



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

**Eighteenth Board Meeting
New Delhi, India, 7 – 8 November 2008**

**GF/B18/6
Decision**

REPORT OF THE FINANCE AND AUDIT COMMITTEE

OUTLINE:

This report summarizes the deliberations of the Finance and Audit Committee (FAC) at its meeting on 29 September – 1 October 2008 and in subsequent email communications, and its resultant recommendations to the Eighteenth Board Meeting.

1. The FAC reviewed the Secretariat's draft proposed 2009 budget for Operating Expenses (GF/FAC11/14). In accordance with the Budget Framework approved at the Seventeenth Board Meeting, the budget is constructed on a bottom-up basis that consolidates the work plans of the functional Clusters that comprise the Secretariat. The key factors influencing budgetary needs in 2009 are:

- i. The scale up of demand in new Rounds and RCC, together with dual-track financing will result in major increases in grant activity.
- ii. Implementation and development of key initiatives such as National Strategy Applications, grant consolidation, enhanced financial reporting of principal and sub-recipient expenditures, and other modifications to the grant architecture.
- iii. Completing the administrative transition, following cessation of the ASA with the WHO
- iv. Increasing support for in-country partnerships and intensifying resource mobilization efforts.
- v. Expanding evaluation activities that increasingly analyze aid impact and effectiveness.

2. A key determinant of the budgetary needs is the volume of grant commitments in the year. Depending on how much the Board approves for Rounds 8 and 9, the volume of grant commitments signed in 2009 could vary between US\$ 4.6 billion and US\$ 6.0 billion, including US\$ 2.1 billion for grant renewals in addition to the new grants. Based on the upper end of this range, the proposed budget for 2009 operating expenses would be US\$ 257.7 million (excluding contingency), an increase of 23% on the 2008 budget, with a staffing of 638 positions, a 36% increase on 2008.

3. The FAC appreciated that the budget had been prepared within the parameters of the budget framework and acknowledged the increasing workload due to the much increased demand and additional workload resulting from various Board initiatives. At the same time, the FAC was concerned that the 2009 budget represented another significant increase after the large increase in the 2008 budget.

4. Pending Board consideration of Rounds 8 and 9, and in light of the impact this would have on budgetary needs, the FAC decided to recommend a budget that reflected grant commitments in 2009 of US\$ 2.5 billion from Rounds 8 and 9 and grant renewals of US\$ 2.1 billion, and to suggest that the Board authorize the FAC to approve an addition to the budget should grant commitments be greater.

5. Accordingly, the Secretariat presented a revised budget for US\$ 244.9 million and 600 staff. The FAC proposed a further refinement of this budget on the assumption that only 95% of positions would be filled, reducing the budget to US\$ 240.2 million which allows for 570 staff. If the Global Fund recruited all these positions and the need for additional staff was evident, the additional positions could be approved by the FAC during the year, if so authorized by the Board. Further details of the budget are provided in Annex 1.

6. The Budget Framework provides a contingency of 10% of the approved budget to cover unforeseen contingencies and the budgetary implications of Board decisions made after approval of the annual budget. The budgetary implications of decisions to approve the launching AMFm Phase 1, the Human Resources Policy Framework and other decisions of the Eighteenth Board meeting (if approved) are expected to utilize approximately US\$ 17.5 million of the contingency (see Annex 1, Part 4).

7. For the future, the FAC noted the desirability of having the Key Performance Indicators (KPIs) for a given year established in time for the first Board meeting of the preceding year, so that development of the annual budget can be better linked to the KPIs for the corresponding year. The FAC would like to explore with PSC how best to arrange the process for setting and reviewing KPIs so that this would become a joint PSC-FAC exercise.

Decision Point 1: 2009 Budget

The Board

- 1. approves the 2009 Operating Expenses Budget in the amount of US\$ 240.2 million as set out in Part 1 of the Report of the Finance and Audit Committee;**
- 2. authorizes the FAC to approve an increase the 2009 Operating Expenses Budget by up to US\$ 17.5 million should the FAC find such increase to be appropriate in light of the amount of grants approved by the Board for Rounds 8 and 9; and**
- 3. authorizes the Executive Director to increase the Operating Expenses Budget by up to 10% should this be required in order to meet unforeseen contingencies arising and the budgetary implications of Board decisions made through 2009, in accordance with the Budget Framework approved at the Seventeenth Board Meeting (GF/B17/DP10).**

The budgetary implications of this decision amount to US\$ 240.2 million in 2009, which includes an allocation for 570 staff positions.

PART 2: RESOURCE MOBILIZATION

Decision

Mid-Term Replenishment Review

1. Recommendations for the mid-term review of the second voluntary replenishment of the Global Fund, as foreseen by donors at the Berlin Replenishment Conference in September 2007, are outlined in GF/FAC11/19. It is proposed that the review should occur before the Nineteenth Board Meeting scheduled for May 2009.

2. The FAC acknowledged that while it was encouraging to have a potentially very large Round 8 that reflects the desired scaling-up of demand, it was timely to discuss the most effective use of the funds, anticipating that existing donors cannot be assumed to further increase their current level of contributions in the current economic circumstances. This aspect should be addressed by the Board and the Portfolio Committee and at the mid-term replenishment review, informed by options developed by the Secretariat.

Decision Point 2: Mid-Term Review of the Second Voluntary Replenishment of the Global Fund

The Board adopts the recommendation for a Mid-term Review of the Second Voluntary Replenishment of the Global Fund.

The Board decides that the Mid-term Review of the Second Voluntary Replenishment shall take place in advance of the Nineteenth Board meeting scheduled for May 2009.

The budgetary implications of this decision are US\$200,000 (already provided in 2009 budget).

Product and Service Contributions

3. The Joint Steering Group on Product and Service Contributions, drawn from members of FAC and PSC and chaired by the Vice-Chair of FAC, has conducted research and analysis supported by a working group of international experts. Its recommendations are outlined in GF/FAC11/20.

4. The Joint Steering Group concluded that under conditions the Global Fund should not accept in-kind donations of health products; however this position should be reconsidered after two years' experience of the Voluntary Pooled Procurement mechanism. It recommended that the Secretariat should develop a policy for the acceptance of donations of services and (provided adequate information is available) non-health products. The gathering of information for development of the policy is a time-limited cost in 2009 only. The FAC recommends adoption of the policy proposed by the Joint Steering Group as set forth in the decision point below:

Decision Point 3: Product and Service Donations Through the Global Fund

The Board takes note of the recommendations of the Technical Working Group, as endorsed by the majority of the Joint Steering Group. It is important to note that these recommendations do not imply a priori characterization of donation programs as positive or negative but rather make a pragmatic judgment on the current viability of the Global Fund as an implementing vehicle for product and service donations. The Board agrees the following:

- (a) The Board recognizes the added value of service donations to the Secretariat and the potential added value of Global Fund grant recipients receiving service donations.***
- (b) The Board therefore requests the Secretariat, under the oversight of the Finance and Audit Committee and with input from the Ethics Committee, to develop guidelines for the acceptance of service donations by the secretariat and for the facilitation by the secretariat of service donations to Global Fund grant recipients. The Board requests the Secretariat to report on the development of such guidelines at the Nineteenth Board Meeting, and to annually report thereafter an itemized list of such donations received by the Secretariat.***
- (c) The Global Fund should not, under current conditions, accept in-kind donations of health products. The Board may re-consider this position after the Voluntary Pooled Procurement Mechanism (VPP) has operated for at least two years and sufficient evidence is available to evaluate whether the addition of a donation component to the VPP is practical, feasible and appropriate.***
- (d) The Global Fund should not accept in-kind donations of non-health products until adequate information is available to assess the implications of doing so. The Board asks the Secretariat to gather such information and to report on progress made at the Nineteenth Board Meeting.***

The budgetary implications of this decision are US\$200,000, (This cost will be covered by the budget contingency.)

Status Update

1. The Deputy Executive Director (DED) updated FAC on the status of the transition program and provided the detailed timelines established for the various work streams to ensure readiness for the new systems to be active by 1 January 2009, following cessation of the Administrative Services Agreement (ASA) with the WHO on 31 December 2008 (see GF/FAC11/01).
2. The work is in two main areas: (i) development of the policy framework for human resources (including compensation and benefits) and other administrative matters previously governed by WHO policy; and (ii) development of the information systems to enable the functioning of the new policies.
3. The Policies are for approval by the Board, or by the FAC in instances where the Board has delegated to the FAC the authority to approve. The Policies include principles and high-level rules. More detailed Regulations (and accompanying Procedures where appropriate) have been or will be developed in due course to guide implementation of the Policies. The Regulations will be issued by the Executive Director and will be made available to the Board for information and comment.
4. The Global Fund's Enterprise Resource Planning (ERP) information system (Oracle) will go live on 5 January 2009. In order to achieve the short timeline, a standard system with minimal customization is being implemented initially. Once the system is functioning reliably, some customization will be undertaken to gain efficiencies and to integrate transactional aspects of grants and contributions (which are currently managed in separate systems).
5. The transition program is governed by a Steering Group chaired by the DED and is receiving invaluable support from consultants with expertise in a range of fields. The Staff Council and staff generally are actively involved in all aspects of the program. More than 100 staff have participated in various work groups engaged in developing the policies and systems in conjunction with the consultants and almost all staff have attended numerous consultation and briefing sessions.

Human Resources Policy Framework

6. At its Seventeenth Meeting, the Board requested the FAC to invite all interested Board constituencies to participate in the preparation of the Human Resources Policy of the Global Fund to apply following the end of the ASA. The FAC has accordingly worked with the Secretariat and with interested Board constituencies (which met with the FAC on 1 October 2008) and developed a Human Resources Policy Framework which it recommended to the Board for approval by email on 8 October 2008 (see GF/EDP/08/16).
7. The recommended HR Policies are the result of detailed consideration by the FAC and the other interested Board constituencies, of a range of options for each aspect of the HR Policies (such as grading and salaries, allowances and benefits, tax equalization, dispute resolution and health insurance arrangements). These options were developed jointly by the Secretariat and consultants with expertise in the relevant areas (see GF/FAC11/02 Annexes 1-6).
8. As outlined in GF/FAC11/01 Part 3, an Interim HR Policy (as foreseen by Board decision GF/B17/DP21) was not proposed, pending the decision by the Board on the Global Fund HR Policy Framework, since if the Framework was approved in time to become operational on 1 January, the Interim HR Policy would not be necessary. The Framework was approved by the Board on 18 October 2008 (by email). Because the WHO for systems-related reasons cannot provide the services

originally offered for the Interim Period, a direct transition to the HR Policy Framework on 1 January 2009 is highly desirable.

9. The FAC noted that the Secretariat was awaiting quotations for a comprehensive package of employee insurance (including health insurance that will be at least equivalent to health insurance currently provided by the WHO, and liability insurance for directors and officers). It is expected that this will not result in a cost increase to the Global Fund as compared to the current arrangements with WHO (information received subsequent to the FAC meeting confirms this).

Policies other than HR Policy

10. The FAC reviewed policies for Procurement, Financial Administration and administrative matters which had been developed jointly by the Secretariat and specialist consultants (see GF/FAC11/03 Annexes 1-5).

11. The FAC amended the Procurement Policy to clarify that any exceptions to competition must be approved by the Executive Director. Noting that procurement is a sensitive area, the FAC requested that it receive the procurement Regulations to review for comment (as distinct from approval).

12. Under the authority delegated to FAC by the Board, the FAC approved the policies on 30 September 2008.

Decision Point of the FAC: Policies other than HR Policy

Pursuant to authority delegated by the Board (GF/B17/DP22), the FAC approves the Procurement Policy, the Financial Administration Policy, the Travel, Security and Expense Policy, the Facility Management and Administration Policy, and the Staff Orientation and Relocation Services Policy (the "Policies"), as set out in Annexes 1 – 5 of GF/FAC11/03 and as amended at the 11th FAC Meeting. The Policies shall come into effect on 1 January 2009.

This decision does not have material budgetary implications.

Provident Fund

13. At the Seventeenth Board Meeting, the Board renewed its delegation of authority to the FAC to approve the Global Fund cash balance pension fund (GF/B17/DP22).

14. The FAC considered the matters relating to establishment of the fund as outlined in GF/FAC11/04. Under the authority delegated to FAC by the Board, the FAC approved the aspects of the Provident Fund set out in Annex 2 hereto which also outlines the matters remaining to be decided by the FAC.

PART 4: INFORMATION ITEMS – OTHER

Information

OIG Matters and Risk Management

1. The Inspector General (IG) summarized the findings of the three main audits that had been carried out during the year (see also GF/FAC11/13):

- i. Grant programs in India: adequate controls in place but challenges remain in implementing corrective actions arising from the World Bank's review.

- ii. Suspension/termination process (Ukraine, Uganda, Indonesia, Chad and Myanmar): urgent need to develop preventive capacity, government in Uganda has shown renewed commitment to investigate and prosecute.
- iii. Managing the risks involved in phasing out the Administrative Services Agreement with the WHO.

2. The IG presented a summary of his report on the risks involved in phasing out the ASA. The IG had held extensive interviews with Secretariat staff to assess the risks associated with the transition. The audit concluded that this is a very high risk project which management and staff were highly committed to implementing in a very short time. The steps already taken by management and the recommendations in the report would help manage those risks. Management had provided a comprehensive response to the IG report but decided not to complete the matrix of actions in response to recommendations because of time constraints in completing the transition and because many aspects had evolved since the OIG review. The IG would have preferred to have received the completed matrix. The Deputy Executive Director advised the FAC that many of the concerns raised in the OIG report had been addressed, including the setting of detailed timelines for the different work streams to ensure readiness for the new processes and systems to be active by 1 January 2009.

3. Regarding risk management, FAC noted the various aspects which are currently being addressed:

- i. Country risk model – being developed jointly by the OIG and the Country Programs Cluster
- ii. Values and Integrity Initiative – defining core values in the organization
- iii. Risk Management Framework – work has commenced and will be taken up again in early 2009 after the completion of the ASA transition.
- iv. A risk management officer is planned in the 2009 budget to provide greater capacity for coordinating this important organization-wide function.

4. In response to a recommendation of the IG, the FAC decided to create a sub-committee to give detailed consideration to OIG report findings and recommendations; the Chair and Vice-Chair of FAC will coordinate by e-mail the establishment of this sub-committee.

5. The FAC Chair requested that the IG provide assurance within all country audit work on the methodology and validation of results reporting.

Update on Resource Mobilization

6. When approving the resource mobilization strategy in April 2007 (as recommended by the Resource Mobilization Task Team and the FAC), the Board agreed to review progress in November 2008. Accordingly, the Secretariat provided a progress update to the FAC (GF/FAC11/18).

7. The Second Voluntary Replenishment and subsequent follow-up with donors have assured the availability of funding for all grant renewals and an increased level of new grant approvals in 2008 – 2010; at least US\$ 2.3 billion will be available for Round 8, the largest amount ever forecast when calling for proposals for a new round. The Replenishment process opened up a dialogue on long-term pledges, leading to the UK's commitment to a multi-year funding framework which extends to 2015. In the lead up to the mid-term voluntary replenishment in 2009, the Secretariat is working with potential new donors amongst new EU member states, emerging economies and oil-rich states, while continuing to work with existing donors to ensure continuing support from them.

8. The Global Fund is also undertaking special initiatives in donor countries and parliamentary activities aimed at strengthening engagement and increasing contributions from core donors.
9. In the private sector, Product RED has raised over US\$115 million to date and two major Product RED initiatives will take place in the fourth quarter of 2008. The "Idol Gives Back" TV program is expected to generate USD 10 million this year. After the Corporate Champions Program generated its first commitment for US\$30 million, it is hoped that further companies will join the program in 2009 and onwards. The Global Fund will be the main beneficiary of the United Nations Foundation's Global malaria Partnership, which will work with two US faith-based organizations to raise US\$ 200 million over the next three years to combat malaria. A strategy being developed proposes continuing focus on these areas and additional effort on philanthropic support from foundations and high net worth individuals. This seeks to grow private sector contributions from the US\$ 200 million expected in 2008 to \$500 million per year by 2015.
10. Restricted contributions represent 3.1% of total contributions received in 2007, and 1.5% of total contributions to date.
11. Under the Debt2Health initiative, the first counterpart payment by Indonesia (under its agreement with Germany) of EUR 5 million was received. Further agreements with other countries are being pursued as well as encouraging other creditors to join the Debt2Health initiative following an evaluation of the pilot program and Board approval of an expansion.
12. The Investment Fund Initiative is a new concept to leverage funds from the potential market for socially responsible investment (SRI) funds. Client focus would be on leading investor philanthropists and institutional and private investors from regions of the world which do not have established ODA-comparable structures. The Global Fund would receive participation fees and a share of the investment return. The project is being supported as a pilot with an anticipated grant from the Melinda and Bill Gates Foundation. This initial information has been provided to the FAC, which has therefore not yet discussed at length this new idea.

Forecast of Assets Available for Round 8

13. The FAC reviewed the forecast of assets available to fund Round 8, for which three scenarios were considered (GF/FAC11/17):
- i. Based on confirmed pledges only: US\$ 2.3 billion would be available in November 2008 (with a further US\$ 0.3 billion in April 2009)
 - ii. If all 2009 pledges are contributed by September 2009 this would avoid a potential temporary shortage of funds in Quarter 3 of 2009; hence US\$ 2.4 billion would be available in November 2008 (with a further US\$ 0.2 billion in April 2009).
 - iii. If expected pledges (i.e. not yet confirmed but assumed to be not less than 2008 amounts) for 2009 are included: US\$ 2.7 billion would be available in November 2008 (with a further US\$ 0.5 billion in April 2009). This scenario is for illustrative purposes only, and only confirmed pledges can be taken into account in accordance with the Comprehensive Funding Policy.
14. The FAC noted with concern the funding needs that would arise in 2011 if the Board were able to approve the full amount of Round 8 proposals in 2008 and early 2009. These needs total more than double the amount of funding ever available to the Global Fund in any given calendar year. FAC members called for a reasonable Board decision on Round 8, informed by options to be developed by the Secretariat. Some members cautioned that might not be feasible to anticipate increased levels of funding by existing donors, and some pointed to danger in organizing any Replenishment in the current unstable and difficult international economic context.

Optimizing Investment Returns

15. The working group on Optimizing Investment Returns presented an interim report to the FAC with following recommendations (GF/FAC11/16):

- i. The Global Fund's primary investment objective should be capital preservation, and the secondary objective should be to maximize returns.
- ii. The Global Fund's tolerance for risk and volatility of returns should not change from its current level (probability of cumulative negative returns over three years of approximately 1%).
- iii. The investment horizon should not exceed three years.
- iv. The Global Fund should continue to make agreements conditional on availability of funds (rather than setting up contingency reserves or requesting additional funds to cover potential investment losses).

16. The working group will continue its work on eligibility of investment classes, governance and potential management structures for the investment portfolio and will make recommendations to the Nineteenth Board Meeting.

Operating Expenses in January-June 2008

17. In reviewing Operating Expenses for the first six months of the year (GF/FAC11/15), the FAC noted that the expenditure at US\$ 83 million was 7% less than the US\$ 89.6 million budget for the half-year and represented 40% of the US\$ 209.7 million budget for the whole year.

18. Secretariat expenses were 9% lower than the budget for the period as some activities will occur later in the year. LFA fees were slightly over budget for the period. Little was spent on CCM funding as this funding only commenced in May 2008. Overall, total Operating Expenses are expected to be within budget for the whole year.

19. The FAC reviewed Secretariat mid-year performance as measured by the Key Performance Indicators as reported to the Policy and Strategy Committee. Of the seventeen KPIs set for 2008, eight were on or above target; explanations were provided for the under-achievement of seven KPIs (see GF/PSC10/07) and two KPIs cannot be measured at the mid-year review. (As mentioned in Part 1, the FAC would like to explore with PSC how FAC can be consulted in the process for setting and reviewing KPIs, so that the budget may be better linked to the KPIs.)

20. The FAC received details of the transactions on the Global Fund bank account, including a list of all contributions received via this account (for subsequent transfer to the Trustee).

AMFm

21. The Chair of the AMFm Ad-Hoc Committee, Mr. Todd Summers, presented the FAC with an update on the AMFm business plan (see GF/FAC11/21 and GF/FAC11/22). The Board will be asked to authorize the launch of AMFm Phase 1 to operate in a limited number of countries up until April 2011. The anticipated costs are US\$ 6.6 million for pre-launch and 2009 costs (to be funded by the contingency in the Global Fund budget) and US\$ 7.8 million for the remaining period after 2009. The FAC noted that resource mobilization efforts for AMFm will be additional to existing resource mobilization activities and that UNITAID could be a major donor. The initiative should complement existing Global Fund grants by giving greater access to ACTs through the private and NGO sectors.

PROPOSED 2009 BUDGET FOR OPERATING EXPENSES

Contents

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- Part 1: Cluster Summaries
- Part 2: Staffing
- Part 3: In-Country Oversight
- Part 4: Changes from 2008 to 2009
- Part 5: Ratios

PART 1: FACTORS INFLUENCING BUDGETARY NEEDS 2009

1. In 2009, Secretariat activity will continue to grow as strategic decisions of the Board are implemented, in particular:
 - i. The scale-up of demand from countries that is evident in Round 8 and through the Rolling Continuation Channel, together with dual-track financing, will result in major increases in grant management activity. New grant signings in 2009 are expected to increase by 60%, and the amount disbursed in the year will increase by almost 40%, in comparison with 2008.
 - ii. Grant consolidation, enhanced financial reporting of principal and sub-recipient expenditures, the funding of National Strategy Applications and other aspects of the evolving grant architecture will also generate increased activity.
 - iii. The transition to the Secretariat's new administrative environment will require resources for implementing the new systems and process, and for post-implementation adjustments and enhancements.
2. The Secretariat will increasingly support partnerships in implementing countries, as well as consolidating and launching new partnerships at the global level, such as with UNITAID and for AMFm, in keeping with the Global Fund's growing role in the global health architecture.
3. Resource mobilization efforts will be intensified to meet the scale-up of demand, and evaluation activities will increasingly analyze aid impact and effectiveness.
4. The work plan summaries in Attachment 1 describe how the budget of each functional Cluster of the Secretariat supports the foregoing priorities and other activities planned for 2009.

PART 2: DEVELOPMENT OF THE 2009 BUDGET WITHIN THE BUDGET FRAMEWORK

1 As in previous years, the proposed budget has been developed through a 'bottom-up' approach, consistent with the Budget Framework¹, whereby each functional Cluster of the Secretariat has produced a work plan and budget for each of its constituent teams, based on anticipated activity levels for 2009. These are aggregated to form the overall budget.

2 The budget development follows an iterative approach that incorporates reviews by the Executive Management Team to guide the process. The final iteration of took account of the potential volume of grant commitments arising from Rounds 8 and 9, which is a key determinant of budgetary needs, especially for staff capacity and LFA services. The TRP has recommended Round 8 proposals with a total Phase 1 amount of US\$ 3.2 billion. The FAC recognised that less than this total of Round 8 grants might be approved, hence two versions of the budget were considered:

- i. Version 1 of the budget for \$257.7 million with 638 staff assumed the approval of all of Round 8 (US\$ 3.2 billion) plus US\$ 0.7 billion for Round 8, in addition to grant renewals of US\$ 2.1 billion, totaling US\$ 6.0 billion.
- ii. In advance of Board consideration of Round 8, the FAC recommends a budget that assumes grant commitments in 2009 for new grants from Rounds 8 and 9 with a Phase 1 amount of US\$ 2.5 billion, in addition to grant renewals of US\$ 2.1 billion, totaling US\$ 4.6 billion. On that basis, Version 2 of the budget would be for US\$ 244.9 million, with 600 staff; as a further refinement, the FAC recommendation is to assume that 30 staff positions would remain unfilled at the end of 2009, reducing the budget to US\$ 240.2 million.
- iii. Accordingly, depending on the volume of new grant commitments, the budget would be in the range of US\$ 240.2 million to US\$257.7 million:

Volume of Grant Commitments			Budget		
Rounds 8&9 \$ billion	Renewals \$ billion	Total \$ billion		Budget \$ millions	Number of Staff
3.9	2.1	6.0	Version 1	257.7	638
2.5	2.1	4.6	Version 2	244.9	600
		Assumed non-recruitment:		-4.7	-30
			Version 2a	240.2	570
Difference between Version 2a and Version 1:				17.5	

- iv. The FAC recommends that the Board authorize the FAC to approve an addition to the budget should higher amounts of 2009 grant commitments, than the assumed US\$ 4.6 billion, prove it necessary to provide more staff capacity, after the actual amount approved for Round 8 is known.

3 The Budget Framework adopted by the Board sets two parameters for assessing the reasonableness of annual budget proposals. It also allows for the addition of a 10% contingency to

¹ The Budget Framework for Operating Expenses of the Global Fund, as set out in GF/B16/6 Annex 3 and approved by the Seventeenth Board Meeting (GF/B17/DP10).

cater for unforeseen needs and the budgetary implications of new Board decisions made subsequent to approval of the annual budget.

4 The proposed budget for 2009 as recommended by the FAC (Version 2a) is summarised below (and outlined further in Annex 1, Part 3). At US\$ 240.2 million, the budget reflects a 15% increase compared with 2008. A staffing envelope of 570 positions is proposed (which includes a reduction of 30 positions that are assumed not to be filled by the end of 2009, per 2ii above).

5 The Budget Framework provides for a contingency of 10% in addition to the approved budget to cover unforeseen contingencies and the budgetary implications of Board decisions made after approval of the annual budget. If the 10% contingency (US\$24 million) were fully utilized, that would bring the total budget to US\$ 264.3 million representing an increase of 26% on 2008. (If half of the contingency were utilized, the total budget would be US\$ 252.2 million, an increase of 20% on 2008). Proposed decisions that will be considered by the Board in 2008 have budgetary implications in 2009 of US\$ 17.5 million which, pending Board consideration, are not currently included in the budget (see Part 4). Other decisions made by the Board during 2009 may also have budgetary implications in 2009.

US\$ millions	2007	2008	2009	Increase on 2008	% Increase on 2008 Budget
	Actual	Budget	Budget		
Secretariat	82.8	152.4	172.7	20.2	13%
Office of the Inspector General	1.5	3.1	6.7	3.6	117%
In-country Oversight	33.0	50.2	59.5	9.3	19%
Funding of CCMs	0.0	6.0	6.0	0.0	1%
less: Efficiency Target		(2.0)		2.0	
	117.2	209.7	244.9	35.2	17%
less: Assumed 30 staff positions not filled			(4.7)	(4.7)	
Total Operating Expenses	117.2	209.7	240.2	30.5	15%

Increase over prior year: 79% 15%

With contingency of 10% --	If 50% utilized:	252.2	42.5	20%
	If fully utilized:	264.3	54.6	26%

Staff Numbers

in Positions	341	470	570	100	21%
in Full-Time Equivalents		385	550	165	43%

Increase over prior year: 38% 21% (positions)

6 Assuming grant commitments in 2009 of US\$4.6 billion (per 2ii above), the two ratios set by the Budget Framework as parameters for assessing the reasonableness of the budget are computed as follows:

Budget Framework ratios:

	2007	2008	2009	Framework	If contingency utilization is	
	Actual	Budget	Budget		5%	10%

Operating Expenses (OpEx) as % of:

1. Operating Expenses as % of Total Expenditure	3.9%	7.3%	5.0%	<6%	5.2%	5.5%
2. Grant Commitments per Employee (FTE \$m)	9.5	6.9	8.4	<\$8.8m		

- i. Ratio 1, Operating Expenses as a percentage of Total Expenditure², is in the range of 5.0% to 5.5%, depending on the extent to which the contingency is utilized. This is less than the Framework guideline of 6%, suggesting that Operating Expenses are not excessive relative to the magnitude of grant activity.
- ii. Ratio 2, Grant Commitments per employee, indicates US\$8.4 million of grant commitments per employee. This is within the Framework guideline of US\$8.8 million, suggesting that the level of staffing is appropriate to the value of grant commitments.

PART 3: OVERVIEW OF THE BUDGET

1. The Composition of the budget is summarised in the table below. Further details are contained in the Cluster Summaries in Attachment 1, Part 1 of which outlines the strategic role of each Cluster, summarises its budget and explains the reasons for significant budget increases.

In US\$ millions <i>By Function</i>	2007	2008	2009	Increase on 2008	% Increase on 2008 Budget
	Actual US\$m	Budget US\$m	Budget US\$m		
Secretariat Expenses					
Country Programs	23.5	32.2	42.5	10.3	32%
Strategy, Performance Evaluation & Policy	16.5	33.5	36.2	2.7	8%
Partnerships, Communications & Resource Mob.	12.7	23.0	27.5	4.4	19%
Office of the Executive Director	3.6	3.4	3.4	0.0	0%
Corporate Services	22.4	53.4	53.6	0.2	0%
Finance	3.8	6.4	8.8	2.5	39%
Office of the Chair of the Board	0.3	0.5	0.7	0.1	21%
Secretariat	82.8	152.4	172.7	20.2	13%
Office of the Inspector General	1.5	3.1	6.7	3.6	117%
Funding of CCMs	0.0	6.0	6.0	0.0	1%
In-country Oversight	33.0	50.2	59.5	9.3	19%
Total Operating Expenses	117.2	211.7	244.9	33.2	16%
Efficiency Target net of contingency	0.0	(2.0)	0.0	2.0	-100%
<i>less: Assumed 30 staff positions not filled</i>			(4.7)	(4.7)	
Total, before contingency	117.2	209.7	240.2	30.5	15%
		<i>Increase over prior year:</i>		79%	15%

In US\$ millions <i>By Expense Type</i>	2007	2008	2009	Increase	% Increase on 2008 Budget
	Actual	Budget	Budget		
Staff	39.9	62.0	91.8	} 25.1	48%
<i>less: Assumed 30 staff positions not filled</i>			(4.7)		
Professional fees	18.6	51.9	34.8	(17.0)	-33%
Travel	9.2	14.8	23.1	8.2	56%
Meetings	2.0	7.1	6.9	(0.2)	-3%
Communication materials & services	2.4	3.4	5.8	2.4	69%
Office infrastructure	10.6	16.7	16.9	0.3	
External co-funding	(1.1)	(0.4)	0.0	0.4	-100%
Secretariat & OIG	84.3	155.5	174.7	19.1	12%
Funding of CCMs		6.0	6.0	0.0	1%
In-country Oversight	33.0	50.2	59.5	9.3	19%
Total Operating Expenses	117.2	211.7	240.2	28.5	13%
Efficiency Target net of contingency		(2.0)		2.0	-100%
Total, before contingency	117.2	209.7	240.2	30.5	15%

² Total Expenditure comprises Grant Commitments in the year plus Operating Expenses.

2. Increase from 2008 to 2009: The budgetary increase of US\$30.5 million from 2008 to 2009 is comprised as follows:

<u>By Expense Type</u>	In US\$ millions		Distribution of increase		Distribution of 2009 Budget
Staff	25.1	82%			38%
Professional fees	(17.0)	-56%			15%
Travel	8.2	27%			10%
Meetings	(0.2)	-1%			3%
Communication materials & services	2.4	8%			2%
Office infrastructure	0.3	1%			7%
External co-funding	0.4	1%			0%
Secretariat & OIG	19.1	63%			73%
Funding of CCMs	0.0	0%			2%
In-country Oversight	9.3	31%			25%
Total Operating Expenses	28.5	93%			100%
Efficiency Target net of contingency	2.0	7%			0%
Total, before contingency	30.5	100%			100%

3. Staff costs: Of the overall increase in budget from 2008 to 2009, 82% relates to staff costs, due mainly to the increase in grant management activities. This reflects provision for 100 additional positions in 2009, plus the whole-year cost in 2009 of positions that commenced during 2008. The need for the additional positions in each Cluster is outlined in Attachment 1, Part 1. The staff increases in Country Programs and the major part of staff increases in the SPP and Finance clusters are for management of the increased grant activity.

Staff numbers -- Positions	2007	2008	2009	Increase on 2008	% Increase on 2008 Budget	Distribution of Increase		Distribution of 2009 Positions
	Positions Approved	Positions Approved	Positions			Positions	%	
Country Programs	131	154	188	34	22%	34	34%	33%
Strategy, Performance Evaluation & Policy	35	104	140	37	35%	37	37%	25%
Partnerships, Comms & Resource Mob.	60	75	90	15	20%	15	15%	16%
Office of the Executive Director	22	14	15	2	11%	2	2%	3%
Corporate Services	66	85	113	28	33%	28	28%	20%
Finance	13	25	34	9	36%	9	9%	6%
Office of the Chair of the Board	1	1	1	0	0%	0	0%	
Secretariat	327	456	581	125	27%	125	125%	102%
Office of the Inspector General	14	14	19	5	36%	5	5%	3%
	341	470	600	130	28%	130	130%	105%
<i>less: Assumed 30 staff positions not filled</i>			(30)	(30)		(30)		-5%
Total Staff	341	470	570	100	21%	100	100%	100%

(The final allocation of new staff positions will be determined by the Executive Director)

4. In-country oversight: Services of Local Fund Agents for In-country Oversight represent 31% of the total budget increase. This is directly related to increased grant activity in 2009, mainly the assessment of Principal Recipients and verification of first disbursement for the additional grants anticipated to be approved in Rounds 8 and 9. (See Attachment 1, Part 3 for further details).

5. Travel: Travel costs account for 27% of the overall increase and result mainly from the additional grant activity and increased air travel costs.

6. **Professional fees:** The reduction in professional fees reflects the provision in 2008 for costs that will reduce in 2009 in respect of the Five-Year Evaluation and for costs relating to the transfer of staff from the UNJSPF to the Global Fund's own provident fund.

PART 4: BUDGETARY IMPLICATIONS OF OTHER BOARD DECISIONS

1. Proposed decision points other than approval of the annual budget that will be considered by the Board in 2008, have budgetary implications in 2009 as summarised in the table below. In accordance with the Budget Framework, these budgetary implications should, to the extent possible, be funded by the 10% contingency that is additional to the annual budget. Accordingly, if all of these decisions were approved by the Board, the contingency would be utilized to the extent of US\$ 17.5 million.

Source	Decision Point	Number of Staff	Included in the proposed budget US\$'000	To be covered by the budget contingency US\$'000
Pending Board approval by email	Human Resource Policy Framework			6,800
AMFm Ad-Hoc Committee	AMFm Phase 1	9		6,600
PSC DP 5	Global Fund Architecture	8		876
PSC DP 6	National Strategy Applications	12	257	1,782
PC	Quality Assurance Policy for Pharmaceutical Products ("QA Policy")	2		1,245
FAC DP 2	Replenishment Mid-term Review		200	
FAC DP 3	Product and Service Donations			200
	Total:	31	457	17,503

Note: The Human Resources Policy Framework was approved by the Board on 18 October 2008 (by email).

THE GLOBAL FUND PROVIDENT FUND

PART 1: MATTERS CONSIDERED BY THE FAC:

1. The FAC considered the options and recommendations set out in GF/FAC11/04 and reached conclusions as outlined below.

Constitution of the scheme

2. The retirement scheme shall be entitled the "Global Fund Provident Fund" and shall be established as an internal fund within the Global Fund. In line with the current Board decision, the Provident Fund should be a cash balance scheme. The option to transform the scheme into a defined contribution scheme could be discussed in the future.

3. The Provident Fund shall be governed by a Management Board comprised of three elected representatives of the members, pursuant to elections conducted under a procedure established by the Staff Council and three representatives of the Global Fund who shall be appointed by the Executive Director. The Chair shall rotate between each of these two groups.

4. The Secretariat will prepare a draft constitution of the Provident Fund, consistent with the decisions of the FAC, and submit it to the FAC for approval.

Interest rate guarantee

5. The FAC decided that the interest rate guarantee for future contributions and transition credits should be a split rate with the Swiss LPP rate plus 2% on the first slice (on contributions paid on earnings up to CHF 80,000) and the LPP rate on the rest. The LPP rate, which reflects the interest rate guarantee on Swiss pension funds, is a variable rate that is currently 2.75%.

Employer's contribution

6. Currently the employer's contribution to the United Nations Joint Staff Pension Fund (UNJSPF) is 15.8% of Pensionable Remuneration. The FAC decided to set the initial employer's contribution to the Provident Fund at 15.8% of Pensionable Remuneration. The intention is to maintain current staff benefits while establishing practice in operating the Provident Fund.

7. The Secretariat shall submit to the FAC for approval the basis for computation of Pensionable Remuneration.

Transition Credits

8. The Board decided at its Sixteenth Board Meeting to compensate staff for the loss of benefits resulting from the early withdrawal from the UNJSPF. An approximate provision of US\$ 12 million for these "Transition Credits" was included in the 2008 budget. Some of these costs may be subsequently recovered if an exceptional agreement can be reached with the UNJSPF to access a greater amount of the contributions paid into the UNJSPF.

9. The amount on Transition Credits to be paid into the Provident Fund on its establishment will be calculated on a basis that includes the following factors:

- i. In the event that information is not provided by UNJSPF as to the amount of the employer's contribution that is used for costs other than providing pension benefits (i.e. for death-in-service and disability benefits) which is estimated at between 1 and 4 percentage points of the 15.8% contributed by the employer, this amount should be assumed to be 2% for the purposes of computing the Transition Credit.
- ii. Certain staff with many years in the UNJSPF may opt to retain a deferred pension benefit in the UNJSPF. The value of this deferred benefit should be taken into account in computing the transition credit to that staff member. To recognize the risk that this deferred benefit may never be realized, 80% (and not 100%) of the value of the deferred benefit should be taken into account for the purposes of computing the Transition Credit.

10. The Secretariat shall submit to the FAC for approval the conditions for award and basis of computation of Transition Credits.

Exchange rates and interest

11. The Retirement Account of all members of the Provident Fund shall be maintained in Swiss francs and any sums remitted to the Retirement Accounts in other currencies shall be translated to Swiss francs at the foreign exchange rate ruling at the time of receipt.

12. The Global Fund shall credit a staff member's Retirement Account with interest at the LPP rate plus 2% per annum from 1 January 2009 on:

- i. The amount of any withdrawal settlement received by the staff member from the UNJSPF that was requested by the staff member prior to 1 February 2009 (or that was, with the agreement of the Global Fund, requested on a later date) that were remitted to the Provident Fund within fifteen days after receipt of the funds from UNJSPF by the staff member; and
- ii. The amount of any sums transferred by UNJSPF to the Provident Fund in respect of the staff member pursuant to any Transfer Agreement between the UNJSPF and the Global Fund.

Matters remaining to be approved by the FAC

13. The following matters remain to be approved by the FAC:

- i. The Constitution document and Rules of the Global Fund Provident Fund
- ii. The conditions for award and basis of computation of Transition Credits
- iii. The basis of computation of Pensionable Remuneration

The Secretariat will present recommendations to the FAC in respect of each of the foregoing, for approval prior to 31 October 2008.

PART 2: MATTERS APPROVED BY THE FAC

Under the authority delegated to the FAC by the Board, the FAC approved the following on 30 September 2008:

Decision Point of the FAC: Global Fund Provident Fund

The FAC pursuant to the authority delegated by the Board (GF/B17/DP22) decides that:

Constitution of the Global Fund Provident Fund

- 1. The Global Fund Provident Fund (“GFPF”) shall be established as an internal fund within The Global Fund.**
- 2. The Provident Scheme shall be governed by a Management Board comprised of three elected representatives of the members, pursuant to elections conducted under a procedure established by the Staff Council and three representatives of the Global Fund who shall be appointed by the Executive Director. The Chair shall rotate between each of these two groups.**

Award of Transition Credits

- 3. The Secretariat shall continue with its endeavours with the UNJSPF to negotiate a special transfer agreement.**

The Global Fund shall credit members’ retirement accounts with Transition Credits, which shall be calculated on the basis to be approved by the FAC in compensation for early withdrawal from the UNJSPF upon transfer of staff from the UNJSPF to the Global Fund Provident Fund on 1 January 2009.

- 4. If a staff member ceases to be employed by the Global Fund earlier than twelve months after 1 January 2009, the amount of his/her Transition Credit shall be retrospectively reduced by an amount equivalent to one twelfth of the Transition Credit (A), multiplied by the difference between twelve and the number of months following 1 January 2009 during which the staff member was employed by the Global Fund (B). (Where B is not a whole number, it shall be rounded upwards to the next whole number).**

Benefit Structure

- 5. The GFPF shall be a Cash Balance scheme in which the Global Fund guarantees that the interest credited each year to members’ retirement accounts shall be not less than:**
 - i. The Swiss LPP rate plus two percentage points per annum, accrued on amounts corresponding to the first CHF 80,000 of the member’s pensionable remuneration of each year, from 1 January 2009.**
 - ii. The Swiss LPP rate plus two percentage points per annum, accrued on the portion of the member’s Transition Credits, if any, that corresponds to the first CHF 80,000 of the member’s pensionable remuneration during each year of membership in the United Nations Joint Staff Pension Fund prior to joining the GSPF.**
 - iii. The Swiss LPP rate on the remainder of the retirement account balance.**

- 6. The Global Fund shall set the initial employer's contribution rate at 15.8% of Pensionable Remuneration. The intention is to maintain current staff benefits while establishing practice in operating the Provident Fund.**

This decision does not have material budgetary implications other than employer contributions potentially payable in respect of the interest guarantees specified in paragraph 6 above.

GUIDANCE ON LOCATION OF FURTHER INFORMATION

The below table indicates where further information on items dealt with in this report can be found:

All documents listed below are available on the FAC password-protected website:

<http://www.theglobalfund.org/protected/committees/fac/>

Item:	Further information available:
1. 2009 Budget	GF/B18/6 – Attachment 1
2. Mid-term Replenishment Review	GF/FAC11/19
3. Product and Service Donations	GF/FAC11/20
4. Administrative transition – status update	GF/FAC11/01
5. Human Resources Policy Framework	GF/FAC11/02
6. Administrative policies, other than HR Policy	GF/FAC11/03
7. Global Fund Provident Fund	GF/FAC11/04
8. Office of the Inspector General progress report	GF/FAC11/13
9. Update on Resource Mobilization	GF/FAC11/18
10. Forecast of Assets Available for Round 8	GF/FAC11/17
11. Optimizing Investment Returns	GF/FAC11/16
12. Operating Expenses in January-June 2008	GF/FAC11/15
13. AMFm Executive Summary for the FAC	GF/FAC11/21
14. AMFm Co-payment Policy	GF/FAC11/22
15. OIG Report: Managing the risks involved in phasing out the Administrative Services Agreement	