finance and Audit Committee, not more than four experts on private sector fundraising, at least two experts on public sector resource flows, and one focal point from the Secretariat.
- The Task Team can draw on additional expert advice as required.

Proposed Timeline

- **3 November 2006:** Approval of the creation of a Task Team on Resource Mobilization by the Board and appointment of a Chair for the Task Team
- **Mid-November 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 for consideration at Fifteenth Board meeting

Decision Point

- The Board approves the terms of reference of the Resource Mobilization Task Team (“RMTT”), as set forth in GF/B14/9, Revision 1 (the “Terms of Reference”), and appoints Mr Mike Madnick as its Chair.
- The Board requests the Chair of the RMTT in consultation with the Chair and Vice Chair of the Finance and Audit Committee, and the Chair and Vice Chair of the Policy and Strategy Committee, to establish the membership of the Committee, based on the parameters listed in the Terms of Reference. The Board requests the RMTT to present a report at the Fifteenth Board Meeting.



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Preparing for the Second Voluntary Replenishment

2008 and beyond

*Fourteenth Board Meeting
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Background

- This presentation builds on the discussions at the mid-term replenishment review in Durban, July 4-5 as documented in the Chair's Summary.
- The Board is expected to make recommendations on the Second Voluntary Replenishment including the period to be covered and the leadership of the replenishment.

Length of the Replenishment Period

- The First Voluntary Replenishment covered two years (2006-2007) while replenishments for most other similar institutions cover three years.
- However, the Board might want to consider a longer period covering three years (2008-2010).
- A three year period might also be more efficient in reducing transaction costs for the replenishment.

Number and Location of Meetings

- 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.

Replenishment Leadership

- 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.
- Mr. Sandström has confirmed his availability and Mr. Annan has indicated his interest to consider continuing as replenishment chair in his personal capacity.

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.



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Process to Develop a Policy on Donations of Products and Services

*Fourteenth Board Meeting
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Guiding Principles For Process

- Follow transparent, consultative and results-driven process throughout;
- Build on existing work to date at the Global Fund and consider the lessons learned;
- Rely on technical working group that is composed of experts on the issues;
- 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 *before* recommendations are made to the relevant Global Fund committees.

Role of the Joint Steering Group



- (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
- (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 of the Joint Steering Group

- (i) Chaired by Chair of FAC
- (ii) Committee composed of two members of PSC and two members of FAC and the Chair.
- (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



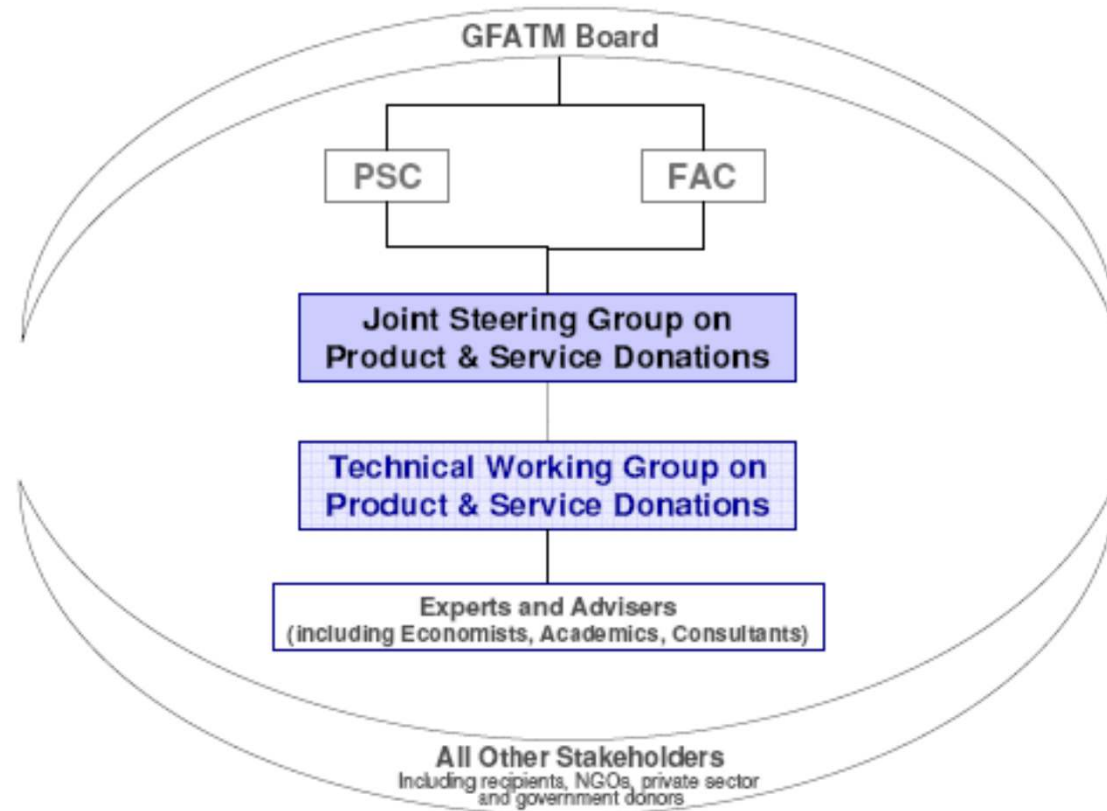
Structure

- 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 & Service Donations

Composition:

- Core working group of 4-6 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.
- The members will be nominated by members of the Joint Steering Group on Product & Service Donations.

Proposed Architecture for Steering and Technical Working Groups



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Proposed Timelines

- Selection of Steering Group on Product & Service Donations
- 1st meeting of Joint Steering Group on Product & Service Donations November 2006
- Selection of Technical Working Group on Product & Service Donations November 2006
- 2nd meeting of Joint Steering Group on Product & Service Donations February 2007
- Technical Group strategic option paper submission to 3rd meeting of Joint Steering Group September 2007
- Steering Group submission of recommendations to 16th Board October 2007

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.



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Transition Options Project

*Fourteenth Board Meeting
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Presentation Agenda

- Background
- Position of Key Stakeholders
- Options Identified
- Issues
- FAC Recommendation

Background

- Dec 2001 – First TWG meeting: “TGF is an independent entity, not “nested within UN”
- May 2002 – First ASA with WHO
- Dec 2004 – Headquarters agreement with Swiss Government
- Sept 2005 – Eleventh Board Meeting: Transition Options Project (TOP) initiated

Position of Key Stakeholders

- WHO
- Swiss Government
- Staff

Options Identified

- Remain partially integrated with the UN system
- Secure administrative services independent of the UN

Analysis of Options: Issues

- Governance
- Working relationship with the UN System
- Ability to develop the Secretariat in accordance with Board policy
- Staff satisfaction
- Staff travel

Decision Point (1 of 2)

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.

Decision Point (2 of 2)

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, the timeline over which they are intended to occur, and steps to be taken that would safeguard the interests of staff as outlined in paragraph 11 of GF/B14/9. 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



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Revision of Policy on Secretariat Procurement of Goods and Services

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- First approved at the Fifth Board Meeting
- Based on WHO Rules
 - Competitive bidding
 - Review of large contracts by Contract Review Committee
- Inconsistencies
 - Drafting errors
 - Lack of clarity on
 - Exceptions to competitive bidding
 - Referrals to the Contract Review Committee
- IOS report
- Management response

GFPP revisions

- In collaboration with WHO, proposing following revisions in the following main areas
 - Contract Review Committee requirements
 - Correct ambiguities on exceptions to competitive bids

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 Annex 6 to the Report of the Finance and Audit Committee (GF/B14/9).

There are no material budgetary implications for this decision.



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Operating Expenses 2006 at Mid-Year

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2006 Operating Expenses

Operating Expenses Jan-Jun 2006 US\$ million	Budget Whole Year	Actual Jan-Jun	% of whole year budget
Secretariat	64.1	25.7	40%
Office of the Inspector General	2.0	0.5	26%
In-country Oversight	22.8	12.3	54%
Sub-total	88.9	38.5	43%
less: Efficiency/savings Target	(2.5)		
Total Operating Expenses	\$86.4 m	\$38.5 m	45%

- At mid-year, 45% of year's budget was consumed
- The budget for In-country Oversight (by LFAs) is net if a \$4 million savings target, which is unlikely to be fully achievable. Hence, actual costs may exceed budget by up to \$3 million – Board is asked to note.



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2007 Proposed Budget for Operating Expenses

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Background to FAC Recommendations

- Desirability of a Board policy to guide budget development for future years, giving:
 - Clearer and better aligned expectations
 - Parameters to guide FAC review
- To be informed by an external evaluation of staffing needs, including structure and size
- For 2007:
 - Protracted review, all queries were answered
 - Adjustments were incorporated
 - Consensus recommendation was reached

Budget 2007 – Overview

US\$ millions	2006	2007	% Increase on 2006 Budget
	Budget	Budget	
Secretariat	64.1	73.9	15%
Office of the Inspector General	2.0	2.8	37%
In-country Oversight	22.8	31.1	37%
Total Operating Expenses (before new Rounds after Round 6)	88.9	107.7	21%
less: Efficiency/savings Target	(2.5)	(3.0)	20%
Net of Efficiency/Savings Target	86.4	104.7	21%

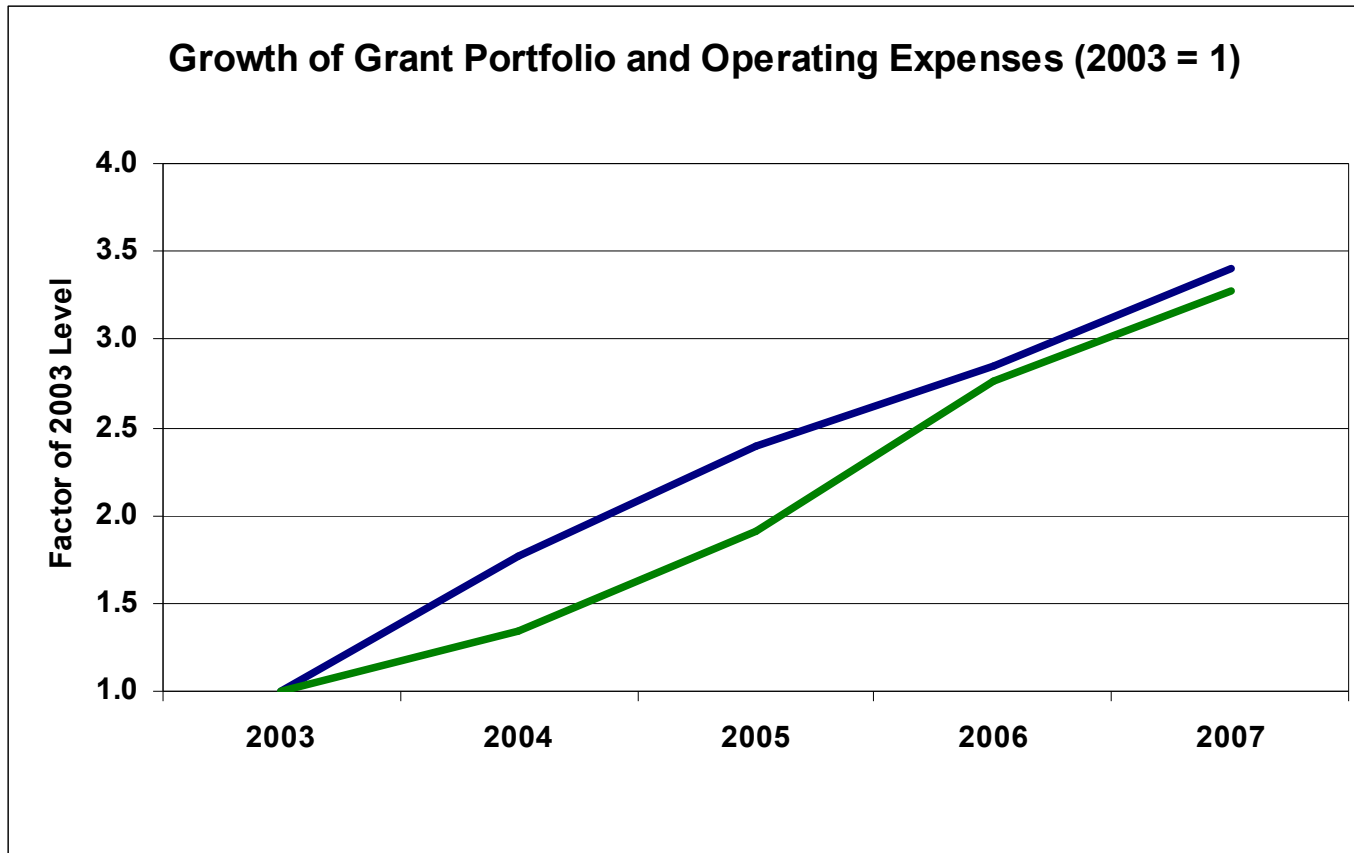
Staff numbers: (Fixed-term and short-term)	2006	2007 Proposed		% Increase on 2006 Budget
	Positions	FTEs	Positions	
	Approved	Budget	Budget	
Secretariat	252	276	285	13%
Office of the Inspector General	8	12	15	88%
Total Staff	260	288	300	15%

Budget 2007 – Cost drivers

The increase of 21% results from:

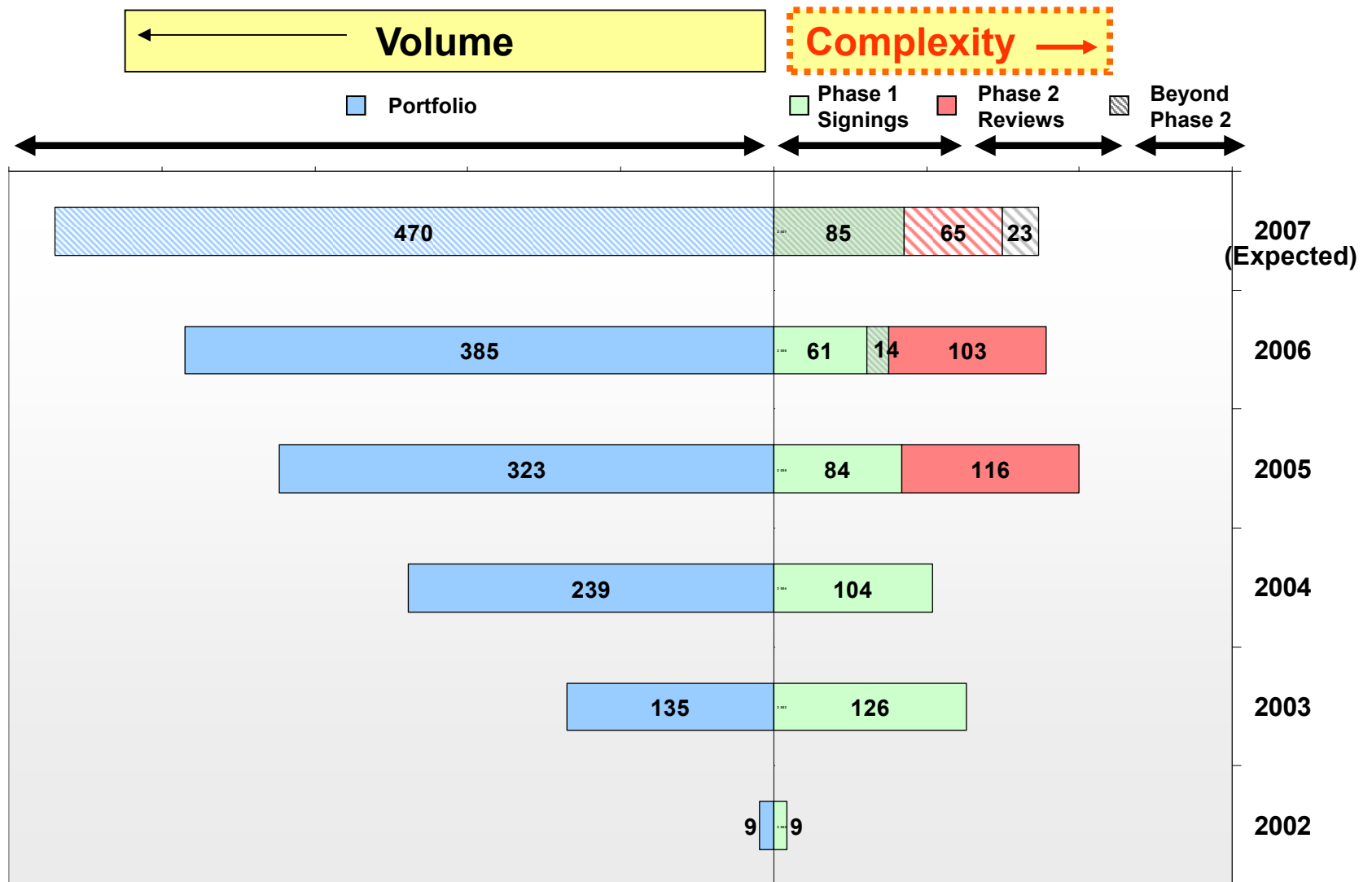
- Growth in the grant portfolio following approval of Round 6, and in grant complexity
- Additional in-country oversight measures to enhance performance-based funding in response to requests of the TERG and the Board; and
- Scaling-up of OIG activities towards full operating capacity.

Growth in Grant Volume



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Workload and Portfolio Management 2002 to 2007



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Budget 2007 – With additions from separate Decision Points of 14th BM

Overall 2007 Budget, including implications of separate decisions, as approved	2007	
	US\$ '000	Staffing (Positions)
Budget, prior to separate decision points	104,728	300
Budgetary implications in 2007 of other decisions taken at the 14th Board meeting:		For project duration only
PSC Five-year evaluation	12,592	2.5
PSC Launch of Round 7	2,825	
PSC Grant consolidation	1,148	4.0
FAC Transitions Options Project - 2 nd phase	300	-
PSC 'Rolling Continuation' of Grants	269	2.0
PSC Policy on Product & Services Contributions	169	1.0
PSC 2008 Partnership Forum, preparation	100	1.0
FAC External evaluation of staffing needs	50	
	17,453	10.5

The above costs are almost entirely short-term, limited to the duration of the project

Total, including the separate decisions	122,181
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Decision Point – Budget Framework



The Board requests the Finance and Audit Committee (FAC) to develop a framework to guide future reviews by the FAC of the Secretariat's annual budget proposals. As part of the framework development process,

- (i) the Board requests the Executive Director, in consultation with the FAC and other Board committees, to initiate an external evaluation of the Global Fund's staffing, including its structure and size; and*
- (ii) the FAC will identify appropriate budgetary parameters to assist future budget reviews.*

The Board requests that the FAC report to the Board on its progress at the Fifteenth Board meeting.

The budgetary implications for this decision are US\$50,000

Decision Point – Budget 2007

- *The Board approves the 2007 Operating Expense budget in the amount of US\$ 104,728,000 as set out in Annex 8 Revision 1 to GF/B14/9 and as recommended by the Finance and Audit Committee and proposed by the Secretariat.*



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Backup Slides

*Fourteenth Board Meeting
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Key Ratios

Key Ratios	2004	2005	2006	2007
	Actual	Actual	Forecast	Budget
Operating Expenses as:				
As % of Expenditure ^(a)	4.8%	3.9%	4.0%	4.5%
As % of Disbursements ^(b)	6.8%	5.8%	5.9%	6.2%
As % of Value of Active Grants ^(c)	2.2%	1.7%	1.6%	1.3%
Operating Expenses per Active Grant ^(d)	\$230k	\$217k	\$250k	\$248k
<p>(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</p>				

Including separate decisions:				
Key Ratios	2004	2005	2006	2007
	Actual	Actual	Forecast	Budget
Operating Expenses as:				
As % of Expenditure ^(a)	4.8%	3.9%	4.0%	4.9%
As % of Disbursements ^(b)	6.8%	5.8%	5.9%	7.2%
As % of Value of Active Grants ^(c)	2.2%	1.7%	1.6%	1.5%
Operating Expenses per Active Grant ^(d)	\$230k	\$217k	\$250k	\$290k

Staffing

Staff numbers: (Fixed-term and short-term)	2006		2007 Proposed		Change on 2006	
	Positions	FTEs	Positions	Budget	Positions	%
	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%
Staff reduction (across Units)		(8)	(13)		(13)	
Secretariat	252	276	285		34	13%
Office of the Inspector General	8	12	15		7	88%
Total Staff	260	288	300		40	15%

Fixed-term (2 year)	206		268	89%
Short-term (up to 11 months)	54		32	11%

In-country Oversight (by LFAs)

	US\$m		
2006 Budget:			
Budgeted for 2006	22.8	100%	
Add-back 2006 savings target	4.0		
	26.8		100%
Increases in 2007:			
Increased grant volume, for 'usual' activities	1.5		
To enhance in-country data quality and M&E capacity	2.8		
	31.1	136%	116%
2007 Budget:			
<u>Investment to enhance in-country data quality and M&E capacity:</u>			
One-time cost: apply M&E self-assessment to 50% of existing PRs	1.2		
Data quality audits on 5% of grants	1.1		
Special verification of programmatic results	0.5		
	2.8		

Comparison of Indicative Costs

	WHO/UN Route		Independent Route	
	<i>Set Up Cost</i>	<i>Ongoing Operational Costs</i>	<i>Set Up Cost</i>	<i>Ongoing Operational Costs</i>
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)