Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Fifteenth Board Meeting
Geneva, 25 - 27 April 2007

GF/B15/8

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 March 2007 and in subsequent email communications, and its resultant recommendations to the Fifteenth Board Meeting.

Summary of Decision Points:

Introduction

The matters considered by the Finance and Audit Committee (FAC) at its 8th meeting on 21-23 March 2007 are outlined in the following parts of this report:

Part 1: Financial Matters

1.1 Audited Financial Statements 2006 (Annex 3 refers)

1 At the invitation of the Chair, Mr. Mark Hawkins, partner, Ernst & Young, presented the Report of the Independent Auditors on the 2006 Financial Statements of the Global Fund (attached as Annex 3, in draft pending approval by the Board of the financial statements). He stated that their audit report expressed a 'true and fair' opinion, free of any qualification.

2. Regarding the scope of the external audit, Mr. Hawkins explained that significant processes had been reviewed and key controls documented, and that the audit had taken a largely substantive approach by testing balance sheet accounts and the classification of transactions in the statement of activities.

3. Mr. Hawkins said that he had reviewed the Inspector General's report on the audit of Credit Suisse bank account transactions. He had not reviewed the draft report of Deloitte & Touche regarding performance of the IG. Taking account of the audit procedures which Ernst & Young had performed, his conclusion was that "there were no identified material weaknesses or significant deficiencies that could lead to a risk of material misstatement of the financial statements". The representative from the World Bank stated that this conclusion was consistent with communications between the Bank, as Trustee of the Global Fund Trust Fund, and its external auditors.

4. In his presentation to the FAC on their audit processes and observations, Mr. Hawkins stated that processes reviewed by Ernst & Young included contributions, grant commitments and disbursements, LFA fees, payroll and the financial statements closing process. They had not reviewed or tested processes performed by the WHO, the World Bank and Principal Recipients because such are outside the scope of the external audit. The draft contents of the Ernst & Young Management Letter were discussed with the FAC and the final Management Letter was circulated to the FAC after the meeting.

5. Ernst & Young had observed the inability to reconcile the monthly salary payments made by WHO with the staff records maintained by the Global Fund because of the unavailability of a suitable analysis specific to Global Fund personnel from the WHO payroll system and recommended that a solution be found, which the FAC endorsed.

Decision Point 1:

The Board approves the 2006 Financial Statements of the Global Fund which have been audited by Ernst & Young, attached as Annex 3 to the Report of the Finance and Audit Committee (GF/B15/8).

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

1.2 Operating Expense Review 2006 (Annex 4 refers)

1 The FAC reviewed operating expenses for 2006, compared to budget (attached as Annex 4). Expenditure at US$75.9m was 88% of the US$86.5m budget for the year. Under-spending of US$13.1m as compared to budget exceeded the savings target of US$2.5m, yielding a net under-spend of US$10.6m, 12% of the approved budget of US$86.5m.

2 The savings came from Secretariat expenses which were US14.2m less than budgeted. As outlined in Annex 3, the savings resulted mainly from new staff being commencing later than had been provided for in the budget. This was manifested in staff costs and in travel and office infrastructure costs. With the capacity strengthening of the Human Resources Team that occurred in 2006 the hiring cycle has been shortened and hiring of new staff in 2007 has been accelerated as a result. Other sources of saving were office rent and the deferral of fitting-out costs to 2007 as well as delayed activities in grant operations, staff training and organizational development. Contributions received towards operating expenses and the absence of need to use the contingency also contributed to spending less than budget.

3 Expenditure on Local Fund Agent (LFA) services was US$2.9m less than estimated, but this saving was US$1.1m less that the savings target of US$4m that had been incorporated in the budget for LFA fees (hence the expenditure was US$1.1 more than the budget). The likelihood of the savings target for LFA services not being fully achievable was advised to the Fourteenth Board Meeting (GF/B14/9 Addendum, p.3). As was anticipated at that time, savings on Secretariat expenses fully compensated for this. The saving of US$2.9m resulted mainly from the volume of Principal Recipient assessments being lower than had had provided for in the budget. There were also fewer Phase 2 reviews than had been envisaged in the budget.

4 The FAC noted that for each of the key ratios set to monitor operating expenses, the 2006 result was the same as or very close to the 2005 result.

5 Part 2 of Annex 3 outlines achievement of the key performance indicators in 2006. The FAC observed that the majority of indicators showed a result on excess of 90%, with the lowest at 78%. The committee noted that it was timely to review the indicators to consider refinements especially with regard to grant management indicators.

6 Attachment 2 to Annex 3 provides a summary of transactions in 2006 on the Global Fund bank account with Credit Suisse. A detailed list of the individual transactions was reviewed by the FAC.

1.3 Development of a Budget Framework (GF/FAC8/06)

1. In its report to the Fourteenth Board Meeting (GF/B14/9 Addendum, p.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 and this need is sometimes in conflict with varying expectations of what a ‘lean and mean’ Secretariat should mean.

2. The FAC advised the Board that it was 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. In response to this recommendation, the Board requested the FAC to develop a budgetary framework to guide future reviews of budget proposals. The framework should take account of an external evaluation of staffing structure and size to be initiated by the Executive Director, and incorporate appropriate budgetary parameters. The delay in the appointment of the new Executive Director has meant that the external evaluation will be initiated subsequent to his commencement at the end of April 2007, with outputs likely to be available only by the third quarter of 2007 at the earliest.

3. As the 2008 budget estimation process will need to be completed in September 2007 (if it is to be considered for approval by the Sixteenth Board Meeting), FAC concurred that the process should proceed on a similar basis to prior years. Outputs from the framework development process would

be used to inform the FAC review (in September/October) if then available, and the completed framework would fully drive the budget process for future years.

4. Cognisant that the staffing needs are largely determined by activity levels which also influence LFA fees and other significant expenses, FAC asks the incoming Executive Director to incorporate in the brief of the external consultants, recommendations on the budgetary parameters that are integral to the framework.

5. The FAC will report on progress to the Sixteenth Board Meeting.

1.4 Amendments to Policy following establishment of Rolling Continuation Channel

(Annex 5)

1 At its Fourteenth Meeting, the Board approved the establishment of Rolling Continuation Channel ('RCC') and requested the FAC to present for approval at the Fifteenth Board meeting appropriate amendments that arise from the RCC decision to each of the following:

(i) the Comprehensive Funding Policy approved at the Sixth Board Meeting (and amended at the Thirteenth Board Meeting;

(ii) the decision on prioritization of Phase 2 funding approved at the Eighth Board Meeting

2. The FAC proposes the amendments set out in Part 2 of Annex 5. The proposal incorporates both of the changes requested by the Board as set out in subparagraphs (i) and (ii) above into a revised version of the Comprehensive Funding Policy. It also proposes changes to incorporate in that Policy the decisions approved at the Seventh Board Meeting regarding prioritization of funding in resource constrained environments for new proposals and the use of promissory notes

Decision Point 2:

1. The Board approves the amendments to the Comprehensive Funding Policy, as amended at the Thirteenth Board Meeting, as presented in Annex 5 to the Report of the Finance and Audit Committee (GF/B15/8).

2. The Board revokes the following decisions:

(1) The decisions made at the Seventh Board Meeting regarding prioritization of funding in resource-constrained environments (GF/B8/2 p. 13-14);

(2) The decision made at the Seventh Board Meeting regarding the criteria for considering promissory notes as assets (GF/B8/2, p. 16, decision point 6); and

(3) The decision points 1 and 2 entitled "Phase 2 Funding" made at the Eighth Board Meeting regarding prioritization of Phase 2 funding (GF/B9/2 p. 9-10).

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

1.5 Trustee Briefings

1. Representatives of the Trustee, Mr. John Gandolfo and Mr. Krishnan Chandrasekhar presented to the FAC the benefits and risks associated with various investment strategies, to inform the consideration by FAC of the recommendations of the Resource Mobilization Task Team in that regard (as reported in part 4.2 below). The FAC noted that the investment return on the Trust Fund was 4.54% for 2006, yielding investment income of US$126m for the year.

2. Over a working dinner, Mr. Cristian Baeza of the World Bank briefed the FAC on the new strategy of the World Bank that addresses health systems strengthening and priority disease financing.

Part 2: Office of the Inspector General

1. Mr. Ken Langford of WHO, acting as interim Inspector General, provided an update to the FAC on matters related to the Office of the Inspector General. He was accompanied by Mr. Keith Morgan of Deloitte and Touche.

Follow-up on decisions of Special Board Meeting

2. Mr. Langford informed the FAC that in order to support him in fulfilling the role of Global Fund Inspector General (IG), he had engaged two specialist firms:

i) Deloitte and Touche (UK) who would support follow-up to Board decision GF/SB1/DP5, by:

- reviewing OIG audits that were in process when the IG left and advising on how best to proceed towards completion
- developing proposals for normative aspects such as the overall assurance framework for the Global Fund and modalities for OIG relationships and reporting lines
- developing the Action Plan for recruitment of the IG

He expected all of this work to be complete by 31 July 2007, with a draft assurance framework and the IG recruitment Action Plan ready by mid-April for consideration by the April Board meeting.

ii) Orna Corporate Integrity (Switzerland) who were conducting the independent analysis of the remaining issues relating to the OIG audit of Credit Suisse bank account transactions, pursuant to Board decision GF/SB1/DP6.

Based on informal feedback on the consultants' findings to date, he expected this work to be complete by 15 April 2007 and that matter could be brought to closure at the April Board meeting.

3. Referring to the review IG performance and related matters carried out by Deloitte and Touche for the Performance Assessment Committee, a draft report on which had been presented to the Special Board Meeting in February, Mr. Langford expected the final report to be available by 15 April 2007.

4. Mr. Langford acknowledged the positive working relationship he had with Secretariat senior management. Regarding staffing of the OIG, he had suspending recruitment until the new IG is appointed. With the agreement of Management, one staff member had been temporarily reassigned to the Secretariat.

IG Recruitment

5. The FAC discussed at length the need for an effective process for the selection of the new IG, including whether the process should be similar to that followed in selecting the Executive Director. Mr. Langford stressed the need to engage appropriate technical expertise in the selection process.

6. The FAC was conscious that the Board decision required the recruitment process should be launched at the Fifteenth Board meeting and result in appointment of the new IG not later than 31 July 2007. It would formulate its recommendations to the Board following receipt of the advice of the interim IG and his consultants, as referred to at 2 above.

Publications Policy for OIG Reports

7. The committee discussed the desirability of a policy for publication of OIG reports and received the advice of Mr. Langford and Mr. Morgan in this regard. Distinctions were made between audit reports and investigation reports, recognizing that the latter may require confidentiality in order to not prejudice actions that may need to be taken against individuals suspected of wrongdoing.

8. Responding to the request of the Chair, Rebecca Hooper (USA) and Bartolomeo Migone (Secretariat Legal Counsel) agreed to work with the interim IG and his consultants to propose a policy for consideration by the FAC.

Further FAC consultations prior to Board meeting

9. The FAC agreed to consult by teleconference as necessary and to meet again on 24 April, the eve of the Board meeting, to finalise its recommendations to the Board in the light of the most up-to-date status of work under way on matters outlined above.

Part 3: Transition from the Administrative Services Agreement with WHO (Annex 6)

1. At its Fourteenth Meeting, the Board considered that it was in the interest of the Global Fund to discontinue its present Administrative Services Agreement **(**ASA) with WHO after appropriate preparations for administrative independence have been made. The Board accordingly requested the FAC to work with the Secretariat to present for approval a detailed plan covering such preparations at the Fifteenth Board Meeting.

2. The FAC reviewed the secretariat paper and provided guidance on its further development, including the incorporation of further information that had been provided in response to FAC queries that describes the considerable analysis and findings to date. Feasible solutions and associated costs had been identified for income tax equalization, health insurance and administrative systems. The committee reviewed an expanded paper on the following day and provided further input towards its finalization (attached as Annex 6). Significant matters requiring further work are the pension scheme and travel risk management in the absence of the UN Laissez-Passer (UNLP).

3. The Chair and Vice-Chair of the FAC met with representatives of the Global Fund Staff Council to hear their views on the transition, which the Chair conveyed to the meeting. A paper prepared by the Staff Council was circulated to the FAC with the meeting documents and is appended to Annex 6 hereto. After the FAC meeting, the committee held an open meeting to which all staff were invited. One of the principal concerns expressed by staff at that meeting was the loss of the UNLP which would result from cessation of employment by a UN organization.

4. <u>Pension scheme</u>: Global Fund personnel, as employees of the WHO, are members of the United Nations Joint Staff Pension Fund (UNJSPF). Restrictions on portability of contributions mean that employer's contributions made by the Global Fund to the UNJSPF of up to US$10 million could be forfeited if staff had to leave the pension fund as a result of being no longer employed by an organization affiliated to the UNJSPF. This is because many of the staff have not been members of the UNJSPF for the five year period required to acquire vested benefits that incorporate the employer's contributions, in addition to the employees' contributions.

5. The solution recommended by the FAC is to seek affiliation for the Global Fund to the UNJSPF, so that membership and benefits could continue uninterrupted. An alternative option would be to establish a pension fund for the Global Fund and negotiate with UNJSPF for an exceptional transfer

of contributions to the new fund so as avoid or minimise the forfeit of contributions that would have to be contributed again by the Global Fund to the new fund. Affiliation to the UNJSPF would require adherence to the UN remuneration structure, whereas otherwise the Global Fund could determine its own remuneration and performance management structure.

6. UN Laissez-Passer: On cessation of their employment by the WHO, Global Fund staff would no longer be entitled to a UN Laissez-Passer (UNLP), the travel document provided to staff of UN entities. This is a matter of considerable concern for many staff members, especially those who travel frequently. The FAC noted that work would continue to on exploring travel risk management elements that would, to the extent possible, mitigate the absence of the UNLP for Global Fund travelers.

7. Other developments: The FAC noted that Norway and Switzerland had each recently begun to consider the establishment of a facility for health-focused organizations in Geneva. Mr. Jacques Martin of Switzerland attended the meeting and advised the FAC that the project was at an early stage of exploration. At this point, pending development of the concepts, it is not clear how these initiatives could contribute to resolution of the ‘dual governance’ problem (whereby the Global Fund Board cannot govern the staff of another organization).

8. The FAC is requesting the concurrence of the Board with its recommendation to seek membership of the UNJSPF for the Global Fund and the active support of the Board for the negotiations to obtain membership. Following resolution of the pension issue, the completed implementation plan will be presented to the Sixteenth Board Meeting.

Decision Point 3:

1. ***The Board notes the progress made to date, and authorizes the Secretariat, under the oversight of the FAC, to proceed with the negotiation and costing of the remaining alternative administrative arrangements as described in detail in the report GF/B14/9, Fourteenth Board Meeting.***

2. ***The Board agrees upon the recommendation of the FAC that the most beneficial arrangement for providing pension services to the staff is to negotiate membership in its own right of the United Nations Joint Staff Pension Fund (UNJSPF). The Board recognizes the need to provide support to these negotiations.***

3. ***The Board requests the FAC to present the final fully costed implementation plan at its Sixteenth Board Meeting.***

There are no material budgetary implications of this decision

Part 4: Resource Mobilization

4.1 Second Replenishment

1. The FAC noted that the first meeting of the Second Global Fund Replenishment had taken place in Oslo on 6-7 March. The Chair's Summary of that meeting is attached as Annex 7.

2. In August, the FAC will receive for its approval the draft agenda for the 25-26 September meeting of the Second Replenishment in Berlin.

4.2 Report of the Resource Mobilization Task Team (GF/PSC7/04)

1. The FAC had received the Report of the Resource Mobilization Task Team (RMTT) which had been considered by the Policy and Strategy Committee, and underpinned the Resource Mobilization Strategy and related budgetary needs mentioned at 4.3 below.

2. The FAC took particular note of the RMTT recommendations regarding investment income, and the related presentation by the Trustee mentioned in Part 1 of this report (section 1.5). With regard to the recommendation to establish an Investment Committee, the FAC considered that instead of establishing a separate committee (which raises governance and reporting issues), it would be more appropriate as a first step to appoint a working group of FAC, supplemented by external experts, to fulfill the investment committee role recommended by RMTT on an exploratory basis. After gaining some experience of that mode of working, the FAC will report further to the Board.

4.3 Supplementary Budget for Resource Mobilization Efforts in 2007 (Annex 8 refers)

1. At the request of the Policy and Strategy Committee, the FAC examined the supplementary budget presented by the Secretariat in relation to the Resource Mobilization Strategy. It was noted that this request had been expected by the FAC since they had postponed consideration of the original budget submitted by the Secretariat in this regard in 2006 because of the pending approval of the Resource Mobilization Strategy based on the recommendations of the Resource Mobilization Task Team which the PSC is now in a position to recommend to the Board. The FAC was thus required to give their opinion on the budget presented.

2. The FAC received a report on the outcome of the Resource Mobilization Task Team which had guided the finalization of the strategy. They also received a presentation from the Secretariat which explained the prioritization accorded to different activities in relation to resource mobilization, gave examples of benchmarking in regard to comparable costs and provided justification and explanations for the budget requested. The FAC requested and received information on the balance between Public and Private Sector activities, the skills sets required and the targets expected to be achieved as a result of the investment.

3. The FAC was satisfied with the proposals of the Secretariat which are laid out in GF/B15/8, Annex 8 and supports the budgetary implications as presented in the Resource Mobilization Strategy, GF/B15/6, Annex X. The FAC noted that they would monitor this budget increase carefully since it was made outside a regular budget cycle and therefore would not be able to be evaluated effectively during the deliberations on the 2008 budget. Accordingly, the FAC requested reporting on the achievement of targets in relation to this increase in advance of the Seventeenth Board meeting.

Note: The decision point for this budget is provided as a budgetary implication of the Resource Mobilization Strategy presented by the Policy and Strategy Committee.

4.4 Restricted Financial Contributions (Annex 9 refers)

1. At the Fourteenth Board Meeting, the Board requested that the Finance and Audit Committee develop a comprehensive policy on targeted financial contributions for consideration at the Fifteenth Board Meeting. The FAC received a presentation from the Secretariat on resource mobilization opportunities and potential options related to restricted contributions and discussed those opportunities and options within the context of the need to mobilize additional resources while maintaining the core principles of the Global Fund.

2. The FAC acknowledged that mobilizing funds from private sector donors, including corporations, foundations and individuals, would require the accommodation of restricted contributions. The FAC expressed concern regarding restricted contributions from public donors or mechanisms in general, but supported accommodating restrictions from mechanisms which represented additional financing sources and/or mechanisms which it could consider and approve on a case by case basis.

3. The FAC requested the Secretariat to explain the various terms used in relation to restricted contributions such as targeting and earmarking, which the Secretariat clarified were sometimes used interchangeably, but that the accounting standards applicable to contribution income only distinguished contributions as “unrestricted” or “restricted”.

4. The FAC then requested the Secretariat to provide examples of potential resource mobilization opportunities which required various levels of restrictions (e.g. “gross”, grant, grant component – either for procurement of specific goods and services or for support of specific service delivery areas) as well as examples of opportunities which required payment using existing Global Fund systems vs. direct payments to third parties. The FAC further requested clarification on the associated risks and transactions costs related these different levels and types of restricted funding.

5. In considering the opportunities, risks and transactions costs presented by the Secretariat, the FAC agreed on the need for explicit guiding principles to guide the policy development, the adoption of a general policy which enabled the Secretariat to mobilize the most appropriate opportunities, and the inclusion of an oversight process.

6. Specific concerns were expressed by the FAC regarding accommodating restricted contributions made in the form of direct payments, potential impact on ODA, potential stakeholder criticisms and their effect on political perceptions, impact on the Trustee, and risks related to adopting too broad a policy.

7. Based on the responses of FAC members and the Secretariat, the FAC decided to adopt a modified version of one of the presented options, which allowed for the accommodation of restricted contributions from private sector donors and specific “nominated” public mechanisms which represented additional funding for the Global Fund, with the condition that the FAC was able to provide the appropriate oversight to monitor the policy’s implementation, nominate suitable public mechanisms, and assess any future developments as they arose.

Decision Point 4:

Global Fund Policy for Restricted Contributions

1. Guiding Principles

The Board acknowledges the need to accommodate restricted financial contributions in order to fully realize the Global Fund's mission of mobilizing significant additional resources for the fight against AIDS, tuberculosis and malaria, and authorizes the Secretariat to mobilize and accept such contributions which represent additional new funding in accordance with the following guiding principles:

(a) Restricted contributions to the Global Fund shall be limited to those from private donors and a limited number of public mechanisms approved in advance by the Board for this purpose; [The Global Fund shall not accommodate restrictions on contributions through Official Development Assistance, thereby ensuring that the majority of contributions to the Global Fund remain unrestricted.]

(b) Restricted contributions shall be used solely for the purpose of supporting grants approved by the Board and activities of the Secretariat in line with the recipient-driven, Board-determined priorities of the Global Fund; and

(c) Restricted contributions shall not result in unreasonable transaction costs for the Global Fund, substantial changes to Global Fund systems and processes, or the responsibilities of the Trustee, or any deviation from Global Fund rules and procedures. The Secretariat shall maintain the accounting records necessary to record restrictions attached to contributions and to identify the expenditure that satisfies such restrictions.

For these purposes "restricted financial contributions" (sometimes referred to as "targeted funding" or "earmarked funding") has the meaning assigned by accounting standards applicable to contribution income, i.e. contributions which have been provided by a donor with specific restrictions on how they may be used by a recipient.

2. Restricted Contributions for Grant Activities

The Board authorizes the Secretariat to mobilize and accept contributions which are restricted to broad categories of expenses such as by disease and region (e.g. AIDS grants in Africa), to specific grants and/or to the procurement of specific goods and services, provided that:

(a) such restricted contributions comply with the Guiding Principles outlined in part 1 above;

(b) such restricted contributions are made through the Global Fund;

(c) the total amount of restricted contributions is less than the total sum of Global Fund financing committed to any grant or activity receiving restricted contributions, ensuring that the programmatic results of such grants or activities are attributable, not just to the restricted contributions, but to contributions from all Global Fund donors.

3. Restricted Contributions for Secretariat Activities

The Board authorizes the Secretariat to mobilize and accept restricted contributions for use to pay for Secretariat activities. Such restricted contributions may be made either directly to the Global Fund or to third parties in payment for liabilities of the Global Fund, provided that such contributions comply with the Guiding Principles outlined in part 1 above.

4. Oversight

The Board requests the Secretariat to provide the Finance and Audit Committee with progress updates on the implementation of this Restricted Contributions Policy, including (i) a report on the results of mobilizing restricted contributions and (ii) identification of new public mechanisms for inclusion in the Policy. The Board delegates to the Finance and Audit Committee the authority to approve new public mechanisms proposed by the Secretariat for inclusion in the Restricted Contributions Policy, and acknowledges UNITAID as the first such approved public mechanism. The Board further requests the Finance and Audit Committee to consider new developments as they arise and to propose any changes to the Policy deemed appropriate by the Finance and Audit Committee for adoption by the Board.

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

Decision Point 5:

The Board acknowledges that, in developing a roadmap for future collaboration with UNITAID, the Policy and Strategy Committee, working together with the Secretariat and the Finance and Audit Committee, may consider the possibility of UNITAID providing direct funding to third party procurement mechanisms to support Global Fund grants. The Board notes that the roadmap, including the contribution structure and funds-flow mechanism, will be presented to the Board for its approval.

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

4.5 Debt to Health Conversion (Annex 10 refers)

1. The Secretariat presented a paper on Debt 2 Health Conversion. The Global Fund “Debt2Health” (D2H) initiative has been conceived with the objective to utilise the existing opportunities from debt relief or debt restructuring by channelling available domestic funds towards investments in Global Fund approved programmes. Under the D2H agreement, a creditor agrees to forgo repayment of a portion of their loans on the condition that the beneficiary country invests the agreed upon counterpart amount in public health through a Global Fund approved programme. Germany has already committed 200 million Euro in debt volume and is in negotiations with Indonesia to implement the first pilot project. The Global Fund is acting as a facilitator for this mechanism.

2. Committee members raised questions about the additionality of this mechanism and on the potential reputational risk for the Global Fund. They requested further information on the exchange risk implied if the counterpart fund was held in local currency and a better definition of a pilot phase that the Board was asked to approve. The World Bank confirmed that funds could be paid in Euro, US dollar or local currency but that local currency would normally be converted into grant currency (USD or EUR) to reduce the exchange risk. It was agreed that the pilot phase should include up to four beneficiary countries following agreed criteria and that it should last for two years with close monitoring and reporting back to the FAC during that phase.

3. The FAC requested that the decision points reflect the comments made and suggested a pre-board briefing on the subject.

Decision Point 6:

1. Debt2Health Mechanism

The Board acknowledges the potential for additional resources for the Global Fund from debt conversions and authorizes the Secretariat to implement a two year pilot phase (2007-2009) of the Debt2Health mechanism in up to four beneficiary countries.

2: Counterpart Funds

The Board authorises the Secretariat for the purposes of the implementation of Debt2Health to accept restricted contributions from counterpart funds which are attributed at the country level.

3: Oversight

The Board requests the Secretariat to implement and monitor the Debt2Health pilot phase and to report on the results and lessons learned to the Finance and Audit Committee on a regular basis.

There are no material budgetary implications for this decision.

4.6 Policy on Product and Service Contributions – Update

1. The Secretariat presented an update on the process to develop a policy on Product and Services Contributions. At the Fourteenth Board meeting a scoping paper had been presented that outlined a process leading to a policy to be adopted at the Sixteenth Board Meeting. A Joint Steering Group composed of PSC and FAC members has been formed under the leadership of the Chair of the FAC. The Joint Steering Group had two telephone conferences and received nominations for a Technical Working Group which is going to be co-chaired by Dr. Mohga Kamal-Smith from the NGO North delegation and Dr. Francois Bonnici from the Private Sector delegation.

2. The Technical Working Group will submit a work plan to the Joint Steering Group in April and conduct consultations between May and August 2007. They plan to submit a strategic paper with options and recommendations to FAC in October leading to a decision at the Sixteenth Board Meeting.

3. The Committee recognized that the process presented appeared to be very ambitious considering that the contribution of products and services remains a very sensitive subject for many Board delegations.

4.7 UNITAID Progress Update (GF/PSC7/09)

1 The FAC had received the UNITAID Progress Update paper that was prepared for the Policy and Strategy Committee (PSC) and received a further presentation at the meeting.

2 With regard to the Global Fund collaboration with UNITAID, the Board had requested the FAC to propose amendments to policy which are set out at Section 1.4 of this report. The proposed policy on Restricted Financial Contributions (outlined in Section 4.4 of this report) was also relevant to enabling the collaboration with UNITAID.

3 The FAC had also been requested to consult with PSC which had responsibility for developing a 'roadmap' to guide the future collaboration with UNITAID. The PSC had recently decided to form a sub-group to take this forward and had invited the FAC to nominate representatives to join this sub-group. The Chair asked FAC members to indicate their interest following which he would advise the Chair of the PSC of the nominees.

Part 5: Other Matters

1 The FAC approved the updated work plan of the committee (GF/FAC8/2).

Annexes

Annex 1

Agenda of the 8th Meeting of the Finance and Audit Committee

Date :	21-23 March 2007
Venue :	Hope Plaza, Global Fund Offices, Geneva
Chair :	Jerry O'Dwyer
Vice –Chair :	Minghui Ren
Focal Point :	Barry Greene

Wednesday, 21 March 2007

09:00		**Agenda and preliminaries**	Chair
	GF/FAC8/01	Approval of the Agenda	
09:30	GF/FAC8/03	**Audited Financial Statements 2006**	(Ernst & Young)
10:30		Coffee Break	
10:45	GF/FAC8/04	**Operating Expenses Review 2006**	Barry Greene
11.30		**Trustee Investment Briefing**	
12:30		Lunch	
13:30		**OIG Matters**	Ken Langford
15:30		Coffee Break	
15:45	GF/PSC7/09	**UNITAID Progress Update**	Christina Schrade
17:00		Meeting adjourns	
19:30		**Working Dinner (Movenpick Hotel)**	(World Bank)

Thursday, 22 March 2007

09:00	GF/FAC8/07	**Update on Transition Options Project**	Ines Garcia-Thoumi
10:15		Coffee Break	
10:30	(RMTT Paper)	**Report of the Resource Mobilization Task Team**	Christoph Benn
12:30		Lunch	
13:30	GF/FAC8/09 GF/PSC7/04	**Resource Mobilization Strategy - Budgetary Implications**	Christoph Benn
15:00		Coffee Break	
15:15	GF/FAC8/10	**Policy on Targeted Financial Contributions**	Christoph Benn
16:15	(verbal)	**Policy on Product and Service Contributions - Update**	Christoph Benn
16:45	GF/FAC8/08	**Debt to Health Swaps**	Robert Filipp
17:30		**Meeting adjourns**	

Friday, 23 March 2007

09:00	GF/FAC8/07	**Update on Transition Options Project** (Continued)	Ines Garci-Thoumi
10:30	GF/FAC8/05	**Amendments to Policy following establishment of Rolling Continuation Channel**	Barry Greene
11:00	GF/FAC8/06	**Development of Budget Framework**	Barry Greene
		Coffee will be available during session	
11:30	GF/FAC8/02	**Review of FAC Workplan**	Barry Greene
12:00		**A.O.B.**	
12:30		**Lunch** **Close of Meeting**	
13:30		**Meeting with Global Fund staff regarding Transition Options Project**	

Annex 2

8th Finance and Audit Committee Meeting
Geneva, 21-23 March 2007

Attendance List

	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	Thomas Groh	Vincent Perrin
6	Japan	Yuka Fujino	Yuka Fujino
7	USA	Rebecca Hooper	Rebecca Hooper
8	World Bank	Susan McAdams	Susan McAdams

	Global Fund Secretariat	Name	Function
9	Chief Financial Officer	Barry Greene	FAC Focal Point
10	Deputy Executive Director	Helen Evans	Observer
11	Senior Accountant	David Ball	Rapporteur
12	Board Relations Officer	Luke Aspinall	Board Relations Representative
13	Financial Controller	Ian Carter	Observer
	Staff who attended for individual agenda items:		
	Legal Counsel	Bartolomeo Migone	Legal Counsel
	Director, External Relations	Christoph Benn	Subject Matter Specialist
	Director of Business Services	Ines Garcia-Thoumi	Subject Matter Specialist
	Head, Board and Donor Relations	Dianne Stewart	Subject Matter Specialist
	Manager, Private Sector Partnerships	Rajesh Anandan	Subject Matter Specialist
	Manager, Administration	Jean-Claude Crépy	Subject Matter Specialist
	Manager, Innovative Financing	Robert Filipp	Subject Matter Specialist
	Advisor to Executive Director	Christina Schrade	Subject Matter Specialist

	Others	Name	Function
14		Ken Langford	Inspector General a.i.
15		Keith Morgan	Deloitte
16		Mark Hawkins	Ernst & Young
17		Jacques Martin	Representing the Government of Switzerland
18		Cristian Baeza	World Bank
19		Krishnan Chandrasekhar	
20		John Gandolfo	

	Constituencies not attending	FAC Member	
	Eastern Mediterranean Region	Huma Qureshi	***(Not attending)***

Annex 3

DRAFT AUDITED FINANCIAL STATEMENTS 2006

Outline:

This paper contains the 2006 Financial Statements of the Global Fund which have been audited by the Fund's independent auditors, Ernst & Young, together with the draft Report of the Independent Auditors thereon. The Report of the Independent Auditors will be issued upon approval by the Board of the Financial Statements.

Decision Point:

The Board approves the 2006 Financial Statements of the Global Fund which have been audited by Ernst & Young.

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To the general meeting of the Board of

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

Geneva, xx April, 2007

Report of the independent auditors

We have audited the accompanying statement of financial position of The Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Global Fund") as of 31 December 2006, and the related statements of activities, cash flows and changes in funds, and notes for the year then ended, published on pages xx to yy of the Annual Report.

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

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

In our opinion, the financial statements give a true and fair view of the financial position of the Global Fund as of 31 December 2006, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Ltd

Mark Hawkins (Auditor in charge) — Thomas Madoery

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Financial Statements

Statement of Financial Position at 31 December 2006

In thousands of US dollars	Notes	2006	2005
ASSETS			
Cash and bank balances	2.4, 3.1	616	474
Funds held in trust	2.4, 2.5, 3.1, 3.2	3'135'762	2'731'758
Promissory notes maturing within one year	2.6, 3.3	240'568	35'112
Contributions receivable within one year	2.6, 3.4	283'383	121'138
Prepayments and miscellaneous receivables		899	8'167
		3'661'228	2'896'649
Promissory notes maturing after one year	2.6, 3.3	178'838	33'857
Contributions receivable after one year	2.6, 3.4	359'008	103'947
		537'846	137'804
Total ASSETS		**4'199'074**	**3'034'453**
LIABILITIES and FUNDS			
Liabilities			
Undisbursed grants payable within one year	2.7, 3.6	1'684'163	1'170'878
Accrued expenses		6'329	5'026
		1'690'492	1'175'904
Undisbursed grants payable after one year	2.7, 3.6	391'325	394'155
Total LIABILITIES		**2'081'817**	**1'570'059**
FUNDS		**2'117'257**	**1'464'394**
Total LIABILITIES and FUNDS		**4'199'074**	**3'034'453**

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

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Financial Statements

Statement of Activities
for the year ended 31 December 2006

In thousands of US dollars	Notes	2006	2005
INCOME			
Contributions	2.6, 3.5	2'429'635	1'430'329
Trust fund income	2.5	126'483	58'936
Bank interest		15	5
Total INCOME		**2'556'133**	**1'489'270**
EXPENDITURE			
Grants	2.7, 3.7	1'817'424	1'509'271
Operating expenses	3.8	85'846	73'840
Total EXPENDITURE		**1'903'270**	**1'583'111**
INCREASE / (DECREASE) IN FUNDS for the year		**652'863**	**(93'841)**

The notes represent an integral part of the Statement of Activities

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Financial Statements

Statement of Cash Flows
for the year ended 31 December 2006

In thousands of US dollars	Notes	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Contributions received	3.5	1'652'780	1'584'342
Trust fund income	2.5	126'483	58'936
Bank interest		15	5
		1'779'278	**1'643'283**
Grants disbursed	3.7	(1'306'969)	(1'054'325)
Payments to suppliers and personnel		(68'163)	(63'685)
		(1'375'132)	**(1'118'010)**
CASH FLOWS FROM OPERATING ACTIVITIES being the net increase in cash and cash equivalents		**404'146**	**525'273**
CASH AND CASH EQUIVALENTS at beginning of the year	2.4	**2'732'232**	**2'206'959**
CASH AND CASH EQUIVALENTS at end of the year	2.4, 3.1	**3'136'378**	**2'732'232**

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

Financial Statements

Statement of Changes in Funds
at 31 December 2006

In thousands of US dollars	Notes	2006	2005
FUNDS at the beginning of the year		**1'464'394**	**1'558'235**
INCREASE / (DECREASE) IN FUNDS for the year		**652'863**	**(93'841)**
FUNDS at the end of the year		**2'117'257**	**1'464'394**
Attributed as follows:			
Foundation capital		50	50
General Funds		2'117'207	1'464'344
		2'117'257	**1'464'394**

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

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Financial Statements

1. Activities and Organization

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

The Global Fund has been founded on the following principles:

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

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

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

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

These financial statements were authorized for issuance by the Board on xx April 2007.

2. Significant Accounting Policies

2.1 Statement of Compliance

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

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

2.2 Basis of Presentation

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

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

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

2.3 Foreign Currency

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

2.4 Cash and cash equivalents

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

2. Significant Accounting Policies (continued)

2.5 Funds held in Trust

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

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

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

2.6 Contributions

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

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

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

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

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

2. Significant Accounting Policies (continued)

2.7 Grants

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

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

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

2.8 Local Fund Agent Fees

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

2.9 Employee Benefits

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

2.10 Future Changes in Accounting and Reporting

The IASB issued IFRS 7 *Financial Instruments: Disclosures* on 18 August 2005, with a complementary amendment to IAS 1 *Presentation of Financial Statements*. The Global Fund is currently evaluating the impact of this new standard applicable for annual periods beginning on or after 1 January 2007.

IFRIC 9 *Reassessment of Embedded Derivatives* was issued in March 2006 and becomes effective for financial years beginning on or after 1 June 2006. This interpretation will have no impact on the Global Fund's financial statements when implemented in 2007.

3. Details relating to the financial statements

In thousands of US dollars unless otherwise stipulated

3.1 Cash and Cash Equivalents

	2006	2005
Cash and bank balances	616	474
Funds held in Trust	3'135'762	2'731'758
	3'136'378	**2'732'232**

3.2 Funds held in Trust

	2006	2005
World Bank	3'119'244	2'717'288
World Health Organization	14'014	12'665
United Nations Foundation	2'504	1'805
	3'135'762	**2'731'758**

3.3 Promissory Notes

	2006	2005
Promissory notes to be encashed	400'006	72'391
Unrealized gains / (losses) on foreign currency promissory notes to be encashed	19'400	(3'422)
	419'406	**68'969**
Maturing in 2006	-	35'112
Maturing in 2007	240'568	33'857
Maturing in 2008	178'838	-
	419'406	**68'969**

3.4 Contributions receivable

	2006	2005
Contributions receivable*	635'609	236'680
Unrealized gains / (losses) on foreign currency contributions receivable	6'782	(11'595)
	642'391	**225'085**
Receivable within one year	283'383	121'138
Receivable after one year	359'008	103'947
	642'391	**225'085**

* Comprises amounts receivable under written contribution agreements signed on or before 31 December 2006 and 2005 respectively that had not been received at that date.

3. Details relating to the financial statements (continued)

In thousands of US dollars unless otherwise stipulated

3.2 Contributions

	2006	2005
Governments	1'916'808	1'416'945
Private sector	512'827	13'384
	2'429'635	**1'430'329**

Cash received including encashed promissory notes	1'652'780	1'584'342
Increase / (decrease) in promissory notes to be encashed	350'437	(168'480)
Increases in contributions receivable	417'306	2'642
Contributions in kind	9'112	11'825
	2'429'635	**1'430'329**

3.3 Undisbursed grants payable

	2006	2005
Undisbursed grants payable	2'080'853	1'566'457
Unrealized losses on foreign currency undisbursed grants payable	(5'365)	(1'424)
Total undisbursed grants payable	**2'075'488**	**1'565'033**
Payable within one year	1'684'163	1'170'878
Payable after one year	391'325	394'155
	2'075'488	**1'565'033**

In addition to the grant agreements entered into as outlined above, the Board has approved US$ 1.6 billion of new grants which will become liabilities upon signature of the grant agreements.

3.4 Grants expenditure

	2006	2005
Disbursed in the year	1'306'969	1'054'325
Movement in undisbursed grants	510'455	454'946
	1'817'424	**1'509'271**

3. Details relating to the financial statements (continued)

In thousands of US dollars unless otherwise stipulated

3.2 Operating expenses

	2006	2005
Secretariat expenses		
Personnel	30'632	25'054
Trustee fee	2'400	2'300
Administrative services fee	2'090	986
Other professional services	12'183	5'985
Travel and meetings	8'186	5'925
Communication materials	1'223	8'867
Office rental	2'195	1'044
Office infrastructure costs	2'113	3'489
Other	930	990
	61'952	54'640
Local Fund Agent fees	23'894	19'200
	85'846	**73'840**

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

	2006	2005
Contributions in kind		
Other professional services	8'921	4'077
Communication materials	-	7'748
Travel and meetings	191	-
	9'112	**11'825**

3.3 Personnel

As described in Note 1, personnel to support the operations of the Global Fund are provided by the WHO under an agreement between the WHO and the Global Fund. At 31 December 2006 there were 251 personnel assigned to the Global Fund (2005: 198). Of these, 155 (2005: 117) are assigned under fixed-term contracts, typically of two years duration. All other personnel are assigned under contracts of shorter duration.

3.4 Remuneration of key management

Key management, in common with all personnel assigned to the Global Fund, are remunerated according to the WHO salary scale. Remuneration consists of salary, allowances and employer contributions towards pension and benefit schemes. Remuneration of key management, comprising the Executive Director, the Deputy-Executive Director, heads of the Global Fund's six business units, and the Inspector General (from December 2005), amounted to US$ 1.9 million in 2006 (2005: US$ 1.6 million).

The Global Fund does not remunerate its Board members.

3.5 Taxation

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

3. Details relating to the financial statements (continued)

In thousands of US dollars unless otherwise stipulated

3.2 Lease Commitments

At 31 December 2006, the Global Fund has the following outstanding operating lease commitments:

Year	Office space	Office equipment	Vehicle
2007	3’376	29	8
2008	3’376	29	8
2009	3’376	29	7
2010	3’376	29	-
2011	3’376	-	-
Beyond 2011	3’565	-	-
	20’445	**116**	**23**

4. Financial Instruments

The Global Fund employs the following risk management policies to financial instruments:

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

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

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

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

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

As described in Note 2.5, those funds held in trust by the World Bank, acting as Trustee for the Global Fund, are held together with other trust fund assets administered by the World Bank in a pooled cash and investments portfolio ("the Pool"). The Pool is actively managed and invested in accordance with the investment strategy established by the Trustee for all trust funds administered by the World Bank Group. The objectives of the investment strategy are foremost to maintain adequate liquidity to meet foreseeable cash flow needs and preserve capital and then to maximize investment returns. The Pool is exposed to market, credit, currency and liquidity risks. Promissory notes and contributions receivable are exposed to credit, currency and liquidity risks. The risk management policies employed by the Trustee to manage these risks are:

Market risk: The risk that the value of a financial instrument will fluctuate as a result of changes in market prices or changes in interest rates. The Trustee actively manages the Pool so that the probability of incurring negative returns is no more than 1% over the applicable investment horizon. The asset allocation of the Pool is managed so as to optimize the Pool's total returns within the specified risk tolerance.

4. Financial Instruments (continued)

Credit risk: The risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Trustee invests in liquid instruments such as money market deposits, government and agency obligations, and mortgage-backed securities. The Trustee is limited to investments with minimum credit ratings as follows:

- <u>Money market deposits</u>: issued or guaranteed by financial institutions whose senior debt securities are rated at least A-.
- <u>Government and agency obligations</u>: issued or unconditionally guaranteed by government agencies rated at least AA- if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government, a multilateral organization or any other official entity require a minimum credit rating of AA-.
- <u>Mortgage-backed securities and corporate securities</u>: minimum rating must be AAA.

Notes and Contributions Receivable result from mutually signed contribution agreements.

Currency risk: The risk that the value of a financial instrument will fluctuate because of changes in currency exchange rates when there is a mismatch between assets and liabilities denominated in any one currency. In accordance with the Trustee Agreement between the Global Fund and the World Bank with and/or the instructions from the Global Fund, the Trustee maintains the Global Fund share in the pooled cash and investments portfolio in U.S. dollars and Euro. Cash contributions received are converted into U.S. dollars on receipt, except when the Global Fund instructs the Trustee to hold selected cash contributions received in Euro. Commitments for administrative budgets, trustee fee and majority of the grants are denominated in U.S. dollars.

Liquidity risk: The risk that an entity will encounter difficulty in raising liquid funds to meet its commitments. As a policy, the Global Fund makes commitments for administrative budgets, trustee fees and grants only if there are sufficient underlying assets. The Trustee maintains a significant portion of the Pool in short-term money market deposits to meet disbursement requirements of trust funds.

Annex 4

OPERATING EXPENSES REVIEW 2006

Outline:

The Finance and Audit Committee is mandated to monitor expenditure of the budget in the course of the year and report to the Board thereon after the conclusion of each half-year. This paper reviews operating expenses and performance in 2006.

Part 1 provides an analysis of Operating Expenses in 2006 as compared to budget with an explanation of significant variances from budget, and shows the trend in operating expense ratios.

Part 2 reports on the achievement of the Key Performance Indicators set by the Board for 2006.

Part 1: Operating Expenses in 2006

1. Highlights

- Operating Expenses in 2006 amounted to $75.9m – 12% less the budget of $86.5m.
- Secretariat Expenses were 21% less than budgeted, while Local Fund Agent (LFA) services were 5% over-budget, after taking account of the savings target of $4m.
- The resultant saving of $13.1m met the savings target of $2.5m and generated a net under-spend of $10.6m compared to budget.

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

Operating Expenses	January-Dec 2006 (12 months)				Actual Jan-Dec as % of Year's Budget
	Actual $m	Budget $m	Variance $m	Variance As % of budget	
Secretariat Expenses	**52.0**	**66.2**	**14.2**	**21%**	**79%**
LFA Services	**23.9**	**22.8**	**(1.1)**	**-5%**	**105%**
Sub-total	**75.9**	**89.0**	**13.1**	**15%**	**85%**
Efficiency target	0.0	(2.5)	(2.5)		
Total Operating Expenses	**75.9**	**86.5**	**10.6**	**12%**	**88%**
Secretariat expenses by function	**52.0**	**66.2**	**14.2**	**21%**	**79%**
Fund Portfolio Operations	15.9	21.1	5.2	24%	76%
Strategic Information & Evaluation	4.9	5.1	0.3	5%	95%
External Relations	8.9	10.0	1.2	12%	88%
Office of the Executive Director	1.4	2.3	0.9	39%	61%
Deputy E.D. / Corporate Strategy & Policy	0.7	1.7	1.0	59%	41%
Finance	3.4	3.9	0.5	13%	87%
Legal	1.5	1.8	0.3	18%	82%
Business Services	14.1	17.0	3.0	17%	83%
Office of the Inspector General	1.1	2.0	0.9	45%	55%
Office of the Chair of the Board	0.2	0.2	(0.0)	0%	100%
Contingency	0.0	1.0	1.0		
Secretariat expenses by type	**52.0**	**66.2**	**14.2**	**21%**	**79%**
Staff	30.6	33.3	2.7	8%	92%
Professional fees	7.8	11.3	3.5	31%	69%
Travel & meetings	8.0	10.7	2.7	25%	75%
Communications materials	1.2	1.8	0.6	32%	68%
Office expenses and infrastructure	5.2	8.1	2.8	35%	65%
Contingency	0.0	1.0	1.0		
External Funding	(0.8)	0.0	0.8		

Variances are computed as budget minus actual expenditure. Hence, positive amounts are favourable, since expenditure is less than budgeted.

2 **Local Fund Agent fees** for in-country oversight: $1.1m (5%) over-budget

Expenditure on LFA services was $2.9m less than estimated. This saving is less than the $4m savings target that was incorporated in the budget, by $1.1m. The likelihood of the savings target for LFA services not being fully achievable was advised to the Fourteenth Board Meeting (GF/B14/9 Addendum, p.3). As was anticipated at that time, savings on Secretariat expenses (see Part 3) fully compensated for this.

The saving of $2.9m as compared to budget resulted mainly from the volume of PR assessments being lower than had had provided for in the budget. There were also fewer Phase 2 reviews than had been envisaged in the budget.

LFA Service	*Cost ($m)*				*Activity*				*Average Unit Cost ($k)*		
	Budget	**Actual**	**(Over-budget)/ saving**	Actual/ Budget Cost	Actual/ Budget Activity	Budgeted activity	Actual activity	Activity metric	Budget rate (average)	Actual rate (average)	Actual/ Budget Rate
Grant monitoring	18.4	18.2	0.2	99%	89%	382	342	No. of active grants (average)	48	53	111%
Assessments	4.5	2.7	1.8	60%	69%	111	77	No. of new grants signed	41	35	86%
Phase 2 reviews	3.9	3.0	0.9	77%	84%	126	106	No. of Phase 2 reviews	31	28	91%
Sub-total	26.8	23.9	2.9	89%							
Savings target	(4.0)		(4.0)								
Total	22.8	23.9	(1.1)								

(i) Grant monitoring (saving of $0.2m): The average number of active grants was 11% less than budgeted. The average cost per active grant was 11% higher than budgeted, and included special investigation work carried out on sub-recipients in Chad and Algeria. Supplemental costs were also incurred in monitoring grants in southern Sudan and Somalia.

(ii) PR assessments (pre-grant signing) (saving of $1.8m): The number of grant signings was 31% less than budgeted because the number of Round 5 grants was fewer than estimated and only one Round 6 grant was signed in 2006. The average cost per assessment was 14% lower than estimated at the time the budget was compiled.

(iii) Phase 2 renewal reviews (saving of $0.9m): The number of Phase 2 reviews was 16% less than budget, while the average cost per review was a 9% lower than budgeted.

3 **Secretariat Expenses:** $14.2m (21%) less than budget

3.1 Staff costs were $2.7m (8%) under budget. The under spend occurred in almost all units and was mainly the result of new staff being recruited later than foreseen in the budget.

3.2 Professional services were $3.5m (31%) under budget. The main areas here are Operations ($1,580k), Business Services Unit (BSU) ($559k) and Deputy Executive Director ($526k) with $858k savings across the other areas.

- Operations were under budget by $1,579k due to some planned activities being postponed to 2007 in the areas of CCM support, grant management support and case study documentation (saving $804k), Clusters using very little of the professional fees budget (saving $625k) and Operations Directorate not initiating consultancy services ($150k) in 2006.

- Business Services Unit under budget by $559k due to under utilization of the staff training budget amongst other smaller items.

- Deputy Executive Director Office (DED) savings ($526k) relate to the deferral of a number of budgeted actions in organizational development while the DED was overseeing Operations in the absence of an Operations Director, and using internal resource instead of budgeted external consultants to move forward on strategy and policy development.

3.3 Travel and Meetings were $2.7m (25%) under budget due mainly to savings of $926k in operational partnerships and country support (OPCS), $540k in operational Clusters, $212k in technical review (TRP) and $236k elsewhere in operations. Other savings were made in the Executive Director's office ($234k), BSU ($287k), Legal ($202k), and DED ($102k).

3.4 Office infrastructure was $2.8m (35%) under budget. This is due to lower than budgeted costs for the building (saving on budgeted rent ($455k) and fitting out costs ($910k), utilities and communication ($479k); on IT costs ($840k); plus $137k of other savings.

4 Operating Expense Ratios

The table below presents the key ratios for 2006, compared with 2004 and 2005. Operating expenses relative to grant activity show the following trends since 2005:

- An increase of 0.2% relative to total expenditure.
- A decline of 0.3% relative to the value of grants under management;
- Stability relative to grant disbursements for the year and the number of active grants

Statement of Activities (Summary)	2004		2005		**2006**	
	$m		**$m**		**$m**	
Income						
Contributions	1,253	97%	1,424	96%	2,466	95%
Financial income	34	3%	59	4%	126	5%
	1,287	100%	1,483	100%	2,592	100%
Expenditure						
Grants[1]	861	95%	1,524	96%	1,826	96%
Operating expenses	44	5%	61	4%	76	4%
	905	100%	1,585	100%	1,902	100%
Excess of Income over Expenditure	**382**		**(102)**		**690**	
Uncommitted funds:						
Excess of income over expenditure	382		(102)		690	
Net impact of discounting (for IFRS)[2]	1		8		(37)	
Increase/(decrease) in funds	383		(94)		653	
Uncommitted funds - at start of year	1,175		1,558		1,464	
Uncommitted funds - at end of year	1,558		1,464		2,117	

[1] Amount of new grant commitments in the year

[2] Grants payable and contributions receivable are discounted to net present value in the IFRS compliant financial statements

Key Ratios		2004	2005	**2006**
Operating Expenses as % of:				
Total Expenditure		4.9%	3.8%	**4.0%**
Grant Disbursements		7.0%	5.8%	**5.8%**
Grants Under Management		2.2%	1.7%	**1.4%**
Operating Expenses per Active Grant		$241k	$222k	**$222k**
Activity data:				
Grants[1]	$m	861	1,524	1,826
Operating expenses	$m	44	61	76
Total Expenditure	$m	905	1,585	1,902
Grant Disbursements	$m	628	1,054	1,307
Grants Under Management [2]	$m	1,976	3,500	5,326
Number of Active Grants[3]		183	275	342

[1] Amount of new grant commitments in the period

[2] Commitments to grants that have not yet reached completion

[3] Average number grants that are active during the period

Attachment 3 reconciles the Audited Financial Statements with the Review of Operating Expenses in Part 1 above.

Part 2: Achievement of 2006 Key Performance Indicators

Objective	Metric (KPI)	Target for 2006	2006 Result	% of Target Achieved	Units Responsible
1. Develop the Global Fund's strategy and business model	Completion of well defined 4-year strategy	Nov-2006	Board decisions taken and implementation started on several strategic issues. Option development continuing for issues still outstanding.	100%	Deputy Executive Director
2. Scale-up interventions, ensure grant performance, and increase alignment and harmonization	% of agreed targets reached by grants in Phase I (based on 18 months performance evaluation)	80% across the portfolio	94%[i]	118%	Operations & PEP
	% of grants addressed successfully[ii] out of those identified by the Early Alert and Response System (EARS) prior to Phase 2 evaluation.	60%	56%[iii]	93%	
	Amount disbursed to Rounds 1-5 grants	$1.5 billion	$1.3 billion[iv]	88%	
	Average time between grant approval and first disbursement[v]	8 months	9.3 months[vi]	86%	
	Funding follows performance: Well-performing grants receive higher % of expected disbursements than poor-performing grants	A rated grants receive 30% more than B2/C	A rated grants receive 24% more than B2/C grants[vii]	78%	
	# of countries where annual reviews carried out with partners are used in grant evaluations	20	17 reviews conducted[viii]	85%	
3. Managing for results and measuring the impact of investments	% of grants during Phase 2 which measure impact as part of performance	90%	96%[ix]	107%	Operations & PEP
	All grant reports, scorecards, performance frameworks, GPRs, updated and available on the web within defined time limits	95%	100% documents received by Online Team are on web within 1-2 days[x]	105%	
4. Secure resources to meet 2006 and 2007	% of 2006 funding needs contributed	100%	92%[xi]	92%	External Relations
	% of 2007 needs pledged	70%	67%[xii]	96%	
5. Enhance internal systems to ensure a high-performing, well-managed, and efficient Secretariat	% of staff with defined objectives and annual reviews of results and development	90%	94% of staff have set objectives with their supervisor; annual reviews will be completed by end of March 2007	104%	Business Services & All Units
	Internal staff survey on professional satisfaction and motivation	70% rating 'high' or 'very high'	Survey planned for March/April 2007	N/A	
	Operating expenses as % of grants under management and as a % of total expenditures	<3%, 10%	1.5% and 4.1%	100%+	
	Performance against 3 agreed diversity targets (gender, ethnicity, communities)	80% of targets met	Overall average (median) 87% Diversity target breakdown: Gender: 95% Ethnicity (median): 76% Communities: 100%	109%	

[i] This figure represents the mean for the top ten indicators of the 215 grants which had undergone Phase 2 evaluation by 31 Dec 2006.

[ii] The term 'addressed successfully' refers to an improvement in the grant performance rating to an "A" or "B1"rated grant in the Phase 2 assessment.

[iii] Of 38 grants identified by EARS 9 underwent a Phase 2 review, of which 5 (or 56%) were addressed successfully.

[iv] The difference between target and actual disbursement amounts is due, in part, to the late signing (and thus disbursement) of a number of Round 5 grants and the delay in some Phase 2 disbursements due to Conditions Precedent needing to be addressed before disbursement.

[v] Due to resource constraints, Round 5 was approved in two "batches", the first in September 2005 and the second in December 2005. As a result, the KPI measurement is based on an average time for both "batches"; grants had different deadlines.

[vi] The median has been calculated from the total number of grants approved (69). Delays are due to extensions in grant negotiation time and conditions precedent.

[vii] The information is based on 287 grants with performance rated disbursements through 31 December 2006.

[viii] The "reviews" reported for 2006 refer to a number of joint in-country activities, including joint assessment missions, joint program reviews or other specific collaborative activities involving an assessment or evaluation of a program or project. The Board has determined that this indicator will change for 2007 to better reflect harmonisation efforts. The new indicator [recommended by the Global Task Team (GTT) and monitored as part of the OECD-DAC] will be defined as: "percent of grants aligned with country or Principal Recipient (PR) fiscal cycle".

[ix] Data based on 146 phase 2 grants with finalized attachments as of December 2006. Please note that these are grants with built-in impact frameworks, which can include both impact and outcome indicators.

[x] All documents received by online team are on web within 1-2 days. However, there is no specific system to monitor the time from creation of document to receipt by online team. This KPI has been aligned with the Performance Indicators for the Global Fund and amended to more accurately reflect whether published data is up to date. The Board has determined that the KPI for 2007 is: "% of grants with complete progress & financial data published in grant performance report at time of disbursement (within 2 weeks)." The KPI target for 2007 is 90%.

[xi] $1.9 billion contributed, vs. 2006 needs of $2.1 billion. The difference is due to a few outstanding contributions that are expected to be paid early in 2007.

[xii] $2.0 billion pledged for 2007 vs. 2007 needs of $3.0 billion.

Attachment 1: Operating Expenses 2006 – Detail

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

2006 Actual US$'000	LFA Fees	Staff	Professional services	Travel & Meetings	Communicat. materials	Office infrastructure	Contingency	External Funding	Efficiency target	**Total**	As % of budget
In-country Oversight (LFA fees)	**23'894**									**23'894**	105%
Secretariat Expenses		**30'632**	**7'752**	**7'995**	**1'223**	**5'238**		**-841**		**51'999**	82%
Fund Portfolio Operations		12'254	501	2'920	416	-4		-153		15'935	76%
Performance Evaluation & Policy		3'058	1'023	693	68	28				4'870	95%
External Relations		4'171	727	3'620	723	109		-499		8'850	88%
Office of the Executive Director		1'077	28	272		8				1'386	61%
Deputy E.D. / Corporate Strategy & Policy		652	19	31						702	41%
Finance		1'008	2'435	5		-1				3'447	87%
Legal		1'033	361	65						1'459	82%
Business Services		6'398	2'556	249	16	5'025		-189		14'055	83%
Office of the Inspector General		872	102	73		56				1'102	55%
Office of the Chair of the Board		108		68		17				193	100%
Efficiency target											
Total	**23'894**	**30'632**	**7'752**	**7'995**	**1'223**	**5'238**		**-841**		**75'893**	**88%**
As % of budget:	105%	92%	69%	75%	68%	65%				**88%**	

2006 Budget US$'000	LFA Fees	Staff	Professional services	Travel & Meetings	Communicat. materials	Office infrastructure	Contingency	External Funding	Efficiency target	**Total**
In-country Oversight (LFA fees)	**22'763**									**22'763**
Secretariat Expenses		**33'335**	**11'277**	**10'724**	**1'793**	**8'059**	**1'000**		**-2'500**	**63'688**
Fund Portfolio Operations		13'530	2'082	4'834	580	60				21'087
Performance Evaluation & Policy		3'507	933	583	89	34				5'146
External Relations		4'344	1'015	3'699	951	38				10'047
Office of the Executive Director		1'543	178	507	15	15				2'257
Deputy E.D. / Corporate Strategy & Policy		999	545	132	13	3				1'692
Finance		1'317	2'590	13		25				3'945
Legal		1'108	410	267						1'786
Business Services		5'648	3'115	536	105	7'617				17'020
Office of the Inspector General		1'340	300	100	40	235				2'014
Office of the Chair of the Board			109	52		32				193
Contingency							1'000			1'000
Efficiency target									-2'500	**-2'500**
Total	**22'763**	**33'335**	**11'277**	**10'724**	**1'793**	**8'059**	**1'000**		**-2'500**	**86'451**

2006 Variances US$'000	LFA Fees	Staff	Professional services	Travel & Meetings	Communicat. materials	Office infrastructure	Contingency	External Funding	Efficiency target	**Total**	As % of budget
In-country Oversight (LFA fees)	**-1'130**									**-1'130**	(5%)
Secretariat Expenses		**2'704**	**3'525**	**2'728**	**570**	**2'821**	**1'000**	**841**	**-2'500**	**11'689**	18%
Fund Portfolio Operations		1'276	1'580	1'914	164	64		153		5'152	24%
Performance Evaluation & Policy		449	-90	-110	21	6				276	5%
External Relations		173	288	79	228	-71		499		1'197	12%
Office of the Executive Director		465	150	234	15	7				872	39%
Deputy E.D. / Corporate Strategy & Policy		347	526	102	13	3				990	59%
Finance		309	155	8		26				498	13%
Legal		75	49	202						326	18%
Business Services		-750	559	287	89	2'592		189		2'966	17%
Office of the Inspector General		468	198	27	40	179				912	45%
Office of the Chair of the Board		-108	109	-16		15					
Contingency							1'000			1'000	100%
Efficiency target									-2'500	**-2'500**	100%
Total	**-1'130**	**2'704**	**3'525**	**2'728**	**570**	**2'821**	**1'000**	**841**	**-2'500**	**10'559**	**12%**
As % of budget:	(5%)	8%	31%	25%	32%	35%				**12%**	

Notes
(a) Variances are calculated as budget minus actual expenditure. Hence negative amounts (shown in partentheses) indicate unfavourable variances, since actual expenditure was greater than had been budgeted. Conversely, positive amounts indicate favourable variances, where actual expenditure was less than budgeted.
(b) 'Business Services' comprises Administration, Human Resources, Contracts and Information Management services.

Attachment 2: Transactions on Global Fund Bank Account in 2006

	2006 USD
Balance at start of year	**474,391**
Net transfer from/(to) Trustee	500,000
	974,391
Receipts	
Contributions	13,426,097
less: transferred to Trustee [RED]	(11,024,784)
Bank interest	14,799
Total receipts	2,416,112
Payments	
Office rent and utilities	2,645,363
Rent allowance element of ED compensation	102,604
Staff recruitment & relocation services	58,604
Staff training support	5,001
Refundable (repayments from) / advances to staff	(134,721)
VAT recoverable	3,363
Travel and meeting expenses	45,988
Communications materials	1,251
External audit & tax/statutory filings	24,366
Professional services	22,562
Reference materials	3,514
Office catering	10,110
Office furniture & equipment	1,028
Office sundries	5,145
Exchange (gain)/loss and bank charges	(19,793)
Total payments	2,774,386
Balance at 31 December 2006	**616,117**
Subsequent transfer to Trustee	254,212
Net balance	361,905

The individual transactions comprising the contributions and payments summarised above are detailed in a separate document that has been provided to the FAC.

Attachment 3: Reconciliation of the Audited Financial Statements with the Review of Operating Expenses

IFRS adjustments

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

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

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

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

Statement of Activities **Summary US$ million**	**Per the Review of Operating Expenses**	Reverse the allocation of contributions towards Operating Expenditure	Contributions-in-kind (pro bono)	Discounting of long-term assets & liabilities to present value	**Per the IFRS Audited Financial Statements**
Income					
Contributions	2,466	1	9	(46)	**2,430**
Financial income	126				**126**
	2,592				**2,556**
Expenditure					
Grants	1,826			(9)	**1,817**
Operating expenses	76	1	9		**86**
	1,902				**1,903**
Increase in Funds for the year	690				**653**

Annex 5

AMENDMENT OF FUNDING POLICIES AS A RESULT OF THE ESTABLISHMENT OF THE ROLLING CONTINUATION CHANNEL

Outline: This paper proposes amendments to Global Fund Comprehensive Funding Policy and the policy on prioritization of Phase 2 funding that are required as a result of the establishment of the Rolling Continuation Channel, as requested by Board at its Fourteenth Meeting.

Summary of Decision Points:

1. The Board approves the amendments to the Comprehensive Funding Policy, as amended at the Thirteenth Board Meeting, as presented in Annex 5 to the Report of the Finance and Audit Committee (GF/B15/8).

2. The Board revokes the following decisions:

(1) The decisions made at the Seventh Board Meeting regarding prioritization of funding in resource-constrained environments (GF/B8/2 p. 13-14);

(2) The decision made at the Seventh Board Meeting regarding the criteria for considering promissory notes as assets (GF/B8/2, p. 16, decision point 6); and

(3) The decision points 1 and 2 entitled "Phase 2 Funding" made at the Eighth Board Meeting regarding prioritization of Phase 2 funding (GF/B9/2 p. 9-10).

<u>There are no material budgetary implications of this decision</u>

Part 1: Background

1 At its Fourteenth Meeting, the Board approved the establishment of a funding channel ("rolling continuation channel") that provides an opportunity for Country Coordinating Mechanisms ("CCMs") to apply for continued funding for grants that are reaching the end of their funding terms ("expiring grants") under conditions different from those available for proposals submitted as part of new rounds of financing ("rounds-based channel")[1].

2 The RCC decision states the following principles:

> 16. CCMs may submit proposals under the rolling continuation channel covering a maximum term of six years, in two phases of three years each, with funding for the second phase subject to the approval of the Board based on a mid-point performance review. The Board shall approve rolling continuation of funding proposals for the entire term of the proposal, with a financial commitment for the initial three years. Grants funded under the rolling continuation channel shall undergo assessments at each disbursement similar to those done for grants funded through the rounds-based channel.
>
> 17. The Global Fund shall prioritize funding for proposals submitted through the rolling continuation channel below the funding of Phase 2 renewals of proposals submitted through the rounds based channel and funding of Extraordinary Requests for Continued Funding of Treatment under the Continuity of Services Policy, but above the funding of proposals submitted through the rounds-based channel. The Secretariat, in consultation with the Finance and Audit Committee, shall communicate to the Board at the end of a given financial year a projection of the financial resources potentially available for these funding channels for the subsequent year, specifically noting confirmed pledges.

3 In the RCC decision, the Board requested the Finance and Audit Committee to present for approval at the Fifteenth Board meeting appropriate amendments that arise from the RCC decision to each of the following:

- (i) the Comprehensive Funding Policy approved at the Sixth Board Meeting[2] (and amended at the Thirteenth Board Meeting[3]); and
- (ii) the decision on prioritization of Phase 2 funding approved at the Eighth Board Meeting[4].

4 The proposed amendments are set out in Part 2 of this paper. The proposal includes both of the changes requested by the Board as set out in subparagraphs (i) and (ii) above into a revised version of the Comprehensive Funding Policy. It also includes proposed changes to incorporate in that Policy the decisions approved at the Seventh Board Meeting regarding prioritization of funding in resource constrained environments[5] for new proposals and the use of promissory notes[6].

5 The proposal assumes that the intent of the Board is to prioritize for funding grants being continued through RCC for the second RCC three-year period over those being continued for the initial RCC three-year period, following the principle whereby Phase 2 renewals have priority over Phase 1 proposals.

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[1] See decision GF/B14/DP9, hereinafter the "RCC decision".
[2] See GF/B7/2, p. 6-7.
[3] See GF/B14/2 p. 39.
[4] See GF/B9/2 p. 9-10.
[5] See GF/B8/2 p. 13-14.
[6] See GF/B8/2, p. 16, decision point 6.

Part 2: Proposed Amendments to the Comprehensive Funding Policy

The proposed amendments to the Comprehensive Funding Policy (as amended at the Thirteenth Board Meeting) are set out below.

(Note: In general, additions are indicated as underlines and deletions as strike-throughs. However, in order to include all funding policies in one document, additional decisions made after the approval of the Comprehensive Funding Policy are included in this proposal. Those additional paragraphs are indicated by footnote and changes to the original Board decisions are indicated as mark-up.)

Proposed amendments:

The Global Fund Comprehensive Funding Policy

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

2. TRP-recommended proposals submitted through the Rounds-Based Channel and Rolling Continuation Channel[7] should be approved up to the total of resources available.

3. The Board approves proposals submitted through the Rounds-Based Channel ~~are approved~~ for the entire term of the proposal (up to five years) ~~with a financial commitment for the initial two years with the possibility of renewal for up to an additional three years~~ and may approve continued funding for grants through the Rolling Continuation Channel for up to a further six years, with the following conditions:

a. For proposals approved through the Rounds-Based Channel, the financial commitment shall be for an initial two years (“Phase 1”) with the possibility of renewal for up to an additional three years (“Phase 2 Renewal”).

b. For grants continued through the Rolling Continuation Channel, the financial commitment shall be for the initial three years of the continuation (“RCC-I”) with the possibility of renewal for up to an additional three years (“RCC-II”).

c. The Board may approve Rounds-Based proposals, Phase 2 Renewals, and RCC-I and RCC-II continuations, and commit funds for ~~two years~~ the resulting financial commitments up to the cumulative uncommitted amount of assets that the Board determines will be available at the time of signing the related grant agreements[8] ~~in accordance with 3(b)~~.

d. ~~A sufficient amount of assets to meet the full cost of two years of implementation of approved grants~~ An amount of assets equivalent to the maximum financial commitment under a grant agreement must be deposited with the Trustee or readily available on demand prior to the Secretariat signing ~~a~~ such grant agreement.

~~c Based on successful implementation of a grant, funding beyond its first 2 years receives priority over the funding of new proposals. A sufficient amount of assets to meet the cost of such additional funding for the grant must be deposited with the Trustee or readily available on demand prior to the Secretariat signing an amendment to the grant agreement committing such additional funding~~.

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[7] Board decision GF/B14/DP9.

[8] In this Policy, the term “grant agreement” includes amendments thereto.

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

4. ~~Both cash and demand public promissory notes should be considered as assets.~~ The Global Fund shall consider as assets for the purposes of entering into grant agreements, both cash and promissory notes or similar obligations issued by the government of a sovereign state (or its designated depository) which shall be non-negotiable, non-interest bearing and payable at par value to the account of the Fund in the designated depository on demand or in accordance with an encashment schedule agreed between the contributor and the Secretariat.[9]

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

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

7. Prioritization for funding amongst proposals submitted through the Rounds-Based Channel:

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

b. ~~8. If it is necessary to further prioritize within these sub-categories, the following additional criteria will be used by the Board: poverty, disease burden, and other criteria which the Board deems appropriate~~. If insufficient resources are immediately available to approve all TRP-recommended proposals, proposals shall be prioritized for funding in accordance with paragraph 8 below.

c. ~~9.~~ The Board will not partially approve components.

8. ~~The Board adopts the following~~ The system for prioritizing among TRP-recommended proposals in the Rounds-Based Channel in the event that insufficient resources are immediately available to approve all TRP-recommended proposals is as follows[10]:

a. ~~1.~~ A composite index ~~would be~~ is used to assign scores to TRP-recommended proposals, as described below.

~~b. 2. For Round 4, the criteria used in this composite index would be poverty and disease burden. The Board requests the PMPC to review the possibility of including an additional criteria for the Fifth and subsequent Rounds around repeated failures and countries that have not previously received funding.~~

c. ~~3.~~ The indicators, values, and scores for the first two criteria are:

[9] This paragraph incorporates the decision made at the Seventh Board meeting on promissory notes.

[10] This paragraph incorporates the decision made at the Seventh Board meeting on prioritization of funding in resource-constrained environments.

Criteria	Indicator	Value	Score
Disease burden	Eligibility criteria for proposals from Upper-Middle Income countries (applied to all proposals)	"Very high"	4
		Not "very high"	1
Poverty	World Bank classification	Low Income	4
		Lower-Middle Income	2
		Upper-Middle Income	0

d. ~~4.~~ In the event that insufficient resources are immediately available to finance all TRP-recommended proposals, TRP-recommended proposals ~~would be~~ are financed in the following order:

1. Proposals in TRP category 1
2. Proposals in TRP category 2.

e. ~~5.~~ If category 2 is sub-classified by the TRP into subcategories, these ~~would be~~ are financed sequentially, with the proposals in the higher-rated subcategories being financed before those in lower-rated subcategories.

f. ~~6.~~ Proposals in the highest-rated category (or subcategory, if category 2 is broken down by the TRP into subcategories) for which insufficient resources are available are assigned a score in accordance with the above table. They ~~would~~ are then ~~be~~ financed in descending order (with the highest scoring proposals receiving priority).

g. ~~7.~~ There ~~would be~~ is no further subdivision of the groups formed by the combination of the TRP category/subcategory and score ~~would be made~~.

h. ~~8.~~ If insufficient resources are available to immediately finance all TRP-recommended proposals, the Secretariat ~~would be~~ is responsible for assigning scores to proposals and ~~would~~ is to present the Board with these scores at the time of the Board's consideration of the TRP's recommendations.

9. Prioritization of funding needs[11]

~~The Board decides that special policies and~~ The procedures set out below ~~are required~~ shall apply in the event of there being insufficient resources during a certain calendar year to fund all Phase 2 ~~grant~~ Renewals and all grants continued through the Rolling Continuation Channel. Such a situation of resource constraints would become evident at the final Board meeting of the previous year.

~~The Board decides that for subsequent year(s), the following priority system will apply in the event of resource constraints.~~The available resources shall be applied in the following sequence:

First funding priority: ~~Unfunded portions of prior year(s) renewals.~~ Phase 2 Renewals and Extraordinary Requests for Continued Funding for Treatment

[11] This paragraph incorporates the decision made at the Eighth Board Meeting on prioritization for Phase 2 and the decision made at the Twelfth Board meeting on Continuity of Services (See GF/B13/2).

Second funding priority: ~~Renewals due in the current year. A time limited partial allocation system will be established as necessary (see Decision Point 1.1~~) RCC-II

Third funding priority: ~~New proposal rounds (as already established in the Comprehensive Funding Policy)~~ RCC-I

Fourth funding priority: Proposals submitted through the Rounds-Based Channel

10. With respect to each of first three funding priority categories (Phase 2 Renewals and Extraordinary Requests for Continued Funding for Treatment, RCC-I and RCC-II):[12]

a. ~~The Board decides that~~ Provided that funding is available for at least one year's ~~of renewals~~ needs for the category during a certain calendar year:

(i) Available resources ~~will~~ shall be allocated among all grants in the category that satisfy the Global Fund's continuation/renewal criteria, according to a time-limited partial allocation system that funds all such grants for the same duration;

(ii) ~~A~~ The time-limited duration for renewed grants ~~should~~ shall be established by the Board at the final Board meeting of the year prior to the year of renewals. This time-limited duration will be based on conservative estimates of resource needs for renewals as compared to resources available for the calendar year of resource constraints.

(iii) Initial amounts committed during the year may be adjusted at the end of the year based on actual resource needs for renewals as compared to resources available.

b. If funding is not available for at least one year's needs for the category during a certain calendar year, special procedures will be decided by the Board at the final Board meeting of the previous year.

c. Unfunded portions of prior years' needs for the category shall have priority for funding over the current year's needs for the category.

[12] This paragraph incorporates the decision made at the Eighth Board Meeting on prioritization for Phase 2.

Annex 6

UPDATE ON TRANSITION OPTIONS PROJECT

Outline: As requested by the Fourteenth Board Meeting (in decision point GF/B14/DP32), this paper provides information on the costs and timeline for implementation towards administrative independence from the World Health Organization. Unfortunately, it has not been possible in the time available to prepare a fully costed plan that covers all aspects of implementation primarily due to decisions needed in relation to pensions. The paper also provides an update on other relevant developments since that decision was taken in November 2006 and recommends a way forward.

Decision Points:

4. ***The Board notes the progress made to date, and authorizes the Secretariat, under the oversight of the FAC, to proceed with the negotiation and costing of the remaining alternative administrative arrangements as described in detail in the report GF/B14/9, Fourteenth Board Meeting.***

5. ***The Board agrees upon the recommendation of the FAC that the most beneficial arrangement for providing pension services to the staff is to negotiate membership in its own right of the United Nations Joint Staff Pension Fund (UNJSPF). The Board recognizes the need to provide support to these negotiations.***

6. ***The Board requests the FAC to present the final fully costed implementation plan at its Sixteenth Board Meeting.***

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

Part 1: Executive Summary

1. At the 14th Board Meeting, the Board deliberated on the Finance and Audit Committee's (FAC) report on the Transitions Options Project (TOP) concerning the Global Fund's ("the Fund's") current Administrative Service Agreement (ASA) with the World Health Organization (WHO), and specifically considered two options:

- "more thoroughly integrate the Global Fund into the UN system through consolidating its agreement with WHO or another UN agency"; or,
- "securing 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".

2. Each of these routes was analyzed in view of the significant implications for a number of central areas of the Global Fund's business. These included: (i) dual governance; (ii) working relations with WHO: (iii) Secretariat efficiency related to expenditures required for administration and the quality and speed of services provided; (iv) staff satisfaction, including tax benefits and pension plan, as well as intangible benefits of status as a UN employee; and (v) staff travel, focusing on the arrangements (e.g., the United Nations Laissez Passer) that facilitate and enable staff travel to a full range of countries.

3. The discussion of dual governance was centered on two areas: (i) the sovereignty of the Global Fund Board over Secretariat employees, including the ED, i.e., the extent to which the Global Fund Board has authority over Secretariat employees and the impact of this on the operations of the organization; and (ii) possible requirement of greater accountability to UN mechanisms, limiting authority of Global Fund Board or requiring a change of Global Fund governance structure to adapt to UN requirements and compatibilities. As an independent organization, staff would be employed directly by the Global Fund and accountable only to its Board and ED. No changes to Global Fund governance structures would be required as all essential activities are already within the mandate of the Board and its committees.

4. Following discussions on the implications of each option in the broader context of what administrative arrangement best supports the mission and mandate of the Global Fund, and its difficulties with dual governance, the Board decided to pursue the second option and requested that a detailed preparatory plan for administrative independence be developed by the Secretariat. 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. The Board's decision at the 14th Board Meeting specifically requested:

> "*the FAC to work with the Secretariat to present for approval a detailed plan covering such preparations at the April 2007 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, and steps to be taken that would safeguard the interests of staff as outlined in Paragraph 11 of GF/B14/09. The plan shall be consistent with the principles set forth in GF/B14/9. The Board will make its final decision at the April 2007 Board meeting."*

5. This decision would also allow the Global Fund to adhere to its founding principles as an independent organization: (i) a new and innovative public-private partnership; (ii) lean, efficient and operating in a non-traditional and flexible way to address time-limited focused tasks and make the best possible use of each staff member's skills; (iii) principled rather than rules-based with the capacity to constantly learn and evolve; and (iv) a small organization able to quickly recruit staff from

diverse backgrounds (private sector including the financial and banking sectors, NGO's, international organizations, UN and governments) with access to a dynamic and mobile labor force. By contrasts, the UN system is, by virtue of its treaty based governance structures and its size, slower to change, rules-based in its approach, and attractive to staff who see the UN as a life-time career.

6. Progress reached so far for each separation issue is as follows:

- **Pension Fund**: Two alternatives have been examined—remaining in the United Nations Joint Staff Pension Fund (UNJSPF); or establishing a new pension scheme. These alternatives have different impacts on costs and on the interests of the staff. The first would allow a full transfer of the pension fund, with no loss of employer contribution. By contrast, the second would include only a partial transfer of contributions to date, likely to be principally the employees' contributions. The FAC's proposal is to negotiate remaining within the UNJSPF and apply for membership as an independent entity to preserve the full pension fund.
- **New Approaches to Human Resource Administration:** These include the One Staff principle (i.e., no separation between professional and general service staff), decentralized job evaluation, broad-banded salary structures, and performance pay. Remaining in the UNJSPF would require compliance with the UN Common System compensation and benefits structure and levels, which would somewhat reduce HR policy flexibility. However, because of the pension fund requirements, the FAC's proposal is to remain in the UN Common System.
- **Operating without the United Nations Laissez Passer (UNLP):** Upon departure from the WHO, Global Fund would no longer be able to use the UNLP. This would impact on visa availability for some staff and on safety and security. A tight plan needs to be put in place to mitigate against restrictions for staff, including contracting with the same agent the UN uses for security, and exploring bilateral agreements with countries.
- **Insurance:** Health and other insurances are presently provided by the WHO. The Fund can obtain a total insurance package covering all risks and benefits under the WHO policy at no additional cost to the organization.
- **Tax Equalization:** Global Fund employees, as staff of the WHO, are tax exempt. The Fund will need to compensate current staff whose status would change as a result of the transition. The Secretariat has completed the analysis and proposes reimbursement for a limited time period (three years).
- **Systems:** An internal, integrated IT system would be required upon separation. A study was commissioned and an initial technology architecture has been suggested.

7. Further research is needed in three areas: Pensions, the UNLP, and systems.

- **Pension Fund:** Further work is required to position the Global Fund as an entity with the status of an international organization within the UNJSPF. Legal support from the Swiss authorities and support from Board members will facilitate the process.
- **The UNLP:** A detailed travel analysis will be completed and a plan put in place to manage any impact on the issuance of visas, safety and security, and travel practices. As their nationality could affect the countries that some Fund Portfolio Managers (FPM) can work in, alternative work program arrangements may have to be designed.
- **Systems.** The WHO has decided to replace their existing information systems with an enterprise resource package (Global Services Management). In this context, the Fund will review and adjust its business processes to facilitate the transition to this system, to be launched in early 2008.

8. Consultants specialized in their fields, actuarial firms, and insurance brokerage firms have produced for the Secretariat analysis of costs and relevant issues and provided state-of-the-art knowledge on pension funds, new approaches in human resource administration, insurance, tax

equalization, and integrated information systems. The paper below develops the details underscoring the progress reached in each of these areas. A summary of costs is presented in Annex 1.

9. It should also be noted that since the 14th Board Meeting, there have been several new developments which are discussed in Part 4.

10. Main results of the analysis are highlighted below. Board decisions are required in relation to ***pension funds*** and in proceeding with the negotiations and costing of the remaining alternative administrative arrangements as described below.

Decision Point 1:

> ***The Board notes the progress made to date, and authorizes the Secretariat, under the oversight of the FAC, to proceed with the negotiation and costing of the remaining alternative administrative arrangements as described in detail in the report GF/B14/9, Fourteenth Board Meeting.***

There are no budgetary implications for this decision point.

Part 2: Overview

1. This paper presents progress reached in the review of main areas, considering their impact on Global Fund's business while at the same time safeguarding the interests of the staff as mandated by the Board. The methodology followed was to establish comparator indicators for the Global Fund and to assess the costs and timeline of implementation in this context. The World Trade Organization, which has completed its administrative separation from the UN, was consulted, as well as senior management at the International Civil Service Commission and the United Nations Joint Pension Fund headquarters in New York. Actuarial experts, and consultants specialized in compensation and benefits, integrated information systems, taxation, and insurance brokerage firms have produced for the Secretariat analysis of costs and relevant issues.

Part 3: Analysis

1. **Pension:** Global Fund staff receive pension benefits, as individuals, through the United Nations Joint Staff Pension Fund (UNJSPF).This is possible because the Fund's staff are hired by the WHO, an international organization which is a member organization of the UNJSPF. The UNJSPF was established by the United Nations General Assembly in 1949 to provide retirement, death, disability and related benefits to staff of the United Nations and other UN organizations affiliated with it. As of January 2007, the UNJSPF served 22 member organizations and had a value of assets worth USD 37 billion.

2. The UNJSPF is a defined benefit plan that provides valuable benefits to participants and their beneficiaries, including currency protection and adjustments. However, it has two major limitations: (i) the UNJSPF does not ensure full portability, except to the other organizations affiliated with the UNJSPF; and, (ii) staff members leaving the pension fund with less than 5 years contribution to the UNJSPF receive no portion of the employer funds contributed on their behalf.

3. Estimates of the value of Global Fund pension contributions credited to the UNJSPF by end 2007, would be approximately USD 20.2 million, with 1/3 contributed by staff and 2/3 contributed by the organization. In the case of the Global Fund, where 90% of staff have contributed to the UNJSPF for

less than 5 years, and almost all for less than 10 years, a substantial portion of the organization's contribution could be forfeited if the Global Fund were to leave the UNJSPF. Based on prior cases (e.g. World Trade Organization - WTO), the amount transferred to a new Global Fund pension not affiliated with the UNJSPF could result in a liability of up to 50% of the full USD 20.0 million contribution, depending on negotiations. Based on an actuarial estimate as of December 31, 2006, the financial loss to the staff members could range between USD 0 and USD 10 million.

4. To facilitate advantageous options for retaining secure and flexible pension benefits for staff, the Secretariat, with the assistance of technical experts, conducted discussions with the Chief Executive Officer of the UNJSPF and his advisors in New York. Discussions were also conducted with the Executive Secretary of the International Civil Service Commission (ICSC). In light of their counsel, the Secretariat has considered the following two options for providing pension benefits to staff: i) remain within the UNJSPF as a Swiss Foundation, or ii) establish a new pension scheme outside of the UNJSPF.

Option 1--Remaining within the UNJSPF. Upon departure from WHO, the Global Fund would need to:

- be identified as an international organization as set out in Article 3 of the UNJSPF Regulations; and,
- adhere to the salary and pensionable remuneration scale of the UN Common System as established by the ICSC. , i.e. the Global Fund would retain the same salary scale and grading structure it presently has with the WHO.[13] However, as confirmed by the ICSC, participating in the UN common system would not impede the Global Fund's ability to design its own human resource policies to recruit, terminate, enter into contracts, and resolve staff disputes. And, because the Global Fund would be the employer of its own staff under this model, the HR issues related to dual governance would be eliminated.

Discussions with the UNJSPF have indicated that due to the Global Fund's private-public nature and current constitutional structure as a Swiss Foundation, it may not be recognized as an international organization, and therefore may not be eligible for membership within the UNJSPF as an independent organization.[14] Therefore, to remain within the UNJSPF, the Global Fund would need to garner sufficient political support to encourage acceptance of its membership application.

The option of remaining within the UNJSPF would require three steps:

1. In May 2007, send a letter of intent from the Global Fund's Executive Director to the UN Secretary General explaining the Global Fund's status as a Swiss Foundation with a Headquarters Agreement, funded mostly by states, with significant

[13] The ICSC Common System framework, in addition to grading and salary scales, includes post adjustment allowances, principles of recruitment and retirement policies, as well as other issues addressed by the General Assembly on an ad hoc basis.

[14] At initial discussions of membership with the UNJSPF, concerns have been raised by certain provisions in the Headquarters Agreement (HA) between the Swiss Federal Council and the Global Fund. Three areas require further clarification: (i) is the "international juridical personality and legal capacity in Switzerland of the Global Fund" recognized only by Switzerland for the purposes of the HA or also by other governments?; (ii) with regard to Global Fund staff, would the HA in any way limit the status, privileges and immunities of the UNJSPF, if it covered Global Fund staff as the staff of a separate UNJSPF member organization?; and (iii) what is the authority of the Swiss Authority of Foundations over the Global Fund ?

presence of states on its Board, and working towards the Millennium Development Goals in the international health arena. Membership would be considered at the UNJSPF's Board Meeting in July 2007;

2. Supporting letter explaining the Global Fund's programs in developing countries, to be sent to the Executive Director of the UNJSPF from the Chair of the Global Fund Board and other important contributing governments; and,

3. Legal guidance and support from the Swiss Mission at the UN in Geneva and New York.

If approved, membership would be ratified at the UN's General Assembly meeting in December 2007.

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Option 2--Establishing a new pension scheme. Designing a new pension scheme would only be necessary in the event that the Global Fund is unable to obtain membership in the UNJSPF as a Swiss Foundation. Establishing a pension scheme is a complex process, particularly in the case of the Global Fund where the size of the full contribution would be at stake. Three steps would be envisioned:

1. Design a detailed pension plan, and its financing, based on the assumptions resulting from the key characteristics of the Global Fund as an employer.

2. Out of the USD 20.2 million value, negotiate with the UNJSPF the actual amount to be transferred;

3. Explore options for a hosting arrangement with either a private or public administrator.

Design a Pension Plan: Design of the plan should follow either a defined benefit scheme or a cash balance scheme. A defined benefits plan would provide better protection for staff because the benefits are defined at retirement. A cash balance plan would provide flexibility to the Fund to manage the costs of the plan in the future. Cash balance plans aim to promote mobility, rather than longevity, and they provide greater transparency with respect to termination benefits. The Global Fund's risk as an employer in cash balance plans is controlled by making the interest rate credited to the retirement accounts dependant on the actual investment return of the fund.

Financing the Plan : To finance a cash balance plan, the Global Fund could create an autonomous foundation or join a collective foundation. An autonomous foundation is better suited to the Fund, given that most collective funds will not be able to provide good service for a pension plan that is likely to be different from the typical Swiss cash balance plan. For a detailed comparison of the two financing vehicles see Annex 2.

Transition: Experts would need to be engaged to support and guide the Fund in establishing the new pension scheme which would normally take one year. Given the complexity of pension plans, it will be important to spend a significant effort on communication with staff to explain the benefits of the new pension.

Preferred Option – Option 1: Remaining within the UNJSPF is the preferred option because it would guarantee the benefits of a secure pension and include other features attractive to an international staff. However, it would require that the Global Fund remain within the UN common system, which in turn implies continuation of the two categories of staff (Professional and General Services Staff) and salary scales as is the case today under the WHO.

<u>Decision Point 2</u>:

The Board agrees upon the recommendation of the FAC that the most beneficial arrangement for providing pension services to the staff is to negotiate membership in its own right of the United Nations Joint Staff Pension Fund (UNJSPF). The Board recognizes the need to provide support to these negotiations.

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

5. **New Approaches in Human Resource Administration:** A fundamental characteristic of the Global Fund is the private-public dynamic that differentiates it from the UN or other international organizations. It is therefore vital that a move away from the WHO provide a platform to capture the best of both the public and private worlds, especially in terms of flexibility and the capacity to respond quickly to changing environments, and to adapt its recruitment to the fundamental tenets of the organization. Today, 43% of the Fund's staff has been recruited from UN agencies, 31% from the private sector, and the rest from NGOs, country government and academia (Annex 3).

6. WHO currently employs 250 staff working for the Global Fund under the UN common system[15], under which the Professional and General Services staff have two salary structures, based on different comparators. The existing human resources (HR) systems were developed to support the UN's work efforts for staff that would age with the organization, i.e., entry at a young age and departure after many years. Today, most organizations are moving towards a One Staff Principle[16] and aiming to implement modern HR approaches, consisting of a decentralized job evaluation system, broad-banded salary structures, and performance pay.

7. In consideration of modern changes in human resource management, and the changing trends for funding employees from long-term to short-term employment, the UNJSPF, in conjunction with the ICSC, commissioned a review of the personnel policies of its member organizations and implemented pilot projects which test many of the above noted modern HR approaches such as broad-banding of salaries and performance pay. [17] The Global Fund could, as other organizations such as UNAIDS, benefit from pursuing the opportunity to implement some of these approaches as a

[15] The common system represents common standards, methods and arrangements being applied to salaries, allowances and benefits for the staff of the United Nations, those specialized agencies which have entered into a relationship with the United Nations, the International Atomic Agency and a number of other international organizations. The common system is designed to avoid serious discrepancies in terms and conditions of employment, to avoid competition in recruitment of personnel and to facilitate the interchange of personnel. It applies to over 52,000 staff members serving at over 600 duty stations.

[16] The separation of the staff into Professionals and General Service staff would no longer be required. In earlier times, the Professional category meant that staff required a university degree while GS staff did not, with globalization and improvements in education, the UN common system organizations regularly recruit staff into the GS category with university degrees. Thus, the distinction between the bottom of the scale of the Professional category and the top of the scale of the GS staff has become quite blurred. It would be proposed that the two categories of staff be merged under one salary scale structure under a "one staff principle". This has in fact been done by the World Trade Organization (WTO) in its transition away from the UN common system. While the single salary scale structure removes the wall between 2 categories of staff, it does have implications for the salary system.

[17] United Nations Joint Staff Pension Board, Final Report of the Working Group charged with undertaking a fundamental review of the pension fund. July 2002

pilot project within the UN Common System. More research is being done in this area and would become particularly important after concluding negotiations with the UNJSPF.

8. **Insurance:** Health and other insurances are presently provided by the WHO. An analysis, including a benchmarking exercise by an insurance brokerage firm, was performed on the Staff Health Insurance, and group accident and illness insurance policy for staff members appointed for one year or more and for short-term staff. Also reviewed were the rules governing compensation to staff members in the event of death, injury and illness attributable to the performance of official duties on behalf of the WHO and for loss of or damage to personal effects.

9. The overall objectives were to maintain the level of coverage received with the WHO plan, minimize the organization's financial exposure, optimize the level of premium for the employee and employer, and reduce the administrative burden. One key element was to guarantee portability for all Global Fund employees regardless of medical history and with no exclusions for pre-existing illnesses, including HIV/AIDS, and no time limitations on the length of coverage, as long as the member remains a Global Fund employee. The new plan would also provide the same worldwide coverage we currently have under the WHO Staff Health Insurance (Annexes 4 and 5).

> **Costs/Timeline**: The results of the insurance review revealed that the Fund could obtain a total insurance package covering all the risks and benefits presently under the WHO policy at no additional cost to the organization. Implementation will require 10 months from separation.

10**. United Nations Laissez Passer (UNLP):** As WHO employees, Global Fund staff currently have access to the UN Laissez Passer (UNLP). This passport—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 staff traveling to certain countries, reducing processing time. Secondly, it evidences that staff have privileges and immunities including 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. This is an issue of major concern for staff particularly those in Operations.

11. Upon administrative departure from the WHO, Global Fund staff would no longer be eligible to receive the UNLP and its related advantages for travel, safety and security, and visas. The Global Fund has a diverse international staff. About 60% originate in Europe, North America, and Australia. The remaining 40% is from Africa, East and South Asia, Latin America and the Caribbean, and Middle East and North Africa. As such, there are a number of staff members who, by virtue of their nationality, cannot receive visas to some countries at all or only with great difficulty. While the Fund could establish bilateral agreements with countries, the absence of the UNLP would require advance planning for visas, including coordination with local agencies, and putting in place a safety and security program. In 2006, Global Fund travel had the following characteristics:

- There were nearly 2000 tickets purchased in 2006. About 40% of these tickets were for 50 travelers, 50% of which were from North America, Western Europe, and Australia. The remaining 50% had developing country nationalities including Colombia, Ghana, Guyana, Kenya, Senegal, South Africa, Sri Lanka

- Of the top 50 travelers, about 52% were from Operations.

12. The Secretariat has reviewed travel practices of other comparative organizations, which do not have access to a UNLP and operate in conflict areas, e.g. the Red Cross, Save the Children, and

Medecins Sans Frontières. It is clear that they largely depend on their contacts with the foreign ministries facilitating the issuance of visas and their local delegations or country offices to facilitate the provision of security. For example, in the case of the International Federation of the Red Cross (IFRC), an international organization with a Headquarters Agreement, their 300 staff are based in Geneva although they have a presence in 63 countries through regional or country delegations. About 150 staff are frequent travellers. The IFRC obtains between 20 and 30 visas a month. These are issued with the assistance of the local delegation or the local Red Cross office. Security in the field is provided by the local delegation, and in case of unrest, the Federation has a repatriation contract with SOS, a private security firm.

13. The UNLP and other aspects of membership in the 'UN family' are issues of significant concern to many Global Fund staff, particularly within Operations where the majority of Fund Portfolio Managers and Cluster Leaders travel regularly. Many staff believe that without the UNLP, the Global Fund work will be affected in the following areas: (i) access to government officials; (ii) feeling of safety in high conflict areas as a result of being associated with the UN; and, (iii) the Fund's ability to attract a more culturally diverse staff in the future compared to current geographical distribution The Global Fund Staff Council has produced a document entitled, "Staff Council Submission to the FAC" which has been distributed to the FAC for information.

14. While the UNLP cannot be fully substituted by a security and safety program provided by a private company, the Secretariat has completed research on private provision of security services. A Travel Risk Management (TRM) package could assist in helping staff prepare for departure, provide limited support while traveling, and ensure the availability of sufficient resources to respond in the event of a crisis. The main elements of a TRM could address concerns raised by staff in five areas: (i) obtaining security briefings before and during travel to difficult areas; (ii) tracking travelers in the event of an emergency; (iii) repatriation/evacuation in case of medical or security threat; (iv) establishing local contact for staff traveling unaccompanied; and, (v) identifying a responsible agency/personnel for coordinating emergency evacuations in the field.

15. In order to request coverage regarding pre-deployment, on assignment, and during an emergency response, the Global Fund would subcontract an international firm that would help it establish a travel risk management infrastructure. This would include: (i) a Security Manager who would, on behalf of the Global Fund, define the policy and procedures for the management of travel-related risk; (ii) Medical and Security Information and Evacuations Services; (iii) Travel Management Solutions which would allow for tracking of employees in case of an emergency; and, (iv) a comprehensive Training Program, including security training for all staff traveling to medium and high risk countries. WHO and many other UN organizations outsource these tasks.

> **Cost/Timeline**: The estimated cost of a TRM package would be in the range of 200,000 USD to 300, 000 USD a year. In addition, there would be additional costs of 100,000 USD in visa charges based on an average charge of 100 USD per visa building on relations with 130+ countries' embassies and other travel-related costs. Similar security services are provided to the WHO by a private firm

16. **Tax Equalization:** Global Fund employees, as staff of the WHO, are tax exempt. The agreement between the WHO and the Swiss Federal Counsel guarantees all WHO employees exemption from all Swiss federal, cantonal and communal taxes, including social security contributions, irrespective of their nationality. Upon the transfer of the employee contracts from the WHO to the Global Fund as an independent organization, all foreign staff residing in Switzerland shall retain their tax exempt status within Switzerland in accordance with the provisions provided through the Status Agreement.

17. However, the tax exempt provisions of the head quarters agreement do not fully apply to Swiss nationals residing in Switzerland (the same applies to all UN agencies), nor do they apply to any staff residing outside of Switzerland. Thus, cross-border employees residing in France will be subject to tax in France. Additionally, as is the case for these staff in the UN system, nationals of countries applying the worldwide taxation system for residents of their countries (e.g. US nationals and green card holders) would be subject to tax in their home countries, regardless of residence.

Costs/Timeline: Leaving WHO would result in the following costs:

(i) **Cross-border staff.** Projected tax liability of USD 900,000 per year (based on current Fund staff residing in France as of 12/31/2006) and USD 500,000 for a one-time relocation expense[18] (using WHO's relocation allocation);

(ii) **Nationals of countries applying worldwide taxation.** In order to guarantee continuity of what is currently being provided by WHO, it is recommended that reimbursement be guaranteed for as long as the staff member remains an employee of the Global Fund. This would not apply to staff members who join the Global Fund after the termination of the ASA. For 2006, the total amount of reimbursement requested by US nationals (six only) from the WHO totalled USD 50,000; and,

(iii) **Swiss nationals residing in Switzerland.** The headquarters agreement provides tax exemption to Swiss nationals on the condition that the Global Fund makes provisions for internal taxation. In view of the limited number of Swiss nationals currently employed by the Global Fund, the Swiss authorities recommend a direct payment. These costs are estimated annually at USD 100,000.

In order to safeguard the interests of staff, the Fund should compensate staff whose tax equalization status would change as a result of a transition. To that effect, the Secretariat would propose to proceed as follows:

- **Cross-border staff:** Reimbursement for taxes paid for a limited time (i.e. 3 years). A one time relocation allowance is assumed for staff who chose to relocate to Switzerland;
- **Nationals of countries applying worldwide taxation and Swiss nationals:** To guarantee equitable treatment among current staff with similar circumstances, reimbursement without time limitation is recommended for both staff categories.

18. **Systems**: The Secretariat commissioned a study of the cost to implement, operate, and maintain an internal integrated IT system to replace the multiple systems currently used by WHO to provide administrative support services to the Global Fund. The systems cost for 2007 is USD 1.9 million. Concurrently, the WHO has decided to replace their existing systems with an enterprise resource package, the Global Services Management (GSM) project which will require the Global Fund to migrate onto this new platform January 2008.

Costs/Timeline: Development and implementation costs are estimated at USD 2.5 million and an estimated USD 1.2 million is the yearly maintenance costs. Upon departure from WHO, in addition to the system, additional staff would be required to replace functions currently being carried out in WHO. These incremental positions, with a cost of USD 1.1 million are in the areas of finance (2), human resources (2), administration (1), and information technology (2).

[18] The cost to reimburse real estate taxes for TGF staff who would sell their primary residence to relocate to Switzerland was not considered in this paper.

Part 4: Other Considerations

1. It should also be noted that since the 14th Board Meeting, there have been several new developments. First, WHO's position, as presented to the Board, was that the Fund had grown in size well beyond what was originally envisaged when the ASA was signed. This combined with the fact that the WHO Executive Board was now taking a more active interest in the principles underpinning these partnering/ASA arrangements and that it was in the process of implementing an enterprise resource planning (ERP) package for the entire organization, meant that the WHO would no longer be willing or able to continue with the current level of exceptions and flexibility to standard rules that it had allowed the Fund to date. Under the new ERP, the Fund would be classed as a satellite office of WHO's, following its administrative policies and procedures.

2. Secondly, the Norwegian Government is currently exploring a "UN Business Park for Global Health Partnerships". This initiative has been stimulated by their concern about what they have described as the proliferation of global initiatives and public-private partnerships, such as the Global Fund and GAVI, which have hosting arrangements within UN agencies which they have outgrown. The Norwegian government's view is that retaining strong links with the UN, including UN privileges and immunities, would have advantages in terms of global health architecture. Their proposed response to this challenge is the Business Park concept where there would be dedicated infrastructure services designed for this purpose and where the issues of dual governance with hosting organizations could potentially be overcome. Work on this concept has been undertaken by the Norwegian Government in close collaboration with WHO and UNICEF but is apparently not yet at a point where a clear proposal could be made as to its viability. The Secretariat and FAC have not received any documentation on this new concept.

3. The third and most recent development has been the suggestion by the Swiss government that they would like to explore the possibility of supporting a Business Park for a cluster of global health organizations, retaining strong links with the UN, without being part of the UN system. This concept is at an early stage of development.

4. The Board may want to consider how these recent developments could affect next steps.

Part 5: Conclusion and Proposed Next Steps

1. **Summary of Recommendations**. The Secretariat proposes that pursuing membership in the UNJSPF and elaborating a detailed plan regarding all administrative areas, including travel and security be conducted according to the following suggested timeline:

Time	Activity
May 2007	Application to UNJSPF for membership
	RFP process for insurance brokers
	RFP process for security and travel companies
June 2007	Start up meeting with insurance broker
	Selection of security and travel company
	RFP process for tax equalization
July 2007	UNJSPF Board meeting to consider the Global Fund application

	Insurance broker receives proposals from insurance carriers.
	Begin set up of internal taxation system
	Prepare for migration to WHO's new systems
August 2007	Communication to Staff on new Travel & Security procedures
	Receipt and review of insurance proposals
September 2007	Selection of insurance carrier and initial meetings
October 2007	Information to HR and staff on new insurance
November 2007	Begin implementation of insurance program
	Begin negotiations for transfer of funds into new pension
December 2007	UN GA decides on Global Fund application for membership
Jan 2008 – Dec 2008	Continuation of negotiations for transfer of pension funds
	Migrate to WHO's new systems
	Finalize pension fund transfer
Upon Separation from WHO	Implement new TRM package, including communication strategy
	Start up of new insurance, including communication strategy

2. **Next Steps**: As can been seen from the above timeline, the intention is to move to comprehensive decisions, making the process clearer and facilitating the development of a timeline which includes ongoing dialogue with the staff.

3. To address the significant concerns of the staff, more research is needed on a travel policy that would be required to conduct the Global Fund business and provide safety and security to the staff. Elements to be researched include particular nationalities that may not be able to be assigned to work in certain countries and selection of local agencies to support travel and security.

4. In consideration of the above areas, with its related costs and timeline, the FAC proposes that the Global Fund seek membership of the UNJSPF, in its own right, with a full transfer of the current USD 20 million. The Board recognizes the need to provide support to these negotiations.

5. The FAC will bring a further progress report to the 16th Board Meeting.

Decision Point 3:

> ***The Board requests the FAC to present the final fully costed implementation plan at its Sixteenth Board Meeting.***

There are no budgetary implications for this decision point.

Annex 1: SUMMARY COST TABLE

(All figures in USD million)

	Items	Amount	Comments
1	**One-Time Pension Cost**	**10.0**	Worst case scenario - assumes no transfer of employer's contribution
2	**Other One-Time Costs**		
	Systems Purchase	2.5	External consultants, hardware and software
	Other One-Time Costs	**2.5**	
3	**Annual Costs**		
	Pension Fund Administration	0.2	Outsourcing cost
	Systems Maintenance and Administration	1.2	Hardware, sofware, payroll outsourcing and training
	Tax Equalization - Swiss & US Citizens	0.2	Direct reimbursement
	Security & Travel	0.4	Travel Risk Management, plus additional visa cost
	Additional Staffing required	1.1	7 additional positions @ 150,000 USD
	Consultants	0.4	Ongoing consultancy support
	Annual Costs	**3.5**	
	less: ASA Annual Cost	-1.9	2007 amounts as indicated by WHO
	Incremental Annual Costs	**1.6**	
4	**Tax Equalization - Residents in France**		
	Tax Equalization per Year	0.9	Number of years to be decided
	Moving expenses	0.5	Worst case scenario - assumes all residents in France to move to CH

Annex 2 – Table 1
Pension Benefits – Financing Vehicles

Swiss pension plans must be financed through on the following financing vehicles:

Autonomous foundation – created by sponsoring employer, with the only purpose to finance Pension plan benefits for current and former employees

Collective foundation – created by an insurance company, bank or other organisation with the Purpose to provide pension plan benefits for employees of a number of employers. Also known as a « multi-employer pension plan »

The following is a table comparing the two financing mechanisms:

	Autonomous	Collective (Insured)
Annuala Admin Costs	**Lower**	**High**
Transparency of Costs	**High**	**Low**
Implementation time required	**Long**	**Long**
Autonomy	**High**	**Low**
Flexibility in design	**High**	**Low**
TGF involvement in management of the Fund	**High time involvement, but some outsourcing can be done**	**Low – This would be an overall package to include admin., valuations, calculations and communication**
Investment Returns	**High**	**Low**
Risk for employer	**High**	**Low**
Contribution for same benefit	**Low**	**High**
Funding Reserves	**High**	**Low**

Annex 3
Previous Professional Background of Staff (Jan. 2007)

	TOTAL	%
Academia	6	2
Country Government	18	7
First Experience	11	4
Health / Medicine	9	4
NGO	22	9
Private Sector	77	31
UN	104	42
TOTAL	247	

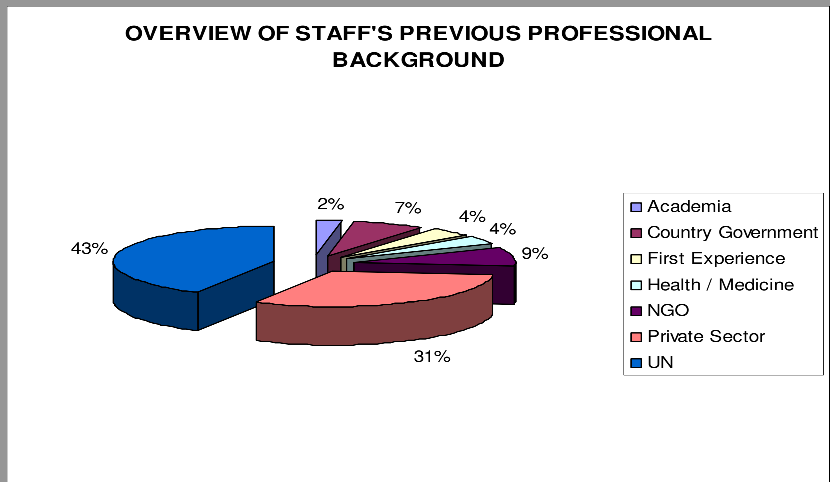


Table: Overview of WHO Staff Health Insurance

Annex 4
Overview of WHO Staff Health Insurance

Risks	Accident	Illness
Medical Expenses	Outpatient 80% if non-service incurred Outpatient 100% if service incurred	Outpatient 80% reimbursement
Hospitalization	100% - Public Room 80% - Semi private 80% - Private *no annual limit	100% - Public Room 80% - Semi private 80% - Private *no annual limit
Death	Lump sum (selected on a voluntary basis) of 3 x remuneration + annual pension calculation if service incurred	Lump sum (selected on voluntary basis) + annual pension, if service incurred
Permanent Disability	Lump sum of 3 x remuneration + annual pension if service incurred	120th of remuneration for a period of 120 months + annual pension, if service incurred
Loss of Income	100% of daily salary for 52 weeks after exhaustion of all sick leave entitlement (usually 6 months) + 10% of salary up to 10 years.	100% of daily salary for 52 weeks after exhaustion of all sick leave entitlement (usually 6 months)

Table: Overview of WHO Insurance Costs

Annex 5
Overview of WHO Insurance Costs

Category	What's covered	Current Cost
Health Insurance	•Worldwide Medical Expense Coverage •Outpatient treatment with 85% - 90% reimbursement •Hospitalization in private room	966,619 USD
Group Accident, Illness & Life Insurance	•Loss of Income •Permanent disability •Pension •Death •War risk and malicious acts	320,947 USD
Property, Casualty & Liability	•Liability Insurance •Business Interruption & Computer Insurance •Director & Officers Insurance •Marine	None
Total		1,287,566 USD

Table : Proposed Next Steps and Timeline

Annex 6: Proposed Next Steps and Timeline

Time	Activity
	Pension
May 07	Application to the UNJSPF for membership by submission of a letter of intent. (Clock begins for two year notice requirement)
9 - 13 July 07	UNJSPF Pension Board Meeting: Consideration of the Global Fund application
Dec. 07	UN General Assembly meets to decide on the Global Fund application for membership
Jan 08 until completion	Negotiate transfer of funds
	Insurance
May 07	RFP process to insurance brokers
May - June 07	Start up meetings with broker
July 07 - Sept 07	Broker makes offer on insurance market to receive proposals from insurance carriers. Broker compares the proposals received followed by discussions with the Global Fund
Oct - Nov 07	Implementation of insurance program
Dec. 07	Information to HR and staff
Upon separation from WHO	Start up of new insurance
	Travel and Security
May 07	RFP to security and travel companies
June 07	Selection of a travel and security company & TRM package
Within 3 months from separation from WHO	Implement new travel and security package
	Tax Equalization
May - June 07	RFP Process
July - December 07	Set up internal taxation system
	Systems
June 07 - Oct 07	RFP process
Nov 07 - Dec 08	Project start up, management and implementation

Staff Council Submission
To the Finance and Audit Committee (FAC)

Outline: This paper is intended to provide the Finance and Audit Committee inputs from the Staff Council (SC) with regards to the Transitions Options Project (TOP). The paper provides a brief background of SC involvement in the TOP and provides inputs in two areas:

1) Staff Council involvement in the costing exercise; and
2) Inputs from staff on key questions and considerations which it believes have not been adequately addressed by the Transitions Options Project (TOP).

In its submission, the SC requests the FAC to consider the following:

- To take into account that staff and the Staff Council have not been sufficiently involved and consulted in the costing exercise (Annex 1).
- In its discussions about the "carve out" from WHO, to kindly consider all questions, issues and concerns raised by staff (please refer to the paper *"Issues and concerns from Staff related to the TOPS Project"* ;
- In its recommendation to the Board, to clearly outline that the Staff Council should be a full member of the Transitions Options Project (TOP);
- In view of the absence of communication from management to staff about TOP, that any recommendation to the Board request that a communication strategy to staff be included as an integral part of the Transitions Options Project (TOP).

Part 1: Introduction

GF Staff Council and the Transitions Options Project

As part of its mandate of *"Ensuring that the rights and interests of members of the staff are represented in all decisions or actions by the Global Fund which may affect them"* (Staff council Constitution Article 2; Section 1; Para b. SC Constitution), the GF Staff Council (SC) engaged actively in 2006 with the "Expanded Core Team "(which was subsequently dissolved after the Guatemala Board Meeting). An important part of its contribution to the process in 2006 was a staff survey on the TOP previously submitted to the Finance and Audit Committee (FAC). In addition, the SC facilitated dialogue with management and conveyed staff concerns about the initiative. Many of the concerns voiced in 2006 were in relation to staff benefits, salaries and conditions of employment.

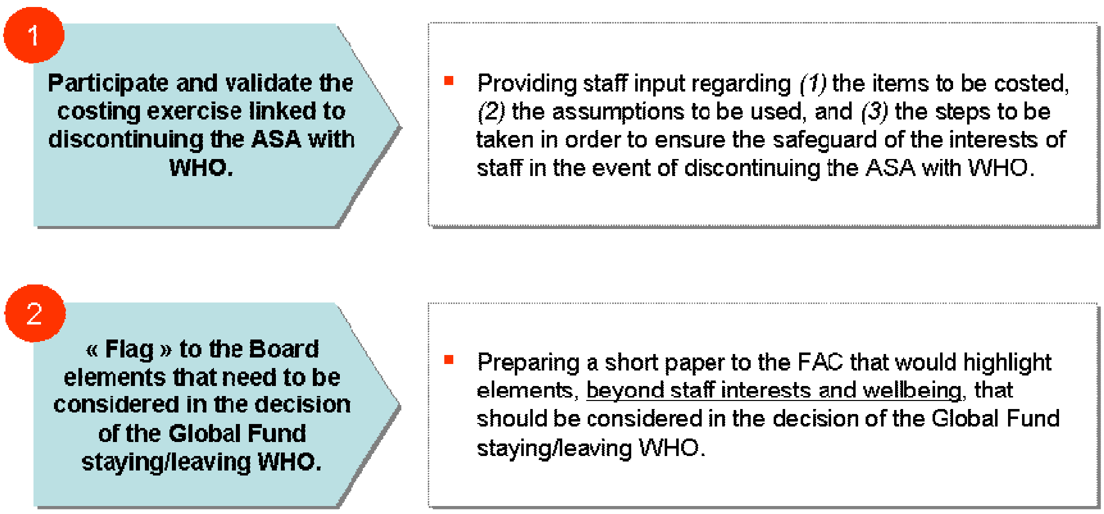
The Guatemala Board decision in relation to the TOP coincided with the election of the GF 2nd Staff Council. Since taking office, the 2nd SC established the following objectives in relation to TOP:

1. Ensure staff interests are safeguarded
2. Encourage and facilitate information exchange from staff to management and vice versa, to ensure timely and comprehensive information-sharing
3. Ensure due diligence in analyses of costing exercise for "carve out"
4. Identify gaps in analyses and input to the TOP project

3. In all its communications, the SC has emphasized that it does not have a position about whether or not the GF should move away from the Administrative Services Agreement (ASA) or remain within WHO. It is however representing the viewpoints of the majority of staff.

Staff Council Activities in 2007: Two Strategies

In order to fulfill its objectives, the Staff Council identified two strategies and communicated them to all staff and managers on 26 January 2007:



<u>Part 2:</u> The Costing Exercise

As part of its contribution and having fully informed GF management about its approach, the Staff Council (SC) convened and facilitated focus group discussions with staff volunteers on four work-streams: *i)* compensation and benefits; *ii)* health insurance; *iii)* taxation, and *iv)* Enterprise Resource Planning (ERP). These were based on the areas identified by TGF management where consultants would be engaged to carry out costing exercises.

The aim of each focus group was to provide feedback on the costing exercises performed by the TOP Management Team relating to discontinuing the Administrative Service Agreement (ASA) with WHO. The focus groups were made up of Staff Council Members and volunteers from staff.

The focus groups were meant to: *(1)* review the content of the ToRs provided to consultants; *(2)* review the output of the consultants; *(3)* review the draft FAC paper; and *(4)* outline key concerns and discuss each area of the costing exercise with the TOP Management Team.

<u>Unfortunately the SC was not able to fulfill its commitment to staff</u>. The reasons for this are the following:

- There was indication from management that a "Project Steering Group" would be established to work alongside the costing exercise (in the same spirit as the "Expanded Core Group"). The "Expanded Core Group" met only once, to which the SC was not invited, and the "Project Steering Groups" were never set-up.
- Following the meetings, the SC requested meetings with the consultants to better understand the general direction of their work and costing assumptions. Only one request to meet with the consultant was addressed.
- The SC has not had an opportunity (at the time of writing of this report on 14 March) to see the draft report to FAC and to comment on it, as was previously agreed, in writing, with the TOP management team.
- Timely and comprehensive communication about TOPS has not been shared with Staff. The SC has been the sole channel of (incomplete) information.

As a result the Staff Council addressed an open letter to all staff (8 March 2007), which is attached as Appendix 1.1

<u>Part 3:</u> Gaps in Analyses and Questions from Staff

In the all Staff Meeting held on the 26th of January 2007, the Staff Council received staff's support for the preparation of *"a short "flagging" paper to the FAC and the Board that would highlight elements, beyond staff interests and wellbeing, that may not have been fully considered to date in discussing the decision of the Global Fund staying/leaving WHO"*.

The Staff Council also held two workshops on February 1 and February 6, for staff members to bring up their concerns about issues related to how their work would be affected by a move away from WHO. Staff members were also given the opportunity to approach Staff Council members directly, either via email or in person.

During these communications, staff felt that there are a number of issues which must be flagged to the TGF Management and the Board. Reactions were largely in relation to leaving WHO, but were not informed by an understanding of the alternative. As such, most reactions were based on concerns of the unknown. Very few staff who participated in these workshops believed that a "carve out" would be beneficial for the Global Fund. This is why the report mainly contains issues and concerns about leaving WHO. A wide range of staff members provided input in this exercise: from all departments (PEP, Operations, BSU, External Relations), from former UN and non-UN staff members (with a majority of non former UN staff members), from all hierarchical levels (G staff to P6).

The collective input related to concerns or other issues as raised by staff are presented in this report. The Staff Council calls this a "flagging paper" because it focuses on questions, and does not purport to offer solutions. Its objective is to give the FAC and the Board a flavor of the views expressed across the organization, beyond staff interests and wellbeing, that may not have been fully considered to date in discussing the decision of the Global Fund staying/leaving WHO.

The report is organized in 8 discussion points:

1. Staffing and Human Resources
2. Travel, Safety and Security
3. Working with Partners and Countries
4. Performance-Based Funding
5. Independence and neutrality
6. Governance
7. Cost and efficiency of Global Fund administrative services
8. Donations to the Global Fund

Each discussion point is lead by a summary background paragraph followed by the key question(s) which reflect concerns as raised by staff during the process. In response to each question, input and opinions received by staff are quoted. The Staff Council received the permission to quote individual staff member concerns by assuring them of the confidentiality of information.

Cutting across these discussions points, three main concerns emerged from staff:

- The appropriateness of engaging in discussions about TOP when the long term strategy of the Global Fund, its size and future role, was not yet concluded. Such a disjointed exercise creates risks for the design of the organization, as it puts the "cart before the horse".
- The wording of the Board decision leaves room for many questions with regard to the cost the Board is willing to bear in the "carve out" – i.e., if the cost is too high, will the ASA continue with WHO? This leads to questions related to whether the move will be based on financial considerations alone or a combination of factors. If so, which ones, in the absence of a defined strategy?
- Timeframes allowed by the Board in relation to exploring "carve out" options are consistently too short to allow for comprehensive consideration of substantive issues. As a result, the work has been carried out in "fits and starts".

<u>Finally, the Staff Council wants to reiterate that this report does not analyze information or propose ways forward. It simply lists the main concerns as articulated by the staff.</u>

The Staff Council feels strongly that it is crucial that the Finance and Audit Committee (FAC) and the Board as a whole be made aware of these possible implications for the Global Fund and the concerns of staff regarding these issues.

Issues and concerns from Staff related to the TOPS Project

1- STAFFING AND HUMAN RESOURCES

Background: The staff of the Global Fund is extremely qualified and diverse. For example, the Global Fund includes: *(1)* 45% of staff from Africa, Asia, Latin America and Eastern Europe; *(2)* over 60% of women (as compared to 54% and 49% respectively for WTO and WHO); and *(3)* 42% of staff coming from the UN, 31% from the private sector, 9% from NGOs and 7% from governments.

Prompting Question:

- By leaving WHO, will the Global Fund be able to retain and attract the same level of quality and diversity of staff? With staff no longer having the status of international civil servant, will the type of candidates attracted to the Global Fund change?

Quotes from Staff:

"The Global Fund staff might change radically … Due to practical considerations, people from diverse backgrounds and nationalities may be discouraged from working here because of restrictions in travel both locally in Europe as well as to the majority of the countries that our grants operate. Today we have a diverse group of employees from all around the world that share a common understanding about the basic principles of the Global Fund and who contribute to the growth and development of the Global Fund in diverse and important ways thanks to their personal experience and points of view. Our staff diversity significantly enriches the understanding of the purpose of our work as well as contributing to the discussions about how the Global Fund is growing and developing. Maintaining the diversity in our staff is especially important in a young, dynamic and growing organization as we move forward to define and implement strategies, policies, processes and operational principles day by day." - Manager

"Many employees of the GF, including myself, are attracted by and committed to the principles and ideals of the UN and are proud to be international civil servants. There is a direct link between these ideals and principles and work we do for the Global Fund. The connection to WHO and the UN gives me and others a strong sense of combined purpose behind idealistic goals and principles. I could not imagine having the same feeling of being part of a larger more important cause and calling if we were to leave the UN. By leaving, there is a risk that the people attracted to work at the Global Fund might change drastically. In turn, the nature of the Global Fund may change radically from an organization where people are motivated to work hard for idealistic and humanitarian reasons and a sense of common purpose to an organization with much more focus on personal reward and "work as usual"." - Manager

"By ceasing to be employees of the UN Family…Staff members may leave the Global Fund [because of a number of issues including taxation] …This has cost implications which, though difficult to measure, include the loss of intellectual capacity, loss of productivity …and of course the actual cost of recruiting and training someone." - Program Officer

2- TRAVEL, SAFETY AND SECURITY

Background: As WHO employees, Global Fund staff in countries benefit from logistical support and guarantees of security and evacuation in cases of emergency from the UN. In addition, staff members are entitled to hold a *United Nations Laissez Passer* (UNLP) which bears a number of advantages: for example, nationalities cannot be identified, it accelerates boarder procedures, it facilitates obtaining visas, it ensures protections under the auspices of the UN, it ensures access to UN security manager in all countries … All this is critical given the nature of the work performed by staff of the Global Fund and the diversity of staff nationalities.

Prompting Question:

- By leaving the Administrative Service Agreement (ASA) with WHO, will the travel of Global Fund staff be negatively affected? And won't the loss of the UNLP seriously affect the safety and security of Global Fund staff abroad?

Quotes from Staff:

"Operations have to do most of their travel in very difficult countries and difficult regions. I doubt a private agency will ever be able to provide the protection and support that we get through [the] UNLP. On top of it, we do not have any bilateral agreements with countries, thus limiting our recognition. We will be in very difficult conditions if we decide to go through a private agency for support for our security. And we will lose the UN umbrella and support…hiring a Security Manager will not solve the challenges we face." - Team Leader

"There are issues that make life easier before emergencies arise: border police and customs control, as well as police behavior at identity checks are so much easier to pass with a UNLP, compared with national passports. This counts all the more in cases where GF staff is coming from "difficult" countries. Think about a Columbian staffer on a site visit with NGOs in the southern provinces of Tajikistan, close to the Afghanistan border – what might a police patrol think about the Columbian passport, what might they think about a UN Laissez-Passer?." - Team Leader

"…Issues raised in losing the UNLP. The privileges and immunities which come with it, the safety that it inspires, the facilitation when coming into country, the safety when crossing check points. Many will have problem using their national passport to travel even with visas. The real problem is not the visas, it is the passport itself. Others cannot have visas of certain countries on their national passport. A US citizen or a European have to explain him/herself if he/she has several stamps on his/her passport from countries such as Sudan, Yemen, Syria, Cuba etc." - Team Leader

"In case of loss or theft of documents, cash and credit cards, there is immediate assistance available from the nearest UN office." - Team Leader

3- WORKING WITH PARTNERS AND COUNTRIES

Background: The Global Fund is a financial instrument, not an implementing entity. The successful implementation of funded programs therefore depends heavily on the effectiveness of country partnerships, through donors, technical partners, country institutions or community organizations. While the Global Fund is and has always been a private Swiss foundation, the Global Fund is perceived by many as being affiliated with the UN. This affiliation with the UN has shaped the Global Fund's relationships with countries and stakeholders for the past 5 years.

Prompting Questions:

- Will there be the same level of cooperation from countries without the perceived affiliation of the Global Fund with the "UN family"? Should we assume that being a major funder is sufficient? And isn't the perceived UN affiliation a powerful "open sesame"?

- Without the "clout" of the perceived UN affiliation, will the Global Fund be able to bring all country-level stakeholders "around the table", enabling the necessary cooperation for successful program design and implementation?

- By leaving WHO, will there not be increased pressure for the Global Fund to directly fund technical assistance, especially from other UN agencies?

Quotes from Staff:

"Having worked for several organizations (multinational and bilateral) in development countries…it is very clear to me that you do not have the same welcome if you come with the UN flag or not…When and where I worked for…bilateral organizations, some doors remained shut, some individuals and thus programs were not eager to trust my willingness to assist them, …The UN flag has the critical advantage of being trusted by most of the partners/organizations/individuals in the developing countries. This is key when you try to introduce a developing program…Technical Partners …are also much more keen to work and trust UN staff." - <u>Manager</u>

"In a majority of the countries we work in, the UNLP carries the reputation of the United Nations. When talking to Ministers, staff with UNLPs is considered to be of diplomatic rank, which immediately facilitates negotiations (e.g., on tax exemption for grants) – I don't believe that wearing a Global Fund T-Shirt would have the same effect." - <u>Team Leader</u>

"The main technical support (TS) providers in the countries are the UN-related organizations. These organizations compete for funding sources, similar to those funding sources that the TGF benefits from. Many of these organizations consider that the TGF has far too many resources which in other conditions should go through them. The current affiliation of TGF with WHO/UN puts these organizations under the *moral* obligation to ensure that grant implementation receives the TS needed without requesting additional funds from the Global Fund or from the grantees. The moment the GF will cease to be a UN-related organization, the GF may face a situation in which the grantee or GF has to pay for TS services provided by these organizations." - <u>Fund Portfolio Manager</u>

4- PERFORMANCE-BASED FUNDING

Background: The performance-based funding model is one of the core principles of the Global Fund. It is what differentiates the Global Fund from other donor agencies and it contributes to our ability to continuously raise unprecedented financial resources. Essentially, performance-based funding means that only those grant recipients who can demonstrate measurable results from the monies received will be able to receive additional funding. Implementation of performance-based funding sometimes implies taking "bold" decisions such as refusing to disburse or recommending the termination of a Grant (eg. Phase 2 "No Go" recommendations).

Prompting Question:

- Could the move away from WHO negatively impact our performance-based funding model?

Quote from Staff:

"There is a high leverage that TGF staff working in the field gets from the WHO/UN affiliation, including maintaining impartiality and taking "bold" decision (i.e. not to disburse, to give No Gos, etc). These decisions could become more difficult to take and communicate to countries as they will not be shielded under the impartiality umbrella of WHO/UN. Experience in countries shows that many…have the tendency to associate decisions taken by organizations not UN/WHO as motivated by politics …and not performance." - Fund Portfolio Manager

5- INDEPENDENCE AND NEUTRALITY

Background: Over the past five years, a lot of effort has gone into working with countries, organizations and the media to explain that the Global Fund is a politically neutral funding organization that only requires from its grantees: *(1)* high standard of technical and scientific quality of Proposals; *(2)* accountability and transparency in their operations, and *(3)* performance and results as agreed-upon in Grant Agreements. Although it was always made clear that the Global Fund is not a UN agency, our link with the WHO has given weight to the statements of the neutrality of our funding decisions. There have already been a number of instances where the Global Fund has been accused of making or not making funding decisions at the behest of specific donors or as a result of political pressure.

Prompting Question:

- How would we maintain our neutrality without a link to the UN? Couldn't we be perceived as being under the political influence of a particular donor or donors?

Quote from Staff:

"By being away from the UN, TGF should be aware about the potential for negative politics that could affect GF …it…could undergo the risk of being considered as defending some political paradigms, even if it keeps its multilateral concept… if not handled properly, considerations such as "you defend the interests of this donor" ….could…affect Global Fund work." - Manager

6- GOVERNANCE

Background: One of the primary reasons cited for the necessity of moving away from the Administrative Services Agreement (ASA) with WHO is the issue of dual governance. WHO has made it clear that should the Global Fund continue its ASA, it will be expected to conform to all of WHO's administrative policies and regulations to an even greater degree than is currently the case. There is a concern that this increased rigidity will dilute the founding principles of the Global Fund as a public/private partnership.

Prompting Question:

- In which specific situations has the current "dual governance" structure affected the functioning, performance and/or achievements of the Global Fund?

Quote from Staff:

"The dual governance issue poses no practical obstacle to the effective functioning of the Global Fund. The Global Fund's independence is understood and respected. The Global Fund's link with WHO is an essential administrative partnership for the Global Fund because it enables the Global Fund to address aspects of organizational governance and management which, given its lean structure and the fact that it is a Swiss foundation, it is not equipped to undertake." - Manager

"For many staff, the dual governance issue is not an issue actually, but for those in Finance, Administration, HR, and other supportive role areas, it is an issue, as it means that conformity is required to both WHO roles and procedures, as well as TGF ones, and this often puts them in difficult positions." - Technical Officer

7- COST AND EFFICIENCY OF GLOBAL FUND ADMINISTRATIVE SERVICES

Background: The operating expenses of the Global Fund were around US$ 86 million in 2006 (including LFA fees). These operating expenses are fully covered by investment income from the World Bank. However, the operating expenses of the Global Fund are constantly increasing, from around US$ 33 million in 2003 to around US$ 86 million in 2006 (i.e., an increase of over 250%). There are concerns that the move away from the ASA might contribute to accelerate this increase in operating expenses of the Global Fund.

Prompting Questions:

- Won't the Global Fund's operational costs increase if the organization needs to take over or outsource the administrative services provided through ASA (HR, payroll, travel arrangements, …)? And isn't there a way to optimize the current provision of services through the ASA or to find another administrative arrangement within the UN system (e.g., a UN administrative hub or "business park")?

- What evidence is there that the Global Fund will achieve the same bargaining power for goods and services outside WHO?

- Is it possible that in leaving the ASA and creating its own administrative systems, services such HR and contracting could become simpler and more efficient?

Quotes from Staff:

"There are potential risks that the costs of implementing the services currently provided through the ASA will be higher than originally estimated, at least in the short-term." - Technical Officer

"WHO and the UN are considered a very large account in Switzerland, and the Global Fund voice is heard within that set up. This influences the attitude favorably towards the Global Fund when negotiating prices, conditions, etc. This special relationship is unlikely to continue if we are no longer perceived as being part of the UN system". - Manager

"We should not underestimate the time, cost and risks of designing, building and rolling-out a GF-specific IT system; especially that, according to industry analysis, 60% of IT projects fail" - Project Manager

"Visas: Did someone look into the time it will take to have visa arrangements with all countries? What will guarantee that it will work as expected? What are the related costs. Who is going to do it, by when? What happens if it doesn't work for certain destinations? What will be the impact on our work?" - Team Leader

8- DONATIONS TO THE GLOBAL FUND

***Background*:** Since its creation in 2002, the Global Fund has raised around US$ 10 billion to fight against HIV/AIDS, Tuberculosis and Malaria. The contributions have come from over 28 countries as well as from private foundations and the private sector. Despite an increase of 49% of pledges and contributions between 2004-2005 and 2006-2007, the level of funds raised by the Global Fund is still well below the international agreed target of between US$ 4-8 billion a year. There may be a risk that the perceived move away from the UN affects the level of donations to the Global Fund (e.g., in some countries, there are strict limitations on the amount governments can donate to private organizations).

Prompting Question:

- Might not the move away from WHO affect donations to the Global Fund (public and private)?

Quote from Staff:

"I think the governments can donate a huge sum of money to the Global Fund because the Global Fund is administered by international civil servants of UN. If we are completely away from the UN system, it will be much more difficult for the governments to justify politically this level of donation from tax to a private foundation administered by private individuals. The governments would be much more willing to set up trust funds in UN system." - Technical Officer

To: All Global Fund Staff
From GF Staff Council,
Re: TOPS Update
Date: 8 March 2007

Dear Staff:

Six weeks after the first all staff meeting of 26 January 2007, we thought you may be wondering what the Staff Council has been doing on TOPs issues. For a summary of that meeting, please see the attached email and presentation to all staff to refresh your memories (or Beatrice's Update of 1 February 2007).

The purpose of this email is to inform you where we are at with each strategy/work stream, inform you of areas of concern and indicate what the next steps are expected to be. If you recall, we set for ourselves the following objectives with regards to TOPS:

- Ensure staff interests are safeguarded
- Facilitate information exchange:
  - Staff to Management: staff concerns
  - Management to Staff: timely and comprehensive information-sharing
- Ensure due diligence in analyses of costing exercise for "carve out"
- Identify gaps in analyses and input to TOPS

Progress Update:

Let us start with the work on **Strategy 2**, which aimed to prepare "a short paper to the FAC and the Board that would highlight elements, beyond staff interests and wellbeing, that have may not been fully considered to date in the decision of the Global Fund staying/leaving WHO". Throughout February, we have held several brainstorming sessions with a number of you and prepared an advanced draft of a document. By the end of this week, we intend to finalize the draft paper for submission to Secretariat managers and relevant Board entities, including the FAC and the Chair and Vice Chair of the Board. We will, of course, circulate it to you for comments prior to further distribution.

With regards to **Strategy 1**, we have devoted considerable time to it as well. However, the Staff Council is less pleased with the progress made in this area. I would like to focus on this issue for a moment. The aim here was to "participate in costing exercise linked to discontinuing the ASA with WHO with a view to providing staff input regarding *(1)* the items to be costed, *(2)* the assumptions to be used, and *(3)* the steps to be taken in order to ensure the safeguard of the interests of staff in the event of discontinuing the ASA with WHO." (See attached PowerPoint)

On the SC side, we have convened meetings with sub-working groups (made up of staff volunteers) on ERP, compensation and benefits, health insurance and taxation matters. Only one group, however, has been able to meet with the consultant responsible for the area of costing (compensation and benefits, Fred Ordelt – on 9 February). Requests have been put to the TOPS project team for meetings with other consultants/groups in charge of other costing areas, but these requests have not been satisfactorily addressed. The SC also provided to the project team the names of focal points as staff reps to the Project Steering Committee, which we were informed, would be formed, but has not been convened.

Based on our concerns, we have communicated with the TOPS Project Team officially in writing. We highlight areas of our concerns below in the following context:

a) The Staff Council believes that we have been very transparent in all our dealings with the TOPs Project Team

b) We believe that this transparency has not been reciprocated by Management and

c) We do not find that the TOPS process is being managed in a considered manner by the Secretariat.

Specific concerns are as follows:

1. The SC has not been involved in elaborating in the assumptions of the costing exercise;
2. The SC has not met the consultants (with the exception of one) or received details about costing assumptions with the level of detail necessary for the SC to have a considered opinion or provide inputs on the assumptions underlying the costing. We have indeed been provided with information but of what we consider to be of a very general nature;
3. We understood that a Project Steering Committee would be established with SC representation. We informed the Project Team of the names of SC who would serve on this group (Mick and Sian). We were, however, informed that the "Expanded Core Group" has been reconvened. The objective and outcome of its only meeting in 2007 last week is not clear to us, particularly at this late stage of the costing exercise;
4. Three weeks before the FAC meeting, the SC has not seen the draft paper to the FAC nor been offered the opportunity to comment on it. We have been assured, and, believe that this will happen, but given timing issues, we can only input on editorial matters, and not on the substance, as points 1-3 have not taken place;
5. Our very clear understanding in discussions with managers, and as expressed in our all staff meeting was that the problem of a lack of communication which arose last year would need to be avoided and improved, and we believed that the proposed Project Steering Committee provided a good solution to this problem – as did assurances by management at our all staff meeting about these issues. And yet, it appears to us that the same situation (poor communication) is being repeated. The only substantive communication on the TOPs process has come from the Staff Council and we have reiterated that this is not sufficient**.** Our role is to represent Staff concerns, not replace the responsibilities around communication from managers.
6. We regret to say that we believe that our requests about the nature of our involvement continue to not be considered as seriously as they ought. We believe that the SC has not been engaged constructively, given its willingness to represent staff concerns and its transparency about its own intentions. Meetings have been systematically initiated by the SC, and we believe that these meetings have been seen as a replacement of an organized and systematic process of engagement from beginning to end. This was not our intention nor was it our understanding that meetings would replace an organized process, including a communications strategy.

We have continuously emphasized, at every opportunity, that Staff need to be involved in matters that affect them and their work, and that it is the Staff Council mandate to do its best to ensure that staff interests – as highlighted in the 14th Board Decision on the TOPS issue -- with regards to their future employment terms are safeguarded. The Staff Council wishes to be very clear that given the exchange the past two months, we are unable to communicate to Staff that we have been actively and constructively engaged by management in this process. We wish to reiterate, as we have emphasized in the past, that we do not have a position on the carve-out from WHO. What are expressed here are views about the process. Indeed, it would be irresponsible of us to pronounce ourselves "for" or "against" in the absence of any information about what system, conditions or otherwise, will replace what we currently have with WHO.

With these observations in mind, we continue to reiterate our willingness to engage in this process on equal footing, based on the mandate given to the SC by all staff. Please be assured that we continue to work as diligently as ever, as did last years Staff Council, to ensure that staff voices are heard but we feel that at this point in time you should be aware of the issues about which we are very concerned.

Please know that in response to our letter to the TOPS Project Team, we have received the following response:

- The TOPS Project Team members and management have met on several occasions to review concepts;
- That information has been provided to the SC on the thinking, status of progress and outline of the paper to the FAC;
- That IT issues were recently addressed;
- That a recent visit was conducted to NY to address matters related to the pension fund and that there are interesting findings to report back; and
- That there is disagreement about the Staff Council's opinion that it has not been involved.

Next Steps:

- Comments on FAC Paper: We anticipate that the paper on the costing exercise to the FAC will be shared with Staff. We will review this and provide our comments to the paper, which we will share with all Staff.
- All Staff Meeting: We hope to convene an all staff meeting after the FAC paper is finalized to offer an opportunity to discuss the paper and its contents, and any other matters of concern to staff.
- Interactions with FAC: We intend to request a meeting with the FAC Chair and Vice Chair.
- Interactions with the Board: As per usual practice, the Staff Council will meet with the Chair and Vice Chair of the Board.
- Engagement with Management: We hope to continue our dialogue with management with regards to TOPS.
- Communication with New Executive Director: The SC will request a meeting with the incoming ED, and meanwhile, request the Deputy Executive Director to share this letter with him, as part of his familiarization with the issues facing staff.

With very best wishes,

The Global Fund Staff Council

Annex 7

The Second Global Fund Replenishment (2008 – 2010)
First Meeting

Oslo, 6-7 March 2007

Chair's Summary

1. The first meeting on the Second Replenishment of The Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund) took place in Oslo on 6-7 March 2007. Her Royal Highness Crown Princess Mette-Marit was in attendance. Mr. Erik Solheim, Norway's Minister of International Development, welcomed the participants and opened the meeting. Thirty-two delegations participated. Dr Carol Jacobs, Chair of the Board, and Professor Sir Richard Feachem, Executive Director of the Global Fund, made introductory statements on behalf of the Global Fund. Sven Sandström chaired the meeting. He noted that Mr. Kofi Annan had kindly accepted to continue to chair the replenishment process and would participate in the forthcoming meeting in Berlin. Participants expressed their appreciation to Professor Sir Richard Feachem for his enormous contribution to the establishment of the Global Fund and welcomed the incoming Executive Director of the Global Fund, Professor Michel Kazatchkine.

2. Participants welcomed the progress made by the Global Fund and its partners since the First Replenishment and the consistent follow-up that had been demonstrated on the issues raised in previous meetings. They commended the Fund for the high quality of the documents prepared for the meeting.

3. Participants discussed the "Results Report: Partners in Impact". They expressed great appreciation for the report and the progress made by the Fund and its grant beneficiaries in achieving concrete results and early impact. They congratulated the Fund on the transparency, frankness and specificity of the report and noted that it demonstrates that the Fund is performance-based and results-oriented.

4. Participants stressed the need to pay particular attention to several issues noted in the report, including: (i) health systems strengthening, where they emphasized the need for follow-up with the World Bank and WHO on the recommendations of the Shakow Report, (ii) follow-up on the Paris Declaration, where they suggested that the Fund raise its level of ambition with regard to specific targets, (iii) the effectiveness of country partnerships, (iv) fragile states, where they welcomed the progress made while suggesting that further work be done with technical partners to find ways to assist specific countries that may now not be able to implement Fund programs effectively, (v) continued efforts to monitor the balance between prevention and treatment and to improve the measurement of the effectiveness of prevention, (vi) the provision of care and support, and (vii) drug resistant strains of tuberculosis and malaria.

5. Participants emphasized the importance of gender in Global Fund programs and particularly access to treatment and services by women and girls, prevention of mother to child transmission, and sexual reproductive rights. They highlighted the need for Global Fund systems and procedures to ensure a more integrated and comprehensive approach to gender, in partnership with other institutions.

6. Participants noted that the Results Report will be very helpful in their discussion with various interest groups in their respective countries. They indicated that visits by Secretariat staff to help disseminate the Report and its findings would be helpful. In this context, they asked for further

information on (i) the relative cost effectiveness and comparative advantages of channeling financial support through the Fund, (ii) effects on overall country health systems of the Fund's disease-specific support, (iii) how Fund programs support vulnerable and disadvantaged groups, and (iv) country capacity to contribute, including through domestic counterpart financing. WHO and UNAIDS will provide an update on resource needs through 2015 and were requested to prepare a report on the cost of inaction.

7. Participants considered a report on the current funding outlook for the Global Fund. With regard to the 2006-2007 replenishment period, they welcomed the encouraging funding trend and the more solid foundation now emerging to meet the resource needs of the Global Fund. About US$ 0.6 billion is already available for Round 7 new grants, including additional contributions for 2007 announced at the meeting. Donors acknowledged the need for further contributions for Round 7.

8. Participants discussed a Global Fund Secretariat report on resource needs for 2008-2010 and the associated funding scenarios, which range from US$ 12 billion to US$ 18+ billion for the three-year period. Donors agreed to consider ambitious but realistic funding targets in this range. In doing so, they noted that the performance and results demonstrated by the Fund and its grant beneficiaries provide a strong basis for scaling up the programs of the Fund. Furthermore, donors took into account expressed demand as well as global resource requirements to achieve the Millennium Development Goals, and also discussed the likely evolution of other funding sources for the three diseases and the sensitivity analyses presented by the Fund Secretariat. They welcomed the upcoming April Board discussion on the size of the Global Fund, which would further inform them as they consider a specific target for the replenishment.

9. In discussing future funding scenarios, donors emphasized the importance of continued strong performance by the Fund and its beneficiaries and of enhancing the predictability of Global Fund grant financing through multi-year donor commitments. They discussed the challenge of mobilizing country capacity for scaling up and agreed to keep this under review. They asked the Fund to explore options for reducing cash balances through the use of promissory notes and other instruments. They also stressed the need to (i) broaden the donor base, (ii) increase private sector contributions, and (iii) revise the current system for allocating Board seats and votes in order to encourage donor contributions and inclusion of new donors.

10. Participants received three brief updates. First, the report of the Resource Mobilization Task Team was presented by its Chair, Mr. Michael Madnick. Participants noted that the Fund's Board will consider the report at its meeting in April and would decide on its recommendations.

11. Second, participants were briefed by the private sector representative, Dr. Brian Brink, on the progress made in mobilizing additional resources for the Global Fund from the private sector. They welcomed the US$ 20 million that has so far been generated by Product (RED). They appreciated the emergence of a much needed stronger partnership with the private sector and the many promising initiatives now under way to meet the needs of the Global Fund and the expectations of other stakeholders.

12. Third, progress in developing a Global Fund strategy was presented. Participants noted the strategic issues that would be proposed for decision at the April Board meeting. They expressed satisfaction that the strategy process was nearing completion and looked forward to receiving the final strategy document well ahead of the next replenishment meeting.

13. Participants agreed to meet again in Berlin on 25-26 September 2007 and reviewed plans for the meeting. Donors expressed appreciation to Germany for hosting the September replenishment meeting. Germany also offered to organize side events during the meeting on key themes such as

gender, health systems and other aspects of the Global Fund's work as well as to ensure consultation with civil society and the private sector. Donors emphasized the need for strong support for the replenishment in the coming months based on clear indications of performance, cost effectiveness and comparative advantages of Global Fund programs as well as supportive messages from civil society, beneficiaries and other key constituencies. It was emphasized that at least ministerial-level representation is expected at the Berlin meeting.

14. Participants thanked the Royal Government of Norway for the excellent arrangements for the meeting and for the warm hospitality.

Annex 8

SUPPLEMENTARY BUDGET FOR RESOURCE MOBILIZATION EFFORTS IN 2007

Outline: This paper outlines the proposed supplementary budget for 2007 for Resource Mobilization efforts of the Global Fund for review by the Finance and Audit Committee. The Finance and Audit Committee had been requested to review this proposed budget by the Policy and Strategy Committee and give its endorsement to the proposed budget.

The decision point for this budget is provided as a budgetary implication of the Resource Mobilization Strategy presented by the Policy and Strategy Committee.

Part 1: Introduction

1 The supplementary budget proposed for 2007 totals US$ 5.3 million. It covers additional budgetary needs for Secretariat expenses related to resource mobilization efforts. It follows recommendations by the Resource Mobilization Task Team (RMTT) and a discussion of the Resource Mobilization Strategy (GF/PSC7/04) presented to the 7th meeting of the Policy and Strategy Committee March 14-16, 2007.

2 The principal factors underlying the supplementary budget are:

a. The Global Fund launched its second replenishment cycle with a mandate to secure predictable financial resources for the years 2008-2010. The first replenishment conference was held in Oslo, Norway on March 6-7, 2007. Donors discussed the resource needs of the Global Fund and considered various scenarios ranging from US$ 12 billion to US$ 18+ billion for the three-year period. The Policy and Strategy Committee further discussed the future size of the Global Fund on March 15. Both discussions led to the conclusion that a significantly larger amount of resources needed to be mobilized in order to address the expected concrete demand of recipient countries.

b. Resource mobilization efforts of the Global Fund Secretariat are carried out predominantly by the External Relations Unit. This unit had requested an increase in staff and budget for 2007 to enable intensified activities leading to a stronger engagement with donors, based on its resource mobilization strategy. However, during the budgetary discussions in 2006 it was decided that further increases would be postponed until the report of the RMTT became available which would feed into a final resource mobilization strategy. This report and its recommendations have been sent to the Finance and Audit Committee on March 2. The final Resource Mobilization Strategy has been circulated with this document.

c. Activities that are going to be supported by the supplementary budget are directly related to the four priority areas identified by the RMTT and the strategy: public sector donors, investment income, private sector and innovative finance. The highest increases reflecting the potential for significant additional income are proposed for public sector and private sector resource mobilization.

d. The increase in staff capacity and budgetary resources is required to be approved at the 15th Board Meeting so that it can still affect resource mobilization efforts for the replenishment period 2008-2010.

3 Key data is provided in the tables below. The Annexes give further details, including the proposed activities relating to the priority areas (Annex 1).

Part 2: Key Data

Summary of Incremental Costs

By Activity

		2007		2008	
	Activity	**Staff**	**Cost (US$ '000)**	**Staff**	**Cost (US$ '000)**
100	Public Sector Donors	8.0	1,996	12.5	3,178
200	Investment Income	0.5	26	0.5	53
300	Private Sector	6.0	2,003	16.3	4,799
400	Innovative Financing	2.0	502	2.0	333
500	Cross-cutting Communication Strategy	2.0	805	3.8	1,907
	TOTAL	18.5	5,332	35.0	10,270
		FTE 9.5			

By Expense Type

	2007		2008	
Expense Type	**Staff**	**Cost (US$ '000)**	**Staff**	**Cost (US$ '000)**
Staff	18.5	1,254	35.0	4,886
Professional fees		2,488		2,430
Travel		410		1,168
Meetings		205		420
Communications Materials		930		1,321
Office Infrastructure		45		45
TOTAL	18.5	5,332	35.0	10,270
	FTE 9.5			

Part 3: Benchmarks

1. The Resource Mobilization Task Team prioritized the sources of income beginning with the public sector and investment income, and continuing with the private sector and innovative finance. In terms of resource mobilization efforts requiring additional capacity at the secretariat level there are two key priorities: the public sector because the bulk of the income of the Global Fund for the foreseeable future will come from public donors and the private sector because of the great potential for additional resources but also because of the added benefits of a strong engagement of the private sector such as increased awareness of the Global Fund in the general public and among key decision makers. Therefore additional information is provided on these two priority areas.

Private Sector

2. Benchmarks of the most prominent and established non profit organizations reveal that mobilizing private sector resources can require investments of ten to thirty percent (10-30%) of funds raised, depending on the types of private donors and fundraising vehicles used. E.g.:

a. Direct mail consumer campaigns: 20-30% (Greenpeace)
b. Corporate major gifts: 15% (British Council)
c. Individual major gifts: 10% (Elizabeth Glazer Pediatric AIDS Foundation)

3. Excluding the $100 million contribution from the Bill and Melinda Gates Foundation, $12.8 million was raised from private donors in 2006 for the Global Fund. The investment to mobilize those resources was $790K, or 6.2% of the funds raised.

4. The Resource Mobilization Task Team noted that "this level (of resources) is wholly inadequate, as are current plans for marginal increases in upcoming years. The Global Fund might target an initial outlay of ten to twelve percent of funds raised during a multi-year start-up phase, with a target of quickly moving to five to seven percent in the long term."

Public Sector

5. The Resource Mobilization Task Team recommended that the Secretariat:

> "Develop, strengthen and maintain close long-term relationships with all major donors including key decision makers, parliamentarians and others as their influence in donor countries is critical to ensuring support, an effective legislative process, and institutionalization/sustainability of support for the Fund**; the task team recommends that the Board reinforce and extend the current capacity of the Secretariat to undertake this in a more comprehensive, consistent and sustainable way**;"

6. In reviewing what would be adequate staffing levels for the public sector donor relations function, the Secretariat benchmarked dedicated donor relations staff in sister organizations such as UNAIDS, WHO and GAVI. The Global Fund was found to be significantly understaffed for the expected income levels and the number of donors it serviced. Although the donor relations function would want to maintain its character as a lean, efficient team, concentrating on high performance partnership relationships and leveraging strengths of others, there is a need for a core internal function which can orchestrate resource mobilization in the public sector and maintain an influential set of relationships.

Fundraising from public donors and dedicated staff in different organizations: comparisons

Organization	Number of staff working on donor relations (professional)	Number of public donors	Annual income from public donors USD million	Number of donors/staff	USD million raised/staff
GAVI (2005)	7	11	304	1.6	43.4
UNAIDS (2005, unified budget)	4	39	172	9.8	42.9
WHO (2005, voluntary contributions) *	16	67	607	4.2	37.9
The Global Fund (2006)	**4**	**53**	**2'056**	**13.3**	**514.1**

* Estimated, based on biannual budget 04/05. WHO RM staff may be slightly underestimated as the WHO RM system is still significantly decentralised and, in addition to the central and cluster level, additional personnel is present in specific programmes.

** The GF donor relations staff is based on 0.5% of one Director, 0.6% of one Team Leader; 100% of 2 fixed term professionals and 100% of one temporary professional (11 months)

Part 4: Targets for Resource Mobilization

Private Sector

1. The agreed Corporate Key Performance Indicators for resource mobilization from the private sector, excluding foundations, sets a target of 2% of total funding needs in 2007, which translates to $60 million. Additionally, if contributions from foundations are assumed to remain constant on a percentage basis at (4%), the total private sector resource mobilization target would be $180 million in 2007. The share of the private sector is expected to increase in incremental steps of 1% per year finally reaching 10% of the total contributions.

Public Sector

2. For resource mobilization in the Public Sector, the agreed Corporate Key Performance Indicators (KPIs) reflect targets that must be achieved:

Corporate priority 2007	**Metric (KPI)**	**2007 Target**
Secure resources to meet 2007 and 2008 needs	% of 2007 funding needs contributed	100%
	% of 2008 needs pledged	70%

3. The Board will set the size of the projected needs (The Global Fund 'size') which will define the 2008 requirements which will need to be raised. Ranges already under discussion include USD 4-6 billion or USD 8-10 billion annually; either of which will involve significant scale up for the public sector donors and therefore require increased effort on the part of the Secretariat.

Part 5: Skills and Resources Required

Private Sector

1. The supplementary budget request for private sector resource mobilization activities in 2007 consists primarily of professional services fees (50% of private sector supplementary budget request) and staff salary costs (25% of private sector supplementary budget request for 6 additional staff). Both the professional fees and additional staff costs reflect the key private sector resource mobilization priorities: consumer campaigns, corporate partnerships, and high-net worth individual and foundations major gifts.

2. The additional staff positions requested would add critical capacity to the Secretariat in the following areas:

- research and analysis to support consumer marketing campaigns
- project management of consumer marketing campaigns
- recruitment and management of celebrity spokespeople
- in-country corporate partnership development
- foundations and high-net worth individuals major gift mobilization
- new business development and partner due diligence

3. In addition, utilization of professional services as requested will enable the Secretariat to best leverage its limited resources while drawing on specialized external expertise to support key activities:

- marketing and communications agencies to support consumer campaigns
- in-country partnership development consultants to support corporate partnerships

- major gifts fundraising agency to conduct comprehensive scoping study of high-net worth individuals and foundations
- specialized legal services for fundraising registrations and partnership agreements

Public Sector

4. For the Public Sector it was proposed that the team needed reinforcement or extension of skills in the following areas, based on the positions presented:

- Background in ODA/development financing;
- Excellent research skills/writing skills;
- Experience at running international advocacy campaigns;
- Good networks, ability to leverage contacts and develop new networks and contacts;
- Planning and Project management skills;
- Extensive experience in government/international relations;
- Liaison skills;
- Event organization experience
- Ability to advocate to different audiences, using different approaches;
- Good understanding of field conditions.

5. In addition, the request includes resources for the engagement of short term consultants to help in gaining access to new potential donor markets.

Incremental Costs in 2007 by Activity, Detail

2007 WorkPlan & Budget - Resource Mobilization		TOTAL	Staffing		Profess-ional Fees	Travel		Meetings		Communi-cations materials	Office infra-structure
Code	Activity	US$	FTE	US$	US$	Trips	US$	#	US$	US$	US$
100	**Public Donors**										
	Task/sub-activity										
	Marketing, Awareness Campaigns and Events with Publicis and other private sector partners to increase the support for the Global Fund in key donor countries.	361,932	0.50	79,932	50,000	8.00	32,000	-	-	200,000	-
	International Photography Project: "Access to Life". This project is the centerpiece for efforts to draw attention to the Global Fund through exhibits, in-depth coverage in the media and other events.	861,000	0.00	-	237,000	36.00	144,000	-	-	480,000	-
	International Exhibitions: A line of activities preparing for the next, large exhibit projects to take over once "Access to Life" has come to the end of its useful lifetime.	39,000	0.00	-	-	6.00	24,000	1.00	15,000	-	-
	Donor policy officer: fundraising oriented research and information management	59,610	0.50	59,610	-	-	-	-	-	-	-
	Donor relations officer: smaller donors and public foundations/vacant	73,158	0.50	73,158	-	-	-	-	-	-	-
	Donor relations officer: parliamentary activities	79,932	0.50	79,932	-	-	-	-	-	-	-
	Special campaigns: Donor campaigns officer and consultants	133,158	0.50	73,158	60,000	-	-	-	-	-	-
	Donor relations officer: donor initiatives in the South	73,158	0.50	73,158	-	-	-	-	-	-	-
	New Donors - consultant fees	125,000	0.00	-	125,000	-	-	-	-	-	-
	Donor events in regional meetings	100,000	0.00	-	-	-	-	5.00	100,000	-	-
	Online Communications Officer - Manages and develops multimedia contents for the Global Fund's consumer website, www.InvestingInOurFuture.com, to support resource mobilization campaigns such as RED and the Hope Spreads Faster than AIDS campaigns.	52,574	0.50	52,574	-	-	-	-	-	-	-
	Photo archive-Web assistant : Builds and manages a web-based archiving system to organize the Global Fund's collection of photos and multimedia content to meet communication needs.	37,852	0.50	37,852	-	-	-	-	-	-	-
	Total sub-activity Public Donors	**1,996,374**	**4.00**	**529,374**	**472,000**	**50.00**	**200,000**	**6.00**	**115,000**	**680,000**	**-**
200	**Investment Return**										
	Task/sub-activity										
	Investment Committee Liaison Officer	26,287	0.50	26,287	-	-	-	-	-	-	-
	Total sub-activity Investment Returns	**26,287**	**0.50**	**26,287**	**-**	-	-	-	**-**	**-**	**-**
300	**Private Sector**										
	Task/sub-activity										
	Overall Fundraising Support - Post description: Support overall legal and registration processes for fundriasing and partner agreements, provide support for grass roots fundraising partners	398,158	0.50	73,158	300,000	-	-	-	-	25,000	-
	Consumer - (PRODUCT)RED	290,000	0.00	-	150,000	6.00	40,000	-	-	100,000	-
	Consumer - Other/Hope Spreads Post description: Lead roll-out of Hope Spreads campaign and development of other consumer initiatives	364,932	0.50	79,932	200,000	6.00	35,000	-	-	50,000	-
	Corporate Champions - Posts description: 1- Lead roll-out of Hope Spreads campaign and development of other consumer initiatives; 2- Provide support for Corporate Champions Program in conducting research and business development and developing employee engagement programs for partners	403,089	1.00	153,089	100,000	10.00	50,000	4.00	50,000	50,000	-
	Major Gifts - Foundations - Post description: Manage scoping studies for assessing fundraising opportunity from Foundations and Individuals	279,932	0.50	79,932	125,000	6.00	25,000	1.00	25,000	25,000	-
	Major Gifts - Individuals	125,000	0.00	-	125,000	0.00	-	0.00	-	-	-
	Activities and events to engage Celebritities and other Key Opinion Formers in support of the Global Fund. (Visits to program countries. Media events and meetings with key decision-makers in donor capitals.)	141,770	0.50	90,770	-	9.00	36,000	1.00	15,000	-	-
	Total sub-activity Private Sector	**2,002,881**	**3.00**	**476,881**	**1,000,000**	**37.00**	**186,000**	**6.00**	**90,000**	**250,000**	**-**
400	**Innovative Financing Mechanisms**										
	Task/sub-activity										
	Develop Global Fund Debt Conversion	276,448	0.00	-	276,448	-	-	-	-	-	-
	Innovative Finance Partnerships Coordinator-UNITAID Liaison, Strategy and Policy	88,712	0.50	88,712	-	-	-	-	-	-	-
	Innovative Finance Partnerships Coordinator-UNITAID Liaison, Strategy and Policy	36,802	0.50	36,802	-	-	-	-	-	-	-
	Consultancy support for UNITAID -Global Fund strategic framework ('roadmap')	100,000	0.00	-	100,000	-	-	-	-	-	-
	Total sub-activity Innovative Financing Mechanisms	**501,962**	**1.00**	**125,514**	**376,448**	**-**	**-**	**-**	**-**	**-**	**-**
500	**Cross-cutting Communication Strategy**										
	Task/sub-activity										
	Media Outreach for the Global South to support Friends of the Global Fund communications activities in the south and engage southern media to focus more and be better educated around Global Fund activities in their countries.	40,000	0.00	-	40,000	-	-	-	-	-	-
	Strategy and administration of Comms	-	0.00	-	-	-	-	-	-	-	-
	Editorial Programming: TV and video co-production and image distribution to ensure a visual presence of the Global Fund program activities on the world's main broadcasters	199,000	0.00	-	150,000	6.00	24,000	-	-	-	25,000
	Program Documentation and Dissemination to ensure reporting from program countries and dissemination of accurate information to all stakeholder groups.	113,694	0.50	43,694	50,000	-	-	-	-	-	20,000
	Publications Production	-	0.00	-	-	-	-	-	-	-	-
	Public Relations and Media Outreach to ensure consistent, positive media coverage of the Global Fund globally and to manage crisis communications in times of need.	400,000	0.00	-	400,000	-	-	-	-	-	-
	Web programmer and Technical Support Officer (MyGlobalFund) : Supports cross cutting communication capacity for new resource mobilization activities.	52,574	0.50	52,574	-	-	-	-	-	-	-
	Total sub-activity Cross-cutting Communication Strategy	**805,268**	**1.00**	**96,268**	**640,000**	**6.00**	**24,000**	**-**	-	-	**45,000**
Consolidated Budget - RMCC project		**5,332,772**	**9.50**	**1,254,324**	**2,488,448**	**93.00**	**410,000**	**12.00**	**205,000**	**930,000**	**45,000**

Incremental Costs in 2008 by Activity, Detail

2008 WorkPlan & Budget - Resource Mobilization		TOTAL	Staffing		Profess-ional Fees	Travel		Meetings		Communi-cations materials	Office infra-structure
Code	Activity	US$	FTE	US$	US$	Trips	US$	#	US$	US$	US$
100	**Public Donors**										
	Task/sub-activity										
	Marketing, Awareness Campaigns and Events with Publicis and other private sector partners to increase the support for the Global Fund in key donor countries.	698,249	1.25	184,249	100,000	-	64,000	-	-	350,000	-
	International Photography Project: "Access to Life". This project is the centerpiece for efforts to draw attention to the Global Fund through exhibits, in-depth coverage in the media and other events.	350,000	0.00	-	150,000	-	-	-	-	200,000	-
	Donor policy officer: fundraising oriented research and information management	119,220	1.00	119,220	-	-	-	-	-	-	-
	Donor relations officer: smaller donors and public foundations/vacant	146,315	1.00	146,315	-	-	-	-	-	-	-
	Donor relations officer: parliamentary activities	159,863	1.00	159,863	-	-	-	-	-	-	-
	Special campaigns: Donor campaigns officer and consultants	266,315	1.00	146,315	120,000	-	-	-	-	-	-
	Donor relations officer: support to liaison with existing donors	146,315	1.00	146,315	-	-	-	-	-	-	-
	Donor Relations Assistant	97,544	1.00	97,544	-	-	-	-	-	-	-
	Donor relations officer: donor initiatives in the South	146,315	1.00	146,315	-	-	-	-	-	-	-
	New Donors - consultant fees	250,000	0.00	-	250,000	-	-	-	-	-	-
	Donor events in regional meetings	200,000	0.00	-	-	-	-	10.00	200,000	-	-
	International Exhibitions: A line of activities preparing for the next, large exhibit projects to take over once "Access to Life" has come to the end of its useful lifetime.	176,386	0.25	24,386	40,000	-	32,000	-	-	80,000	-
	Online Communications Officer - Manages and develops multimedia contents for the Global Fund's consumer website, www.InvestingInOurFuture.com, to support resource mobilization campaigns such as RED and the Hope Spreads Faster than AIDS campaigns.	105,147	1.00	105,147	-	-	-	-	-	-	-
	Photo archive-Web assistant : Builds and manages a web-based archiving system to organize the Global Fund's collection of photos and multimedia content to meet communication needs.	75,704	1.00	75,704	-	-	-	-	-	-	-
	Support new Friends of the Fund organizations' creation and development	240,294	2.00	210,294	-	6.00	30,000	-	-	-	-
	Total sub-activity Public Donors	**3,177,667**	**12.50**	**1,561,667**	**660,000**	**6.00**	**126,000**	**10.00**	**200,000**	**630,000**	**-**
200	**Investment Return**										
	Task/sub-activity										
	Investment Committee Liaison Officer	52,574	0.50	52,574	-	-	-	-	-	-	-
	Total sub-activity Investment Return	**52,574**	**0.50**	**52574**	-	-	-	-	-	-	-
300	**Private Sector**										
	Task/sub-activity										
	Activities and events to engage Celebritities and other Key Opinion Formers in support of the Global Fund. (Visits to program countries. Media events and meetings with key decision-makers in donor capitals.)	325,925	1.25	205,925	-	-	80,000	4.00	40,000	-	-
	Overall Fundraising Support	460,535	2.00	265,535	-	-	120,000	0.00	-	75,000	-
	Consumer - (PRODUCT)RED	781,403	2.00	341,403	100,000	-	140,000	0.00	-	200,000	-
	Consumer - Other/Hope Spreads	576,179	2.00	306,179	200,000	-	70,000	0.00	-	-	-
	Corporate Champions	1,217,445	5.00	807,445	50,000	-	270,000	3.00	40,000	50,000	-
	Major Gifts - Foundations	713,791	2.00	323,791	250,000	-	50,000	3.00	40,000	50,000	-
	Major Gifts - Individuals	723,791	2.00	323,791	250,000	-	50,000	2.00	50,000	50,000	-
	Total sub-activity Private Sector	**4,799,069**	**16.25**	**2,574,069**	**850,000**	-	**780,000**	**12.00**	**170,000**	**425,000**	-
400	**Innovative Financing Mechanisms**										
	Task/sub-activity										
	Develop GFDC	156,732	1.00	126,732	-	6.00	30,000	-	-	-	-
	Innovative Finance Partnerships Coordinator-UNITAID Liaison, Strategy and Policy	126,732	1.00	126,732	-	-	-	-	-	-	-
	Consultancy support for UNITAID -Global Fund strategic framework ('roadmap')	50,000	0.00	-	50,000	-	-	-	-	-	-
	Total sub-activity Financing Mechanisms	**333,464**	**2.00**	**253,464**	**50,000**	**6.00**	**30,000**	**-**	**-**	**-**	**-**
500	**Cross-cutting communication capacity**										
	Task/sub-activity										
	Media Outreach for the Global South to support Friends of the Global Fund communications activities in the south and engage southern media to focus more and be better educated around Global Fund activities in their countries.	76,000	-	-	40,000	-	16,000	2.00	20,000	-	-
	Strategy and administration of Comms	-	-	-	-	-	-	-	-	-	-
	Editorial Programming: TV and video co-production and image distribution to ensure a visual presence of the Global Fund program activities on the world's main broadcasters	527,579	0.25	36,579	280,000	-	40,000	-	-	146,000	25,000
	Program Documentation and Dissemination to ensure reporting from program countries and dissemination of accurate information to all stakeholder groups.	373,799	1.25	155,799	150,000	-	48,000	-	-	-	20,000
	Publications Production	224,386	0.25	24,386	-	-	80,000	-	-	120,000	-
	Public Relations and Media Outreach to ensure consistent, positive media coverage of the Global Fund globally and to manage crisis communications in times of need.	551,158	0.50	73,158	400,000	-	48,000	3.00	30,000	-	-
	Web programmer and Technical Support Officer (MyGlobalFund) : Supports cross cutting communication capacity for new resource mobilization activities.	105,147	1.00	105,147	-	-	-	-	-	-	-
	Additional 50% Assistant to support coordination of increased Unit	48,772	0.50	48,772	-	-	-	-	-	-	-
	Total sub-activity Cross-cutting communication capacity	**1,906,841**	**3.75**	**443,841**	**870,000**	**-**	**232,000**	**5.00**	**50,000**	**266,000**	**45,000**
Consolidated Budget - RMCC project		**10,269,615**	**35.00**	**4,885,615**	**2,430,000**	**12.00**	**1,168,000**	**27.00**	**420,000**	**1,321,000**	**45,000**

Annex 9

POLICY ON RESTRICTED FINANCIAL CONTRIBUTIONS

Outline: At the Fourteenth Board Meeting, the Board requested that the Finance and Audit Committee, in consultation with the Policy and Strategy Committee, develop a comprehensive policy on targeted financial contributions for consideration at the Fifteenth Board Meeting. This report sets out the Finance and Audit Committee's recommendations for a policy on Restricted Financial Contributions for the Global Fund, that is, donor contributions which are restricted to use to support specific priorities and activities of the Global Fund.

Decision Point 1:

Global Fund Policy for Restricted Contributions

1. Guiding Principles

The Board acknowledges the need to accommodate restricted financial contributions in order to fully realize the Global Fund's mission of mobilizing significant additional resources for the fight against AIDS, tuberculosis and malaria, and authorizes the Secretariat to mobilize and accept such contributions which represent additional new funding in accordance with the following guiding principles:

(a) Restricted contributions to the Global Fund shall be limited to those from private donors and a limited number of public mechanisms approved in advance by the Board for this purpose; [The Global Fund shall not accommodate restrictions on contributions through Official Development Assistance, thereby ensuring that the majority of contributions to the Global Fund remain unrestricted.]

(b) Restricted contributions shall be used solely for the purpose of supporting grants approved by the Board and activities of the Secretariat in line with the recipient-driven, Board-determined priorities of the Global Fund; and

(c) Restricted contributions shall not result in unreasonable transaction costs for the Global Fund, substantial changes to Global Fund systems and processes or the responsibilities of the Trustee, or any deviation from Global Fund rules and procedures. The Secretariat shall maintain the accounting records necessary to record restrictions attached to contributions and to identify the expenditure that satisfies such restrictions.

For these purposes "restricted financial contributions" (sometimes referred to as "targeted funding" or "earmarked funding") has the meaning assigned by accounting standards applicable to contribution income, i.e. contributions which have been provided by a donor with specific restrictions on how they may be used by a recipient.

2. Restricted Contributions for Grant Activities

The Board authorizes the Secretariat to mobilize and accept contributions which are restricted to broad categories of expenses such as by disease and region (e.g. AIDS grants in Africa), to specific grants and/or to the procurement of specific goods and services, provided that:

(a) such restricted contributions comply with the Guiding Principles outlined in part 1 above;

(b) such restricted contributions are made through the Global Fund;

(c) the total amount of restricted contributions is less than the total sum of Global Fund financing committed to any grant or activity receiving restricted contributions, ensuring that the programmatic results of such grants or activities are attributable, not just to the restricted contributions, but to contributions from all Global Fund donors.

3. Restricted Contributions for Secretariat Activities

The Board authorizes the Secretariat to mobilize and accept restricted contributions for use to pay for Secretariat activities. Such restricted contributions may be made either directly to the Global Fund or to third parties in payment for liabilities of the Global Fund, provided that such contributions comply with the Guiding Principles outlined in part 1 above.

4. Oversight

The Board requests the Secretariat to provide the Finance and Audit Committee with progress updates on the implementation of this Restricted Contributions Policy, including (i) a report on the results of mobilizing restricted contributions and (ii) identification of new public mechanisms for inclusion in the Policy. The Board delegates to the Finance and Audit Committee the authority to approve new public mechanisms proposed by the Secretariat for inclusion in the Restricted Contributions Policy, and acknowledges UNITAID as the first such approved public mechanism. The Board further requests the Finance and Audit Committee to consider new developments as they arise and to propose any changes to the Policy deemed appropriate by the Finance and Audit Committee for adoption by the Board.

There are no material budgetary implications for this decision.

Decision Point 2:

The Board acknowledges that, in developing a roadmap for future collaboration with UNITAID, the Policy and Strategy Committee, working together with the Secretariat and the Finance and Audit Committee, may consider the possibility of UNITAID providing direct funding to third party procurement mechanisms to support Global Fund grants. The Board notes that the roadmap, including the contribution structure and funds-flow mechanism, will be presented to the Board for its approval.

There are no material budgetary implications for this decision.

Part 1: Definitions

1. The accounting standards applicable to contribution income distinguish all donor contributions as being either Unrestricted or Restricted. **Unrestricted contributions** refer to contributions which have been provided by a donor without specifying how they may be used by the recipient (other than for supporting the overall mission and activities of the recipient). **Restricted contributions**, sometimes

labeled as targeted funding or earmarked funding, refer to contributions which have been provided by a donor with specifications of how they may be used by a recipient (with more specificity than for supporting the overall mission and activities of the recipient).

2. Restricted contributions may be made through the Global Fund or as a direct payment to third parties. There is no requirement for restricted **contributions made through the Global Fund** to be held in a separate bank account or disbursed and managed using separate systems (unless by agreement with the donor), so long as they are accounted for in a manner consistent with the adopted accounting Standards and which tracks the spending of such contributions according to the particular restrictions specified by the donor. **Contributions made as a direct payment** to suppliers and service providers of the Global Fund without being channeled through the Global Fund (e.g. direct payments for consulting services, event costs, procurement of health products) can be accounted for as a “contribution”, so long as they result in the relief of a liability of the Global Fund.

3. In the Global Fund’s context, contributions can be restricted at the gross, grant or component level. **Gross level restrictions** cover broad categories of expenses such as by disease and region (e.g. AIDS grants in Africa). **Grant level restrictions** cover individual grants (e.g. Round 5 HIV grant in Rwanda). **Component level restrictions** cover specific types of activities, at a gross or grant level, such as the procurement of specific goods and services (“procurement components” - e.g. long-lasting bed nets) or the expenses related to a particular service delivery area (“SDA components” - e.g. VCT, OVC).

Part 2: Background

1. At present, the Global Fund’s revenue base consists largely of government donors who are represented on the Global Fund’s Board. Although growth in income of the Global Fund has increased every year since 2002, these increases have been mostly attributable to increased contributions from existing public donors, and the mobilization of new sources of funding as well as efforts to engage a broader pool of donors have only been moderately successful to date.

2. Successfully **mobilizing contributions from new resources** will, in part, depend on the ability of the Global Fund to accomodate restricted contributions - i.e. contributions which are restricted to specific priorities and activities. One recent development in this regard has been the Corporate-led “(PRODUCT)RED” initiative launched in 2006 to benefit the Global Fund. A critical factor in securing the Global Fund as the primary beneficiary of this initiative was the Global Fund’s accommodation of RED’s requirement to restrict contributions to support HIV/AIDS in Africa[19].

3. Several additional opportunities have recently emerged from new donors and mechanisms, including **private sector partners** (e.g. multinational corporations), **innovative financing mechanisms** (e.g. UNITAID, Debt2Health) and **inter-governmental mechanisms** (e.g. OPEC Fund), which require further clarity and specificity in terms of the Global Fund’s policy on accommodating restricted contributions.

[19] Limited restrictions on private contributions were explored based on the deliberations of the Resource Mobilization and Communications Committee and subsequent communication to the Board in early 2005 (GF/B10/10). This exploration resulted in the acceptance of contributions from (PRODUCT)RED restricted to supporting Global Fund-financed HIV/AIDS grants in Africa, in a manner which is consistent with Global Fund principles and which does not affect the Global Fund’s business model in terms of grant selection, management, disbursement or reporting processes - see Annex 1. This level of restriction (i.e. by disease and continent) is referred to in this paper as a “gross” restriction.

Part 3: Guiding Principles

1. The adoption of a clear policy addressing restricted contributions, as proposed in this paper, will ensure that the Global Fund is able to mobilize the most promising and appropriate new funding opportunities. However, in doing so, it is important to follow two key guiding principles to protect the integrity of its recipient-driven, Board-led approach:

   a. Accommodate restrictions of contributions which represent additional funding from **new donors and mechanisms.** Such new donors and mechanisms shall be **limited to private sector donors**, such as corporations, foundations and individuals, **and nominated public mechanisms**, such as UNITAID and Debt2Health. The Global Fund shall not accommodate restrictions on contributions through Official Development Assistance (ODA), thereby ensuring that the majority of contributions to the Global Fund remain unrestricted.
   b. Accommodate restrictions of contributions which are consistent with the Global Fund's recipient-driven, Board-led approach. Such restrictions shall be **limited to TRP and Board approved grant activities and priorities** and approved Secretariat activities and priorities. The Global Fund shall not accommodate restrictions on contributions which cannot be satisfied within approved priorities and activities.

Decision Point 1, Part 1: Guiding Principles

The Board acknowledges the need to accommodate restricted financial contributions in order to fully realize the Global Fund's mission of mobilizing significant additional resources for the fight against AIDS, tuberculosis and malaria, and authorizes the Secretariat to mobilize and accept such contributions which represent additional new funding in accordance with the following guiding principles:

(a) Restricted contributions to the Global Fund shall be limited to those from private donors and a limited number of public mechanisms approved in advance by the Board for this purpose; [The Global Fund shall not accommodate restrictions on contributions through Official Development assistance, thereby ensuring that the majority of contributions to the Global Fund remain unrestricted.]

(b) Restricted contributions shall be used solely for the purpose of supporting grants approved by the Board and activities of the Secretariat in line with the recipient-driven, Board-determined priorities of the Global Fund; and

(c) Restricted contributions shall not result in unreasonable transaction costs for the Global Fund, substantial changes to Global Fund systems and processes, or the responsibilities of the Trustee, or any deviation from Global Fund rules and procedures. The Secretariat shall maintain the accounting records necessary to record restrictions attached to contributions and to identify the expenditure that satisfies such restrictions.

For these purposes "restricted financial contributions" (sometimes referred to as "targeted funding" or "earmarked funding") has the meaning assigned by accounting standards applicable to contribution income, i.e. contributions which have been provided by a donor with specific restrictions on how they may be used by a recipient.

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

Part 4: Restricted Funding for Grant Activities

Potential Opportunities

1. As mentioned in Part 2, several opportunities have recently emerged from new donors and mechanisms which require further clarity and specificity in terms of the Global Fund's policy on accommodating restricted contributions. These opportunities include:
   a. Corporate major gifts (e.g. from several multi-national corporations[20])
   b. Consumer campaigns (e.g. World Swim for Malaria)
   c. Innovative public financing mechanisms (e.g. Debt2Health, UNITAID)
   d. Inter-governmental mechanisms (e.g. OPEC Fund)

2. In every case, potential **major corporate donors** have expressed an interest in restricting their contributions to a specific Global Fund supported country, and in some cases, to grants addressing a specific disease within that country. Experience to date suggests that accommodation of such **country and grant specific restrictions** will be necessary if the Global Fund is to mobilize these types of contributions.

3. Funds raised through **consumer campaigns** can also be tied to country and grant specific restrictions. For example, the participation or several new global RED partners depends on country specific restrictions, which if not accommodated by the Global Fund, could result in the addition of other beneficiaries who are willing to accept such restrictions. Consumer campaigns can also require **component specific restrictions** to be accommodated. For example, World Swim for Malaria, a consumer fundraising campaign which has raised $1.5 million to date, requires that its funds are used solely for the procurement of bed nets. Given the lack of a clear policy with respect to accommodating restrictions at the procurement component level, the Global Fund has not become a beneficiary of this campaign.

4. Innovative public financing mechanisms such as Debt2Health and UNITAID also require country, grant and/or component level restrictions to be accommodated because of the inherent nature of the funding source and the innovation of the model. **Debt2Health** is an innovative approach to debt cancellation where individual creditor countries would cancel debt with specific debtor countries and together agree to allocate a percentage of this amount to Global Fund programs in the debtor country, resulting in an increase of funding available for Global Fund programs in that **particular country**. The Global Fund is currently exploring a pilot program encompassing four debtor countries, the details of which are described in GF-FAC8-08.

5. **UNITAID** is an innovative mechanism to collect and channel funding for the **procurement of specific health products**. As described in GF/PSC7/09, discussions between the Global Fund and UNITAID have focused on two potential opportunities: additional funding provided through the Global Fund restricted to the procurement of specific health products related to Round Six grants, and direct funding provided to procurement agents to support the scale-up in access to specific health products required by Global Fund grantees in the future. The Global Fund is currently developing a joint roadmap with UNITAID to accommodate current and additional future funding which may be provided by UNITAID under similar restrictions. The successful development of this roadmap will in part depend on UNITAID's willingness to accept procurement related expenditure information as reported by recipients[21] and the Global Fund's adoption of a policy which enables the accommodation of contributions restricted at the procurement component level.

[20] Specific corporations have not been named in this document due to the sensitive nature of initial discussions with potential new donors.
[21] Currently, the Global Fund does not systematically record expenditures by principal recipients or sub-recipients, including expenditures related to the procurement of specific health products, and the level and

6. Inter-government mechanisms can require country, grant and/or component level restrictions to be accommodated. For example, initial discussions with the **OPEC Fund** have surfaced the need for any future contributions to be restricted towards specific grant service delivery area components (e.g. voluntary counseling and testing) in specific countries (e.g. in specific low income African countries). These discussions have not progressed given the substantial transaction costs required to accommodate SDA component level restrictions (vis-à-vis the Global Fund's accounting and reporting systems) relative to the potential magnitude of the funding opportunity.

7. The accommodation of restricted contributions can result in an added layer of complexity in accounting and additional transaction costs, depending on the type and level of restrictions. Table 1. provides an assessment of the various types and levels of restriction based on their potential impact on the Global Fund's business model vis-à-vis structures, processes and transaction costs.

Table 1. Assessment of Type and Level of restriction of contributions vis-à-vis impact on Global Fund business model in terms of structures, processes and transaction costs.

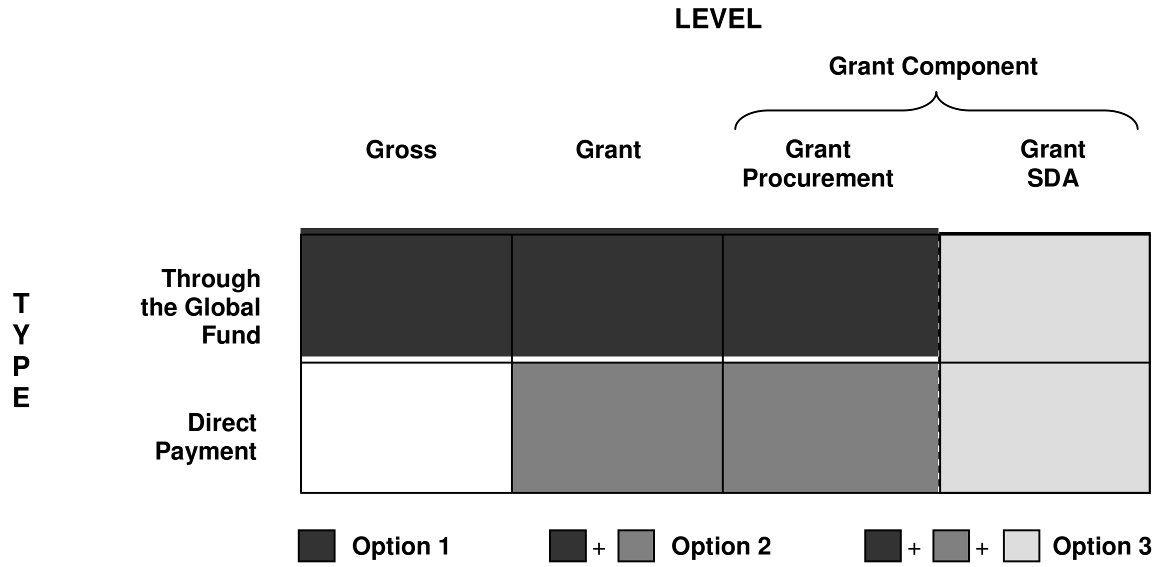
High = high degree of impact on structures, processes, significant additional transaction costs;
Low = low degree of impact on structures, processes, limited additional transaction costs (desired case)

	LEVEL: Gross	LEVEL: Grant	LEVEL: Component – Grant Procurement	LEVEL: Component – Grant SDA
TYPE: Through Global Fund	Struc/process: Low Xaction cost: Low	Struc/process: Low Xaction cost: Low	Struc/process: Low Xaction cost: Mid	Struc/process: Mid Xaction cost: Mid
TYPE: Direct Payment	N/A	Struc/process: Mid Xaction cost: Low	Struc/process: Mid Xaction cost: Low	Struc/process: Mid Xaction cost: High

9. The above assessment applies to restricted contributions so long as they represent a relatively small portion of overall funding, which would be the case if restrictions were only accommodated for funding from private donors and nominated new public mechanisms as described in the Guiding Principles in Part 3. Table 2. summarizes three potential options that emerge based on this assessment which can guide the formulation of an appropriate policy in accommodating restricted contributions.

quality of such information available varies by grant. Thus, the accounting and reporting required to accommodate contributions restricted to the procurement of specific health products could lead to additional transaction costs to the Secretariat. However, initiatives now underway such as improvements to the price reporting mechanism could significantly improve the availability of this type of information in the future.

Table 2. Potential options for restricted contributions for grant activities



Potential Options

10. Option 1 covers contributions made through the Global Fund, restricted at the gross, grant and procurement component level. This option would address the needs of most private donors and new public mechanisms, while results in relatively low impact on the Global Fund's current business model. The option will need to be implemented in such a way as to prevent "exclusive" credit being sought by donors (for specific grants and/or grant components), which can be accomplished by limiting the total restricted contribution to be less than the total grant or component amount. This option would not address the needs of donors and mechanisms requiring SDA level restrictions (e.g. OPEC Fund) or direct payments of any type (e.g. UNITAID scale-up initiative).

11. Option 2. covers Option 1 as well as direct payments for grants and procurement components. This option would address opportunities such as the World Swim for Malaria which require the accommodation direct payments at the procurement component level, and can be accommodated with moderate impact on the Global Fund's current business model. This option would not address the needs of donors and mechanisms requiring SDA level restrictions. This option was discussed by the Finance and Audit Committee who agreed that the inclusion of direct payment as part of the general policy on restricted contributions was not appropriate at this time.

12. Option 3 covers Option 2 as well as restricted contributions at the grant SDA component level and fully addresses all opportunities that have emerged to date. SDA component restrictions would currently only be possible for the select grants reporting budget expenses by component and expanding SDA reporting to the entire grant portfolio could lead to significant additional transaction costs to both Secretariat and grant recipients. This option was discussed by the Finance and Audit Committee who agreed that the inclusion of SDA level restrictions as part of the general policy on restricted contributions was not appropriate at this time.

Decision Point 1, Part 2: Restricted Contributions for Grant Activities (in support of Option 1)

The Board authorizes the Secretariat to mobilize and accept contributions which are restricted to broad categories of expenses such as by disease and region (e.g. AIDS grants in Africa), to specific grants and/or to the procurement of specific goods and services, provided that:

(a) such restricted contributions comply with the Guiding Principles outlined in part 1 above;

(b) such restricted contributions are made through the Global Fund;

(c) the total amount of restricted contributions is less than the total sum of Global Fund financing committed to any grant or activity receiving restricted contributions, ensuring that the programmatic results of such grants or activities are attributable, not just to the restricted contributions, but to contributions from all Global Fund donors

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

Part 5: Restricted Contributions for Secretariat Activities

1. The policy proposed in this paper would also address contributions restricted towards supporting specific Secretariat activities. Restricted contributions in this context, either provided through the Global Fund (e.g. staff costs, communications campaign costs) or as direct payment to third parties (e.g. event costs, marketing agency costs) can be fully accommodated within the Global Fund's current accounting and reporting systems. With regard to Secretariat expenses that are paid for by contributions paid direct to third parties in fulfillment of Secretariat liabilities, that contribution income would be recorded on receipt of confirmation from the supplier that the associated liability of the Secretariat had been discharged by the contribution. Experience to date has shown that certain types of private donors (e.g. Foundations) are primarily interested in contributing to the Global Fund to support specific, approved Secretariat activities, given their philanthropic priorities and relatively small scale. Enabling such restricted contributions mobilizes additional resources while reducing the overhead costs of the Secretariat.

Decision Point 1, Part 3: Restricted Contributions for Secretariat Activities
The Board authorizes the Secretariat to mobilize and accept restricted contributions for use to pay for Secretariat activities. Such restricted contributions may be made either directly to the Global Fund or to third parties in payment for liabilities of the Global Fund, provided that such contributions comply with the Guiding Principles outlined in part 1 above.

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

Part 6: Oversight

Decision Point 1, Part 4: Oversight

The Board requests the Secretariat to provide the Finance and Audit Committee with progress updates on the implementation of this Restricted Contributions Policy, including (i) a report on the results of mobilizing restricted contributions and (ii) identification of new public mechanisms for inclusion in the Policy. The Board delegates to the Finance and Audit Committee the authority to approve new public mechanisms proposed by the Secretariat for

inclusion in the Restricted Contributions Policy, and acknowledges UNITAID as the first such approved public mechanism. The Board further requests the Finance and Audit Committee to consider new developments as they arise and to propose any changes to the Policy deemed appropriate by the Finance and Audit Committee for adoption by the Board.

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

Decision Point 2:

The Board acknowledges that, in developing a roadmap for future collaboration with UNITAID, the Policy and Strategy Committee, working together with the Secretariat and the Finance and Audit Committee, may consider the possibility of UNITAID providing direct funding to third party procurement mechanisms to support Global Fund grants. The Board notes that the roadmap, including the contribution structure and funds-flow mechanism, will be presented to the Board for its approval.

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

Annex 9, Attachment 1

Based on the deliberations of the Resource Mobilization and Communications Committee and subsequent communication to the Board in early 2005, private contributions restricted at the disease and continent level (e.g. AIDS in Africa) were accepted from (PRODUCT)RED and channeled in a manner which is consistent with Global Fund principles and which does not affect the Global Fund's business model in terms of grant selection, management, disbursement or reporting processes. This level of restriction is referred to in this paper as "gross".

This restriction of contributions works in the following way:

i. RED specifies disease and continent (AIDS in Africa) to highlight in its marketing and fund-raising campaign, thus the funding is donor-restricted for use accordingly;
ii. The Secretariat selects funded grants from the existing Global Fund portfolio that fit the disease/continent profile, taking into consideration grant performance and the receptiveness of the Principal Recipients (PR) to be highlighted through the campaign;
iii. RED partners contribute the funds to a separate Global Fund account maintained with Crédit Suisse Bank, because the Trustee account at the World Bank cannot accept such donations;
iv. The Global Fund Secretariat transfers all such contributions deposited into the separate account monthly into the Trustee account, where they co-mingle with all other donor contributions;
v. The Trustee releases disbursements to selected grants from the Trustee account without any changes to existing disbursement processes or reporting requirements; and
vi. The Secretariat's Finance team notes contributions from RED partners and disbursements to selected grants (per ii above), which enables RED partners to report back to consumers, employees and shareholders on the impact attributed to their contributions.

Annex 10

"DEBT2HEALTH" CONVERSION

Outline:

This paper presents for consideration a new opportunity for resource mobilization through Global Fund facilitated debt conversions under the "Debt2Health" facility.

Summary of Decision Points:

1. D2H Mechanism

The Board acknowledges the potential for additional resources for the Global Fund from debt conversions and authorizes the Secretariat to implement a two year pilot phase (2007-2009) of the Debt2Health mechanism in up to four beneficiary countries.

2: Counterpart Funds

The Board requests and delegates authority to the Secretariat for the purposes of the implementation of Debt2Health to accept restricted contributions from counterpart funds which are attributed at the country level.

3: Oversight

The Board requests the Secretariat to implement and monitor the Debt2Health pilot phase and to report on the results and lessons learned to the Finance and Audit Committee on a regular basis.

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

Part 1: Background

1. Debt relief is a widely accepted intermediary measure in development finance directed at enhancing economic growth, improving solvency and expanding domestic expenditures in the social sectors.

2. International debt relief has been coordinated through an informal grouping of major creditors known as the "Paris Club". There are two large-scale debt relief initiatives for the poorest countries underway, the Heavily Indebted Poor Country Initiative (HIPC Initiative) and the Multilateral Debt Relief Initiative (MDRI). Under these two initiatives, the poorest countries are receiving a substantial debt write-off according to certain terms and conditions. The terms and conditions are set and monitored by the International Development Association (IDA). They are connected to a process, which moves qualified countries from a "pre-decision" stage to a "post-decision" stage.

3. In addition to the two large initiatives described above the Paris Club creditors also have in place other agreements concerned not with full debt relief but with debt rescheduling for non-HIPC countries.

4. The Global Fund "Debt2Health" (D2H) initiative has been conceived with the objective to utilise the existing opportunities from debt relief or debt restructuring by channelling available domestic funds towards investments in Global Fund approved programmes, thus helping to create a long-term financial sustainability of ongoing Global Fund grants.

5. The opportunities from debt conversions for health have been advocated early on in the life of the Global Fund by UN Secretary General Kofi Annan. In July 2004, the Global Fund Partnership Forum held in Bangkok discussed Global Fund debt conversions as suitable resource mobilization opportunity. The early ideas were further developed in a feasibility study authored by the Global AIDS Alliance and Advocacy International. The study had been commissioned by UNAIDS, the Dorothy Ann Foundation, the Ford Foundation and the Global Fund.[22] Following the study, concrete conversion opportunities were identified and a business model for piloting was developed by the innovative financing team of the Global Fund in cooperation with governments and civil society. Financial support was provided by the Bill & Melinda Gates Foundation.

6. To date, D2H received official endorsements from a wide range of stakeholders: key donor and recipient governments, UNAIDS, the Bill and Melinda Gates Foundation, various civil society organisations in global health and in debt issues.

7. In principle any claim by an external creditor on a Global Fund recipient country can be converted for a development project. The details depend on the will of the creditor, the debtor or in some cases the converting agent to work out an arrangement with due regard to all parties' interests. Conversion normally requires that there is an incentive for the creditor to forego the income stream that is related to a claim. These incentives can be:

- The creditor's wish to support the Global Fund (in the spirit of the Paris Declaration); in that case the creditor tends to refinance the debt cancellation out of his own resources;
- The recovery of a portion of an otherwise hardly recoverable loan; this requires the converting agent to buy the debt at a near-market or a symbolic price.

8. The incentive for the debtor, i.e. the beneficiary country, can be:

[22] Global AIDS Alliance. Advocacy International. Global Fund Debt Conversion, July 2005

- The reduction in debt stock including the possibility of a discount
- The ability to channel the freed-up resources to development, social investments in support of the Millennium Development Goals (MDGs)

9. Although any claim can be considered for conversion, in reality D2H conversion has the best chances of success in countries not covered under any of the large multilateral debt relief initiatives and where debt is a burden on a country's balance of payments. This does not necessarily imply that the country is under debt distress at present. It can mean that the country is recovering from a past debt crisis, which has been resolved by either rescheduling or a partial debt write-off.

10. In all cases, the funding provided by the debt conversion is to be used for funding projects that have been approved for funding by the Global Fund in accordance with its policies applicable to all grants.

Part 2: Key Considerations - Financing Opportunity from Debt Conversions

1. Looking at the debt situations of Global Fund recipient countries under a range of possible circumstances - from donations by the original holders to purchase on a secondary market - several categories of debt conversion and debt restructuring opportunities emerge.

2. In terms of D2H implementation, these opportunities can be prioritized based on:

- feasibility (feasibility in matching creditor and debtor, political commitment, solvency)
- transaction costs (cost of debt write-off, any financial and reputation risk associated with debt conversions, staff time investment required to reach an agreement)
- amount of financing that can be expected to be generated

3. <u>Opportunity 1: Bilateral Claims, which have been Rescheduled in the Paris Club</u>

This opportunity relates to countries, which have received terms for rescheduling or partial write-offs from the Paris Club. In particular, the terms known as "Houston terms" are relevant for this group of countries as they specifically include a "swap clause" as part of a debt rescheduling arrangement. Under Houston terms, bilateral concessional debt can be converted without a limit. Non-concessional debt can be converted beyond the amounts rescheduled up to a certain threshold. Presently 14 countries have active Houston Agreements and an additional 2 countries [23] have ad-hoc arrangements with the same status. The group consists of:

Cote d'Ivoire
Dominican Republic
Ecuador
El Salvador
Georgia
Guatemala
Indonesia
Jamaica
Jordan
Kenya
Moldova.
Morocco
Pakistan
Philippines
Peru

[23] Pakistan and Serbia & Montenegro.

Serbia & Montenegro

4. In order to test the D2H mechanism in practice, the Global Fund Secretariat has been exploring the possibility to implement a D2H pilot phase. The pilot phase would start in 2007 as the D2H model has now been fully defined and is ready for implementation. In the selection of the pilot countries, the Global Fund Secretariat is following the recommendation of the feasibility study. The criteria on which the pilot countries were selected were:

- disease burden
- demonstrated need, potential and capacity for scale-up;
- good past performance of Global Fund grants from regular funding;
- liquidity to invest in the counterpart fund;
- an adequate mix of potentially convertible debt;
- potential for involvement of civil society

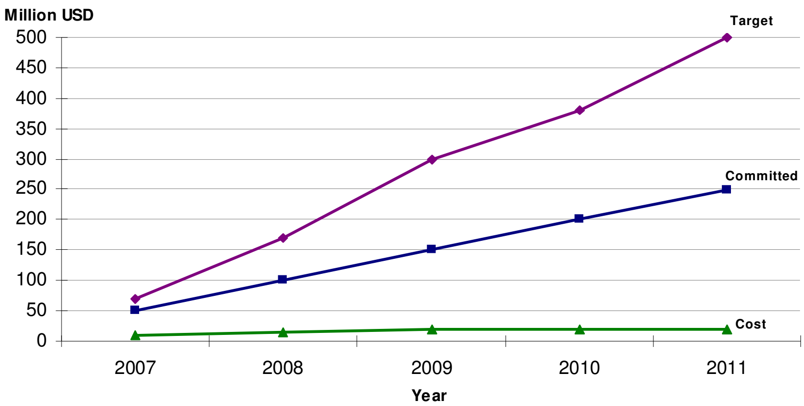
5. Accordingly, the pilot countries determined taking into account the above criteria are:

Indonesia
Kenya
Pakistan
Peru

6. The volume of debt targeted for conversion in the pilot phase ranges from US$250-500 million. It is expected to generate an additional US$125-250 million for Global Fund programmes in the four pilot countries. Of this amount, the equivalent of US$125 million for Global Fund programmes (200 million EUR in debt volume at 50 % discount to the beneficiary) has already been committed by Germany. Germany would be ready to champion D2H with a first D2H agreement in the third quarter of 2007 in Indonesia and Pakistan. Exploratory discussions with Germany and Indonesia are the most advanced.

7. The exact amount of total resources available for Global Fund programming will depend on the number of creditors and on the terms and conditions that will apply to each transaction, mainly the discount rates and/or in the case of payment in local currency the exchange rate fluctuations.

Fig. 1: Debt Conversion Volume during Pilot Phase (Cumulative from 2007-2011)



8. Opportunity 2: Non-performing Commercial Claims on Non-HIPCs

Private creditors have been pioneering converting debt either through (tax-deductible) donations or through sales at steep discounts or symbolical prices. This relates to countries, which are presently in arrears to this category of creditors, and are not part of the Heavily Indebted Poor Country Initiative (HIPC) or the Multilateral Debt Relief Initiative (MDRI)[24]. As of end-2004 the arrears to private creditors were to the tune of US$2.033 billion. Countries in this category include:

Albania
Angola
Dominican Republic
Grenada
Guatemala
Jamaica
Kenya
FYR Macedonia
Solomon Islands
Syria
Ukraine
Uzbekistan
St. Vincent and the Grenadines
Zimbabwe

9. Opportunity 3: Commercial and Bilateral Official Claims on HIPCs

The multilateral debt relief initiatives have substantially relieved the poorest and most severely indebted countries from a large part of their debt towards multilateral creditors. However, many official and private creditors have not followed suit as yet for a variety of reasons: some because they have not been involved in the arrangement in the first place, some because they refuse to have their claims reduced by competing creditors and others because they hope to win a better deal by holding out or litigating.

10. This category of claims exists in practically all 41 HIPCs. Until end-July 2006, 19 official creditors have delivered only partial relief with US$600 million to US$1 billion still on the books, while an additional 30 creditors have not delivered any relief at all leaving US$1.776 billion (NPV) on the books which should be cancelled according to HIPC terms.[25]

11. Commercial creditors are expected to bear all in all US$3.4 billion (in end-2005 NPV terms) of the total HIPC relief of US$63.2 billion yet World Bank surveys indicate they have only participated marginally to date. Under D2H commercial creditors could donate some of their claims based on a tax deduction incentive combined with support for the fight against HIV/AIDS, TB and malaria.

12. Opportunity 4: Remaining Multilateral Claims on HIPCs

While the HIPC Initiative has gone some way to assure equal or comparative treatment by other multilateral creditors, this principle is largely absent in the MDRI. Except for the IDB, no other creditor beside the IMF, IDA and AfDF has been providing any additional relief related to the MDRI. From the perspective of these creditors, the MDRI therefore appears as a windfall effect, which enhances the

[24] Data are taken from World Bank: Global Development Finance 2006 and relate to end-2004. There may have been considerable changes in countries' stocks of arrears. The above list is therefore rather illustrative than exhaustive.

[25] IMF/IDA: HIPC Status of Implementation Report; 21 August 2006, Table 12.

probability of repayment of their claims on some of the poorest countries. However, for some of the regional creditors, donating those claims to the Global Fund can be based on the following incentives:

- Equal treatment as a rationale for debt relief,
- Relief by institutions governed by Southern governments would provide an opportunity to practice South-South solidarity and cooperation, (Andean or Arab-African constituency),
- Investing into GF projects in order to curb the spread of HIV/AIDS has a strong intra-regional development dimension and can thus be considered as a regional benefit and not just a benefit to the country that is receiving debt relief,
- Targeted investment into fighting epidemics which cause huge economic damage, have a significant potential of enhancing countries' capability to service new loans, after old claims have been cancelled/swapped in line with MDRI treatment,
- Trading in old claims – which for some creditors are not in line with their present financing policies any more – should also be attractive.

13. Smaller regional creditors holding debt above US$25 million are considered "multilateral creditors". A group of 22 such multilateral creditors has been reviewed under D2H for the most important opportunities.[26] In total, this group holds around US$10.3 bn[27] nominal terms. A list of Global Fund recipient countries that would benefit from D2H agreements with this group of creditors is provided in Annex 1.

Part 3: D2H Mechanism

1. The mechanism for implementing D2H involves a Global Fund-mediated agreement between one or more creditors, the beneficiary country and the Global Fund.

2. Under the D2H agreement, a creditor agrees to forgo repayment of a portion of their loans on the condition that the beneficiary country invests an agreed upon amount in health through a Global Fund approved programme. This counterpart payment will be made to the Global Fund through the Trustee within the prevailing management arrangements between the Trustee and the Global Fund. This payment can be made in form of cash or by promissory note issued for the purpose of D2H.

3. The Global Fund's role in D2H is to act as a facilitator of the arrangement and as the financing institution overseeing the proper use of the counterpart funds generated under the debt conversion to the satisfaction of the creditor and the beneficiary.

4. In return, the creditor cancels the debt amount corresponding to the counterpart payment and the terms of the debt cancellation, for example the applicable discount rate. The involvement of the Global Fund as a financial vehicle for the debt conversion, assures the beneficiary that the debt cancellation occurs right after the counterpart payment. This is possible because the creditor(s) rely on the integrity and credibility of the Global Fund with respect to audit and grant management. The advantage for the beneficiary is that the debt cancellation occurs significantly earlier than in standard bilateral debt conversions.

[26] Institutions with claims of less than US-$ 25m, which have not been analysed in detail here are: Conseil de l'Entente, East African Development Bank (EADB), Eastern and Southern African Trade and Development Bank (PTA Bank), Fondo Centroamericano de Estabilización Monetaria (FOCEM), Fund for Solidarity and Development (FSID), Nigerian Trust Fund, Nordic Investment Bank (NIB), Shelter Afrique, West African Economic and Monetary Union (WAEMU), and a „Special Fund under IDB Administration".

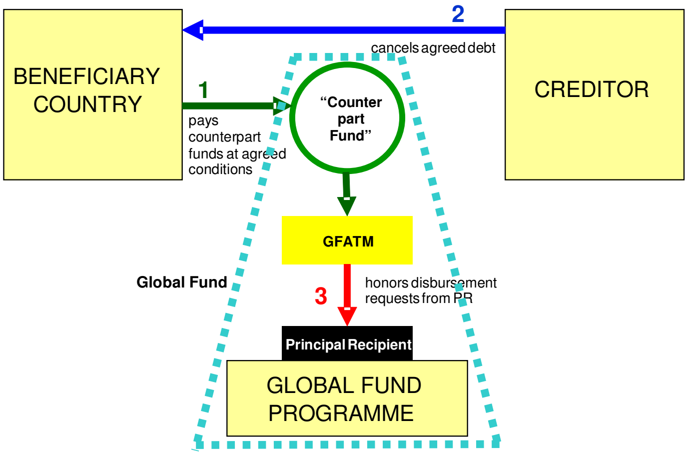
[27] Calculated at their respective Decision Points.

5. There are cases, where a bilateral debt conversion is already on-going and a counterpart fund already exists. In such instances, it would be possible to set aside an agreed upon percentage of the existing counterpart fund for D2H, to be contributed to the Global Fund.

6. The counterpart payment would be transferred to the Global Fund Trustee, where it would be recorded as donor-restricted funding for projects in the beneficiary country. Debt conversion funds are disbursed in accordance with Global Fund policies, thus minimizing political and financial risks to creditors and beneficiaries. In all cases, the funding provided by the debt conversion is to be used for funding projects that have been approved for funding by the Global Fund in accordance with its policies applicable to all grants.

7. Under D2H, the transaction costs for the Global Fund are the costs to the Secretariat in managing D2H and developing opportunities for D2H working with creditors and beneficiary countries. This cost is expected to remain at the current levels of support for innovative financing. A detailed analysis of transaction costs will be reported to the FAC as a result of the D2H pilot phase.

Fig.2 :The D2H Mechanism



Part 4: Use of Counterpart Funds

1. The Global Fund's Comprehensive Fund Policy governs the approval and funding of grant obligations. The funding policy is relevant for D2H in the way assets are defined and in the way the Global Fund approves proposals. Assets are defined as both cash and promissory notes. These assets form the basis on which proposals are approved by the Global Fund Board. Additional funds acquired through D2H will be used in accordance with the Comprehensive Funding Policy.

2. In the case that counterpart funds are paid through promissory notes, the beneficiary government has the option to issue such notes for the purpose of D2H with a validity of a regular Global Fund grant cycle of five years.

3. In the case that counterpart funds are paid in cash, the beneficiary country has the option to pay the full counterpart amount at the time of the conclusion of the D2H agreement or payment in two instalments (Phase 1 and Phase 2). In the event of a default on the payment obligations by the beneficiary, the beneficiary will be granted an agreed upon time period during which to address the

default. A failure to comply with the counterpart payment obligations may result in the reduction of the amount equal to the foregone resources from the total Global Fund grant allocation. In such a case the Board of the Global Fund might consider whether or not to make additional resources available out of uncommitted assets in the regular trustee account.

4. Any uncommitted creditor resources for the debt conversion which have not been utilised within a time framework set by the creditor debt swap policies and budgets can be reassigned to other debt conversions and programmes as per the policies of creditors.

5. D2H-financed activities will be integrated in existing programmes of the Global Fund based on established and proven systems for soliciting proposals, reviewing them for technical feasibility and monitoring performance and results.

6. The counterpart funds are disbursed through the normal grant management system of the Global Fund as set out by the Global Fund Board. This means that at the time of a disbursement request, the Global Fund Secretariat draws upon the resources in the counterpart fund to pay for some activities under the Global Fund programme. The draw-down of the counterpart resources should include a consideration for predictability and long-term financial sustainability of funding.

7. Once a D2H agreement has been signed D2H projects can be introduced at several entry points within the Global Fund grant management system for implementation. D2H financing can be utilised at the following points with the Global Fund grant management system:

- New Funding Round
- “Phase 2 Review”
- Rolling Continuation Channel (RCC)

8. Funding will be made availabe through the existing grant management system.
In sum the Role of the Global Fund in D2H is to:

- align D2H activities with the country’s overall framework for HIV/AIDS, TB and malaria;
- facilitate the financial arrangements between creditors and beneficiaries;
- ensure proper use of funds, audit and target monitoring;
- provide sound technical review through the Technical Review Panel (TRP);
- assure quality implementation based on and performance-based funding;
- reporting on results and performance to creditors and the Global Fund Board

Part 5: Oversight

1. On a regular basis, the Global Fund secretariat will report to the FAC on the implementation of the D2H pilot phase.

2. The report will include a list all participating creditors (participation in D2H is on a voluntary basis), the debt volume offered for conversion, the volume of counterpart funds generated, the transaction costs and any other lessons learned.

Appendix I

Fig. 1: Global Fund Recipients with over US$25 m Debt in Regional Financial Institutions

No.	Country	HIPC Status	Nominal Debt (in Million USD)
1	Benin	Post Completion Point HIPC	157.6 [d]
2	Bolivia	Post Completion Point HIPC	1,741.1 [c]
3	Burkina Faso	Post Completion Point HIPC	198.4 [b]
4	Burundi	Interim	108.8 [g]
5	Cameroon	Post Completion Point HIPC	150.0 [h]
6	Chad	Interim	52.0 [c]
7	Congo, Dem.Rep.	Interim	324.2 [e]
8	Congo, Rep.	Interim	34.3 [g]
9	Côte d'Ivoire	Pre-Decision Point HIPC	269.4 [c]
10	Eritrea	Pre-Decision Point HIPC	15.3 [2]
11	Ethiopa	Post Completion Point HIPC	246.4 [k]
12	Gambia, The	Interim	49.5 [b]
13	Ghana	Post Completion Point HIPC	253.6 [f]
14	Guinea	Interim	301.3 [b]
15	Guinea-Bissau	Interim	51.0 [b]
16	Guyana	Post Completion Point HIPC	600.9 [a]
17	Honduras	Post Completion Point HIPC	1,695.5 [f]
18	Madagascar	Post Completion Point HIPC	143.4 [f]
19	Malawi	Post Completion Point HIPC	151.0 [b]
20	Mali	Post Completion Point HIPC	197.1 [a]
21	Mauritania	Post Completion Point HIPC[1]	344.4 [d]
22	Mozambique	Post Completion Point HIPC	87.0 [c]
23	Nepal	Pre-Decision Point HIPC	64.6 [2]
24	Nicaragua	Post Completion Point HIPC	1,570.0 [e]
25	Niger	Post Completion Point HIPC	155.5 [e]
26	Rwanda	Post Completion Point HIPC	119.7 [b]
27	São Tomé Príncipe	Interim	291.0 [b]
28	Senegal	Post Completion Point HIPC	301.4 [e]
29	Sierra Leone	Post Completion Point HIPC	78.2 [c]
30	Tanzania	Post Completion Point HIPC	156.1 [j]
31	Uganda	Post Completion Point HIPC	157.6 [i]
32	Zambia	Post Completion Point HIPC	107.7 [f]
	Total		**9,805.0**

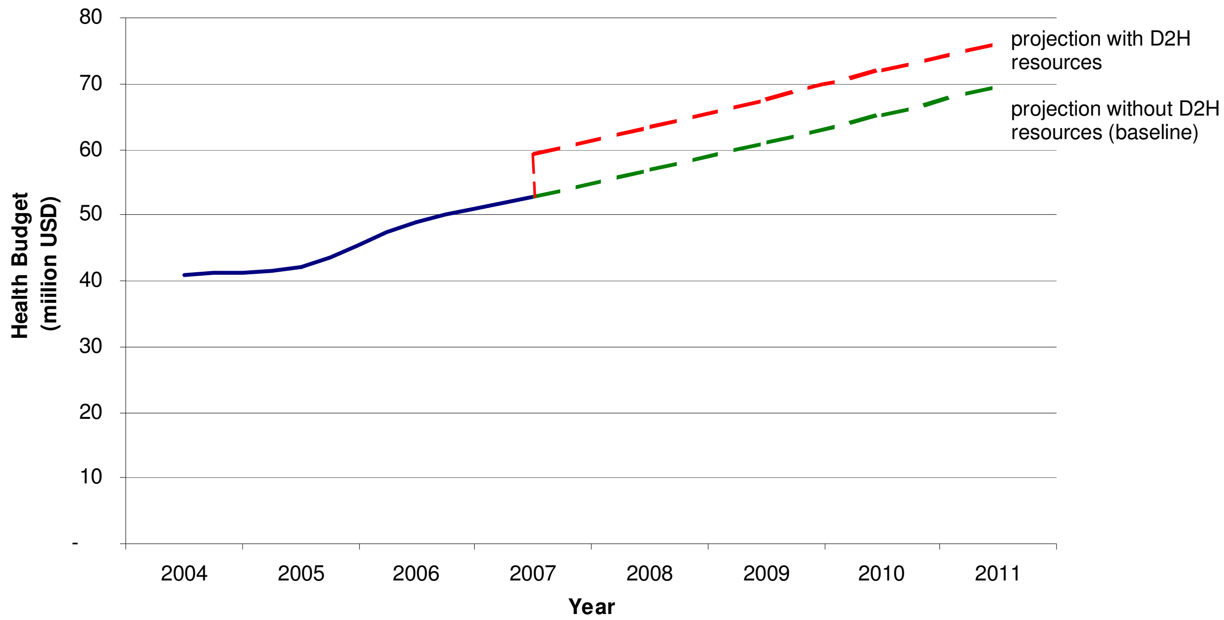
Source: "Debt Relief Commitment of Multilateral Institutions"; erlassjahr.de

Notes

[1] not yet qualifying for relief
[a] end of 1998; [b] end of 1999; [c] end of 2000;
[d] end of 2001; [e] end of 2002; [f] end of 2003;
[g] end of 2004; [h] end of 2005; [i] June 1999;
[j] June 2001; [k] July 2003; [l] Sept 2004.

Appendix II

Fig. 2.: Health Budget for HIV/AIDS, TB and Malaria in Indonesia (Baseline and Estimate with D2H Resources)



Appendix III

Fig. 3.: External Debt Position of Indonesia as of December 2006 (in US$ million)

	Japan	Germany	USA	France	NL	UK	Spain	Austria	Canada	Australia	Total
ODA	19,780.44	1,360.47	1,337.19	1,518.62	1,049.94	122.44	446.41	25.89	186.05	10.90	26,203.97
ECA	3,709.49	1,484.71	1,051.22	367.33	779.32	681.57	144.42	515.21	207.49	144.42	11,183.48
Total	23,489.92	2,845.18	2,388.41	1,885.95	1,829.26	804.01	590.83	541.10	393.55	155.32	37,387.45
% of Bilateral Debt	62.83	7.61	6.39	5.04	4.89	2.15	1.58	1.45	1.05	0.42	

Source: GFATM - Innovative Financing Team. Primary data provided by Ministry of Finance of Indonesia.

Fig. 4.: Current Global Fund Portfolio in Indonesia

Grant ID	Area	Start Date	Ending Date	Grant Amount (USD)		Disbursed as of March07 (USD)		Ratings	Budget for 07 and beyond
				Phase 1	Phase 2	Phase 1	Phase 2		
IND102G03H	HIV/AIDS	1-Jul-03	Phase 2 ending 30/06/2007	6,924,971	904,793	5,714,668		B2	1,777,391
IND405G04H	HIV/AIDS	1-Apr-05	Phase 1 ending 31/03/2007	31,129,618		22,394,006		B1	5,500,000
IND102G01T	Tuberculosis	1-Aug-03	Phase 2 ending 31/07/2008	21,612,265	47,156,959	21,612,265	16,816,932	B1	18,619,235
IND506G05T	Tuberculosis	1-Feb-07	Phase 1 ending 31/06/2009	18,314,685		5,382,399		NR	10,206,065
IND102G02M	Malaria	1-Jul-03	Phase 2 ending 30/06/2008	11,754,947	11,950,000	11,754,947	5,565,816	B1	4,819,395

Source: GFATM data

Disbursement Rating Index:

A - Expected or exceeding expectations
B1 - Adequate
B2 - Inadequate but potential demonstrated
C - Unacceptable
NR - No rating available. Grants that have only received a first disbursement have no rating.
Grants that have not disbursed since Nov. 5, 2005 do not have a rating.
Further, the use of the rating system on each disbursement was introduced in November 2005.

Acronyms

AfDF	African Development Fund
CCM	Country Coordinating Mechanism
D2H	Debt2Health Initiative
HPIC	Highly Indebted Poor Country
IDA	International Development Association
IMF	International Monetary Fund
MDRI	Multilateral Debt Relief Initiative
NPV	Net Present Value
PR	Principal Recipient
RCC	Rolling Continuation Channel
TRP	Technical Review Panel