



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Twentieth Board Meeting
Addis Ababa, Ethiopia, 9 - 11 November 2009

GF/B20/6
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 - 30 September 2009 and in subsequent email communications, and its resultant recommendations to the Twentieth Board Meeting.

Annexes to this document:

1. Proposed 2010 Budget for Operating Expenses
2. Proposed Changes to OIG Charter
3. Policy for Disclosure of Reports Issued by the Inspector General
4. Guidance on Location of Further Information

Attachments (separate documents):

1. Further Details on the Proposed 2010 Budget for Operating Expenses
2. Summary of Workload Analysis (Executive Summary and Conclusions)
3. Risk Management Framework
4. Corporate Risk Register

1.1 The FAC reviewed the Secretariat's draft proposed 2010 budget for Operating Expenses (GF/FAC13/08). 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 2010 are:

- (a) Round 9: The negotiation and signing of Round 9 grants and the first wave of National Strategy Applications and the implementation of any special measures associated with their approval, along with completion of Round 8 grants approved in mid-2009.
- (b) Replenishment: The preparation of information and analysis to inform the stakeholder meetings of the Third Replenishment, which will mobilize resources for needs in 2011-2013. In addition to intensified resource mobilization and communication efforts, this work will include analyses of program results, estimation of long-term treatment costs and projection of needs scenarios.
- (c) Grant Architecture: Commencement of transition to the new grant architecture (as and when approved by the Board), including grant consolidation and measures to streamline and ultimately simplify processes for implementers and the Secretariat.
- (d) Grant Information Systems: Launching of a radical upgrade of the information systems that enable grant management processes. As well as supporting implementation of the new grant architecture, the systems re-design will enhance the effectiveness of grant management and ultimately yield operational efficiencies.
- (e) Partnerships: The Secretariat will continue to increasingly support partnerships in implementing countries, as well as consolidating partnerships at the global level and supporting preparations for the Partnership Forum.
- (f) Enhanced oversight and governance: The scaling-up of the Fund's oversight capacity through the Office of the Inspector General will generate parallel activity in teams across the Secretariat in supporting the work of the OIG and implementing its recommendations. Governance and Secretariat reporting activities will be expanded by adding the Market Dynamics Committee.

1.2 Based on these factors, the initial proposed budget for 2010 operating expenses was US\$ 279.2 million, an increase of 11% on the 2009 budget, with a staffing of 605 positions, a 2% increase on 2009.

1.3 The FAC appreciated that the budget had been prepared with an emphasis on efficiencies and restraining increases in the budget. They also noted that the workload analysis, requested at the previous FAC meeting and carried out by independent consultants, showed that (i) the workload estimates underlying the budget were in line with their analysis, other than minor variations and (ii) the size of functional areas in the Secretariat (HR, legal, Finance etc) were in line with other benchmarked organizations (or there were reasonable explanations if they were outside the benchmark range). The FAC also supported the increased budget for the Office of the Inspector General as it plays a key role in providing assurance to the Board and recognized that LFA fees were increasing with the rise in number of grants and additional complexity of their work.

1.4 At the same time, the FAC was concerned that the 2010 budget was still increasing after the large increase in the 2009 budget and asked if the 2009 level of resources could be used more

efficiently to achieve the increasing objectives of 2010. To answer some of these concerns, the Secretariat presented a high-level 3-year (2010-2012) model for the Secretariat budget showing the potential impact of the new architecture changes and further efficiencies that could be derived from an investment in Information Technology systems for the core business of grant management.

1.5 The model shows that the Secretariat expenses, instead of increasing to US\$ 314 million (and 663 staff) by 2012 in line with an increasing number of grants, could be contained at about US\$ 275 million with a staffing complement of no more than 600.

1.6 The FAC welcomed the additional information provided by the 3-year model but recommended that some further efficiencies be sought in the 2010 budget. The budget recommended to the Board is for US\$ 274.0 million and 597 positions. The reduction of US\$ 5.2 million from the initial budget of US\$ 279.2 million results from the removal of the 8 new positions requested by the Secretariat (US\$ 1.4 million), a reduction in the amount allocated to CCM funding (US\$ 1 million), due to the data showing slow utilization of the increased funding provided in 2009, but which still provides an increase over the 2009 budget of US\$ 1 million and a general further efficiency target of 1% (US\$ 2.8 million). The OIG request for 4 additional positions was supported by the FAC. The Secretariat will look at unfilled 2009 posts to try to ensure that priority areas are adequately staffed. However the Secretariat would like to be able to come back to the FAC later if this proves difficult to achieve. The FAC also requested to be regularly updated on the expenses on the Professional Fees budget line. Further details of the budget are provided in Annex 1.

Decision Point 1: 2010 Budget

The Board approves the 2010 Operating Expenses Budget in the amount of US\$ 274.0 million as set out in Annex 1 to the Report of the Finance and Audit Committee (GF/B20/6).

The budgetary implications of this decision amount to US\$ 274.0 million in 2010, which includes an allocation of 4 additional staff positions for the Office of the Inspector General for 2010.

2.1 At the 12th FAC meeting, the Secretariat presented the interim Risk Management Framework, based on a high-level review of corporate risks and a detailed review of the risks and controls within the Portfolio Management System. The Risk Management Framework has now been completed by documenting risks and controls across all key systems of the Global Fund, defining the risk management policy and identifying the high-level corporate risks in the Corporate Risk Register.

2.2 Attachment 3 to this paper, “A Risk Management Framework for the Global Fund to Fight AIDS, Tuberculosis and Malaria” sets out the Framework that FAC is asking the Board to endorse. It covers:

- i The Global Fund’s Mission and Key Corporate Objectives - applying the concept of risk management in terms of the Global Fund’s mission and how that translates into strategic level risks and operational level risks
- ii The Global Fund’s Risk Management Policy - the policy describes the Global Fund’s risk profile and looks at the aspects which determine the organization’s tolerance for risk
- iii The Risk Management Process - how risk management is built into the day-to-day operations of the Global Fund
- iv Applying the Risk Management Framework - how the Framework document itself is used, including the integration of the Accountability Framework.

2.3 Attachment 4 to this paper, “The Corporate Risk Register for the Global Fund to Fight AIDS, Tuberculosis and Malaria” sets out the key corporate risks facing the Global Fund with:

- A description of each risk and its potential consequences;
- An overview of the main controls in place to mitigate the risk and who is responsible for the controls;
- An assessment of the current residual risk (low, medium or high) linked to this item
- Current measure being undertaken to address any residual risks and who is responsible for them;

2.4 The FAC welcomed the completion of the Framework with the understanding that a lot of the detailed work on operational risks and controls (managed at cluster level) is not reflected in the Corporate Risk Register which only deals with higher level corporate risks. To make the link stronger between the Framework and the Corporate Risk Register, the FAC suggested adding an annex to the Framework which groups the risks in the Corporate Risk Register under the headings of the type of strategic risks described in the Framework (ethical, reputational etc) and suggests which Board Committee would take oversight of the risk.

2.5 The Framework mentions the need for the governance structures of the Global Fund (Board and Committees) to be involved in the application of the Framework and the review of the Corporate Risk Register. The FAC discussed how best to ensure this. The FAC would recommend to the Chair and Vice Chair of the Board to discuss the Corporate Risk Register at a retreat of Committee Chairs and vice Chairs and Secretariat senior management.

Decision Point 2: Endorsement of the Risk Management Framework

The Board endorses the Risk Management Framework of the Global Fund as set out in Attachment 3 to the Finance and Audit Committee Report to the Board (GF/B20/6).

This decision does not have material budgetary implications.

FAC Decision: Engagement of the Board in the review of the Corporate Risk Register

To ensure active engagement of the Board in the review of the Corporate Risk Register, the FAC recommends to the Chair and Vice Chair of the Board to have a retreat of Committee Chairs and Vice-Chairs and Secretariat senior management to review, discuss and amend the Corporate Risk Register.

This decision does not have material budgetary implications.

PART 3: OFFICE OF THE INSPECTOR GENERAL (OIG) MATTERS

Decision

3.1 The Inspector General (IG) presented his progress report for the period January to September 2009 and the 2010 workplan and budget. During this period four reports have been released to the Board: Country Audit of Tanzania, review of PR audit arrangements, review of the LFA retendering process and a report on lessons learned from past audits. Reporting is being finalized on a further seven audits and eight more audits are scheduled to be completed before the end of 2009. One audit has been deferred until early 2010.

3.2 The IG also gave an update on ongoing audits and investigations in Mauritania, Zambia and the Philippines. The close cooperation and collaboration with the Secretariat on audits and investigations was appreciated.

3.3 The Chair of the FAC sub-committee for OIG matters welcomed the progress made on establishing a strong Office of the Inspector General which was an important element of the assurance framework for the Board. The Chair particularly highlighted the “Lessons Learned” report as an important document which should be brought to Board members’ attention. The Chair suggested that he will bring this report to the attention of the other Chairs of the Committees and that its findings should be highlighted at the OIG pre-briefing session at the Board meeting.

3.4 The 2010 OIG audit plan and budget was discussed. The IG presented a paper at the meeting explaining the approach to determining the number of country audits per year. If 20 countries are audited each year, the frequency of audits would be every 3-4 years for high risk countries, every 6 years for medium risk countries and every 8 years for low risk countries. The FAC queried if this was sufficient coverage to ensure adequate assurance for the Board and the IG responded that it was the bare minimum required and that each year he would like to revisit, in the light of experience, whether this represented sufficient coverage. Subsequent to the FAC meeting, the Secretariat commented on the approach to the audit plan to the Inspector General. The FAC recommends the following decision point:

Decision Point 3: Approach for Setting the OIG Annual Audit Plan

The Board notes that the approach adopted by the OIG to develop its annual audit plan is an important strategic matter that reflects the Global Fund's risk management policy. The Board approves the approach for setting the annual OIG audit plan as described in Annex C of the OIG Progress Report (GF/B20/14).

This decision does not have material budgetary implications.

3.5 Changes to the OIG Charter and Disclosure Policy were made to respond to the increasing complexity of financial fraud and misappropriation schemes, to ensure the OIG has proper access to documents, to clarify the working relationship between the OIG and the Secretariat and to enable closer collaboration with other partner organizations. The FAC recommends the following decision point:

Decision Point 4: Amendments to the OIG Charter and Disclosure Policy

The Board approves the amendments to the Charter and Terms of Reference of the Office of the Inspector General and the Policy for Disclosure of Reports Issued by the Inspector General as set out in Annexes 2 and 3 of the Report of the Finance and Audit Committee to the Board (GF/B20/6).

This decision does not have material budgetary implications.

3.6 Given the sensitive nature of OIG matters, the FAC decided to clarify the guiding principles and procedures for dealing with confidentiality considerations:

FAC Decision: Principles and Procedure for Confidentiality Considerations - OIG Matters

The Finance and Audit Committee (FAC) endorses the principles and procedure for managing confidentiality considerations relating to the sharing of information and discussion of OIG matters as set out in Annex 3 of GF/FAC13/03.

The FAC requests its Chair to present its approach to the Board Chair and Vice Chair for their input and endorsement. Confidentiality considerations will be a standing agenda item for all FAC meetings involving discussion of OIG matters. The FAC will review the operation of the principles and procedure on a regular basis to ensure that the appropriate balance is struck between informed, open and frank discussion of OIG matters and confidentiality considerations.

This decision does not have material budgetary implications.

PART 4: RESOURCE MOBILIZATION

Decision

(Note: other Resource Mobilization matters which do not require a Board decision are described in Part 8 of this report).

In-Kind Non-Health Product Donations

4.1 At the Eighteenth Board Meeting (GF/B18/DP5) the Board recognized the value of service donations to the Secretariat and to Global Fund grant recipients. The Board therefore requested the Secretariat to develop guidelines for the acceptance of service donations and asked the FAC to oversee the development of these guidelines.

4.2 The revised guidelines on service donations were presented to the FAC and accepted. With regard to acceptance of in-kind donations of non-health products (e.g.: vehicles, computer equipment etc), the Secretariat proposed to start a limited trial of such donations, to report back to the FAC and to bring any recommendations coming out of the trial to the Board.

Decision Point 5: In-Kind Non-Health Product Donations

The Board requests the Secretariat to continue to gather information regarding in-kind donations, in particular research into the donation of non-health products and for this purpose authorizes the Secretariat to undertake the facilitation of donations of non-health products to Global Fund grant recipients on a trial basis. The trials shall be limited to a maximum of three in five countries and will be conducted in line with the guidelines for service donations developed by the Secretariat. Specific attention shall be paid to donations of non-health products by health companies. The Board requests the Secretariat to report to the Finance and Audit Committee, regarding the outcome of the trials, with the aim of making recommendations to the Board, at the Board's second meeting in 2011.

There are no budgetary implications for this decision.

Debt2Health

4.3 The pilot phase of the Debt2Health initiative has been successfully completed with two agreements signed and a third pending signature. These agreements cover debts with a face value of US\$ 146 million, which has raised US\$ 80 million (after discounts) in additional funds for the Global Fund grants. Of this amount, US\$ 22 million has already been received.

4.4 In addition, a further three agreements are being negotiated with a face value of US\$ 93 million and potential to generate additional resources of US\$ 46 million.

4.5 The FAC suggested that the Secretariat's paper should emphasize more prominently the fact that it is reporting on the conclusion of the pilot phase and it is not just a regular update. Also, mindful of the risk that inappropriate debt (e.g.: linked to arms purchases) should not be part of the swap arrangements, the proposed Board decision to approve the expansion of the initiative now mentions the need to perform due diligence on the original purpose of the debt.

4.6 The FAC discussed the idea that debt swaps could be used for countries' co-payment obligations and decided to refer this to the PIC as part of the planned evaluation of the eligibility criteria. It was also mentioned that the Reference Group could be helpful in promoting the Debt2Health initiative.

Board Decision Point 6: Expansion of Debt2Health

The Board notes the progress and positive experience of the pilot phase of the Debt2Health mechanism. The Board decides to incorporate the Debt2Health mechanism as an additional means of resource mobilization for the Global Fund. There will be no limit on the number of creditor and debtor countries that may participate and due diligence on the original purpose of the debt will be undertaken.

The Board authorizes the Secretariat to amend the Global Fund's Policy for Restricted Financial Contributions to allow restricted contributions from implementing countries for counterpart funds under Debt2Health swaps which are attributed at the country level.

The Board requests the Secretariat to report to the Board annually on the implementation of Debt2Health.

There are no material budgetary implications for this decision.

Optimizing Investment Returns

4.7 The working group on Optimizing Investment Returns presented their report to the FAC with the following recommendations:

- 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 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 investment losses);
- v. Up to 10% of the Global Fund portfolio could be allocated to equities; An independent Investment Committee should be set up to oversee and monitor investment performance and application of investment policies; and
- vi. The World Bank should continue as Trustee and manage the fixed-income portfolio as well as hiring and managing external manager(s) for the equity portion of the portfolio.

4.8 The FAC recognized the work of the Working Group but there were still sensitivities around diversifying the portfolio into equities, the arrangements that would be needed to oversee this type of investment and the costs associated with having an investment manager. It was felt that the impact of potential losses on the equity portion of the portfolio could outweigh any benefits from diversifying the portfolio. The FAC also discussed the potential (but limited) reputational risk for the Global Fund when diversifying its portfolio into equities. The proposed decision point and accompanying paper will be circulated to other Board members for review and comment before the FAC makes a decision whether to bring it to the Board or not at the Twentieth Board Meeting.

(Draft) Decision Point 7: Global Fund Investment Policy

The Board endorses the conclusions of the working group on optimizing investment returns as set out in the FAC Report to the Board (GF/B20/6). The Board decides that the primary investment objective of the Global Fund should continue to be that of capital preservation, with a secondary goal of return maximization subject to prudential risk limits and reaffirms the Global Fund's current "risk tolerance" envelope for its investment portfolio, including the associated goal of ensuring a near-negligible probability of cumulative negative returns over a three-year horizon (expressed as no more than a 1 in 100 chance of making a loss over three years). Within these parameters, the Board decides that the Global Fund should expand its existing eligible investment assets to include a limited proportion of publicly listed equities (up to a limit of 10%).

The Board decides to establish an independent investment committee which shall report to the Finance and Audit Committee. The Board requests the Secretariat to propose the composition and terms of reference of the investment committee for approval by the FAC at its meeting in March 2010. The investment committee shall establish guidelines for equity investments, in particular with regard to the risk profile of investments and will establish a list of equity investments which are not permitted. The Board requests the Trustee to hire an investment manager to manage the equities of the Trust Fund, subject to the advice of the investment committee.

The budgetary implications of this decision are estimated at US\$ 450,000 per annum for management of the investments, and costs for investment committee expenses.

PART 5: GLOBAL FUND PROVIDENT FUND

Decision

(Note: Provident Fund matters which are subject to FAC decisions are described in Part 9 of this report).

5.1 The Board delegated the authority to establish the Global Fund Provident Fund (GFPF) to the FAC (GF/B16/DP21 and renewed in GF/B17/DP22).

5.2 With the approval by the FAC of the GFPF Management Board's Charter and the Investment Policy (see Part 9), the establishment phase is now drawing to a close. However the GFPF Management Board advised the FAC that it envisages that the GFPF will evolve to best prepare Global Fund employees for their retirement years. Given the FAC's knowledge of the GFPF and its operations, the GFPF Management Board suggested that it would be efficient and expedient for the FAC to continue being involved in its operations and governance.

5.3 The Secretariat confirmed that FAC-members were covered by liability insurance for the decisions taken at the FAC meetings. The FAC requested to receive in due time the approved minutes of the meetings of the Management Board of the GFPF and its annual accounts.

5.4 Accordingly, the FAC agreed to the suggestion that the FAC seek the Board's delegated authority to continue to oversee matters related to the GFPF.

Decision Point 8: Delegated Authority for the Global Fund Provident Fund

The Board delegates its authority to the Finance and Audit Committee to deal with all matters related to the Global Fund Provident Fund.

This decision does not have material budgetary implications.

PART 6: HEALTH CAMPUS PROJECT

Decision

6.1 The Secretariat has identified an option to rent office space in a building to be developed as part of the Geneva government's plan to build a Health Campus in line with the city's desire to continue being an attractive location for Global Health Initiatives. The Secretariat's current annual rental costs are CHF 11.0 million and the objective would be to reduce these costs. The initial designs would involve the Global Fund being the main tenant for a building with an additional 300 workspaces (based on current staffing). If the additional workspaces were sublet to another organization (GAVI has expressed interest in doing this), the rental costs would be reduced further.

6.2 During negotiations with the prospective developer, the Global Fund would have to consider the risks arising from (i) being liable to a portion of the developers' costs if the Global Fund pulled out of the project during the construction phase and (ii) the disruption to current lease arrangements if the completion of the building was delayed.

6.3 The FAC thought that the project was interesting but needed (i) a more thorough risk assessment and (ii) a firm commitment from GAVI (or another organization) to share the costs of the building on the same terms as the Global Fund.

Decision Point 9: Secretariat Office Space

The Board notes the concepts set out in the Letter of Intent (GF/FAC13/20, Annex 2) to be signed with a property developer, and requests the Secretariat to engage in further negotiations for the construction of a building to be leased by the Secretariat.

The Board notes the importance for the Secretariat to identify a suitable entity that, at the time the Secretariat signs a lease agreement, provides a binding commitment to share the rent for space in this office building, in the case where the building contains more space than what would be necessary to house the Fund at that time. The Board also encourages the Secretariat to minimize the Fund's financial exposure for the costs of the building prior to occupancy, and to provide additional information about interim arrangements between the date of the expiration of the current lease and the expected date of occupancy of the new space.

The Board requests the Finance and Audit Committee to oversee the arrangements for the Secretariat's future office space.

This decision does not have material budgetary implications at this time.

Operating Expenses Review for January - June 2009

7.1 In reviewing Operating Expenses for the first six months of the year, the FAC noted that the total expenditure of US\$ 92.6 million was 37% of the approved budget of US\$ 252.5 million for the whole year.

7.2 Two key factors are evident in the expenditures of the first half of 2009:

- The recruitment backlog from 2008 (that resulted from two periods when recruitment was halted, first to enable transition to WHO's new information systems in mid-2008 and later on transition to the Global Fund's own systems at the end of 2008) has been cleared and inroads made in filling the additional 2009 positions. With additional staff in place, capacity will increase in the remainder of the year.
- The approval of Round 8 grants in multiple tranches, negotiation of mandated budget efficiencies in these grants, and the resultant phased signing of Round 8 has concentrated associated activities into the second half of 2009.

7.3 These factors had a direct impact on the Secretariat expenses (37% of annual budget consumed) and LFA fees (39% of annual budget consumed). In addition, the expenditure on CCM funding was US\$ 1.1 million (annual budget: US\$ 6 million) although it is expected that use of CCM funding will accelerate towards the end of the year. As anticipated, the US\$ 3 million budget for the Transition Credit will be used in the second half of 2009.

7.4 The FAC reviewed Secretariat mid-year performance as measured by the Key Performance Indicators (KPIs) as reported to the Policy and Strategy Committee. Of the 26 KPIs set for 2009, 13 were on or above target; explanations were provided for the under-achievement of two KPIs (see GF/PSC12/09) and nine KPIs were not measured at the mid-year review.

Programmatic and Secretariat Efficiencies in 2009

7.5 Efficiencies in Round 8 (Phase 1): Following the November 2008 Board decision (GF/B18/DP13) to look for efficiency gains on Phase 1 of Round 8 grants, the Secretariat reported that it was following an approach aimed at achieving a 10% overall efficiency saving while avoiding or minimizing reductions in grant performance targets, and ensuring that any group of recipients is not disproportionately affected. The Secretariat has provided a uniform set of guidelines calling on CCMs to first look for potential savings that would not lead to cancellation of activities or reductions of performance targets and only then at additional savings with minimal target reductions. The guidelines suggested the examination of procurement costs, overheads, economies and elimination of overlaps, and the pursuit of funding from other sources. Based on current signed grants and advanced grant negotiations on most Round 8 grants, a conservative estimate is that the overall efficiency gain for Round 8 Phase 1 will be 11.4%. For grants that have already been signed the actual gain is 14%. A review of the portfolio of grants shows that no one region is being particularly disadvantaged - across the eight regions the average gain ranges from 8.9% to 12.4%. Also neither the size nor the disease component of the proposal affects the magnitude of the gain - both small and large grants across the three diseases are showing much the same level of efficiency gains.

7.6 Efficiencies in Phase 2 Renewals: Grants which came up for Phase 2 renewal since the Board decision (totalling US\$ 1,122 million for original Phase 2 proposal amounts) would normally have been expected to have been funded at 85% of this amount (US\$ 954 million) reflecting an average 15% reduction. (This 15% reduction would normally result from performance issues such as under-spending in Phase 1, budget reductions in Phase 2 or non-renewal of grants.) In addition to this normal reduction, since the Eighteenth Board Meeting, efficiency gains of 7.0% (US\$ 67 million on US\$ 954 million) have been achieved across Phase 2 renewals. The target is to show an overall efficiency gain of 10% by the end of 2010.

7.7 Efficiencies in RCC grants: The efficiency gains on grant renewals through RCC are currently US\$ 71 million on original proposal amounts of US\$ 635 million. This is an 11% reduction against the target of 10%.

7.8 Capping of RCC proposal amounts: Applications for the first 3-year period of RCC funding have been capped at 140% of the Phase 2 budget amount (original decision referred to Phase 2 incremental amount but this was subsequently revised by the Board to Phase 2 budget amount). If applicants exceeded the 140% limit in their proposal, the amount applied for was adjusted downwards during clarifications. For proposals that were recommended for funding, the average request was 127% of the Phase 2 budget amount.

7.9 Efficiencies in Secretariat costs: The FAC was informed of the various initiatives that the Secretariat has instigated to strengthen the culture of efficiency in the Secretariat. These initiatives include a target of 10% savings on travel by further limiting business class travel and other measures. The total efficiency savings on travel for the first 8 months of the year is 15%. This efficiency saving is comprised of a 37% reduction of the average price for short haul tickets, (thanks to a more systematic use of restricted air fares and use of low cost airlines) and a 11% reduction in the average ticket price for long haul trips, thereby reaping the benefits of the introduction of the new regulations.

7.10 The FAC welcomed the continuous efforts being undertaken by Secretariat to increase efficiencies and the clear presentation of the progress made so far. The FAC noted that the analysis provides a good basis for implementing the Board Working Group recommendation on a 10% efficiency saving for Round 9 proposals.

Forecast of Assets Available for Grant Approvals

7.11 The FAC reviewed a preliminary forecast of assets available to fund Round 9. The forecast will be finalized once the recommendations of the Working Group on Managing the Tension between Demand and Supply and the TRP recommendations for approval of National Strategy Applications are known.

7.12 The FAC concurred with a recommendation of the Working Group that for the purposes of the Round 9 forecast, temporary funding shortages forecast for a quarter would not restrict approval of grants, provided the shortage is eliminated within a period of four quarters following approval. This concurrence is for this Round specifically and is not intended as a precedent with respect to the future. Funds must still be on hand prior to signature of a grant agreement.

7.13 The forecast will be presented to the Board by the Secretariat in a separate paper.

Overview of Income and Expenditure

7.14 At its 12th Meeting, the FAC was conscious that the audited Financial Statements do not report on the detail of the income from individual donors or on the ultimate use of the grant funds by Principal Recipients (because these are not transactions of the Global Fund itself). It did note that contribution details are regularly updated on the Global Fund website and that Enhanced Financial Reporting (which requires all Principal Recipients to report actual expenditure against budget per grant on an annual basis) was introduced in 2008. The FAC therefore proposed that the Secretariat develop a paper for review by FAC at the 13th FAC meeting that summarizes the various existing oversight and reporting mechanisms for these income and expenditures.

7.15 The paper (GF/FAC13/10) described the recording of contribution agreements with donor governments and foundations as well as contributions from initiatives such as the Product RED campaign, Corporate Champions and Debt2Health.

7.16 The oversight of grant budgets and expenditure is performed at several levels: (1) Country Coordinating Mechanism (CCM); (2) Technical Review Panel (TRP); (3) Local Fund Agent (LFA); (4) the Country Team at the Secretariat; (5) External audit; and (6) Office of the Inspector General (OIG).

7.17 The FAC welcomed the paper as a good overview which drew many elements of oversight together for the first time and suggested that the paper should be made available on the Global Fund website.

PART 8: RESOURCE MOBILIZATION MATTERS

Information

Update on Resource Mobilization

8.1 The Secretariat updated the FAC on resource mobilization matters and on the plan for the Third Voluntary Replenishment.

8.2 Since the Mid-Term Review in Caceres, the focus had been on securing additional contributions from donors. The USA had pledged an additional US\$ 100 million on top of their pledged US\$ 900 million and, together with an additional US\$ 30 million from Italy, this had helped to fund the last tranche of Round 8 grants.

8.3 Despite the current economic climate, the Secretariat was confident that contributions in 2009 will be in the range US\$ 3.3 - 3.4 billion (a moderate increase on 2008) and 2010 expectations are in the range US\$ 3.6 - 3.7 billion based on current pledges and conservative projections.

8.4 The priority of 2010 will be the Third Voluntary Replenishment with a preparatory meeting in the first half of the year and a pledging conference in the second half of the year. The Global Fund has always enjoyed strong support from G8 countries but with the transition to G20 Heads of State meetings, there is a need to engage more strongly with the members of this group. The Secretariat will also look to the Board to engage in the resource mobilization effort with the Vice Chair leading a newly constituted Reference Group of Board Members that will meet for the first time in November 2009.

Investment Fund for Health Initiative

8.5 Building on the lessons learned from RED, the Global Fund Secretariat investigated whether such co-branding with the Global Fund cause could be developed for products in the financial sector, taking into account that the profile of market actors in the financial sector and their investment decisions differ from those in the consumer goods space. In October 2008, the Bill & Melinda Gates Foundation awarded a grant for a feasibility study to the Secretariat to determine whether and how investment products traded on financial markets could generate a sustainable “social return” contribution to the Global Fund.

8.6 The Secretariat provided an update to the FAC on the progress to date with the specific option (Exchange Traded Funds or “ETFs”) that is currently being pursued. Under the model currently envisaged, investors would have the option to purchase the ETF Manager’s standard products through a co-branded platform which guarantees that a portion of the ETF manager’s fee will be contributed to the Global Fund. The ETF manager might pay as much as 20% of their standard management fees to the Global Fund on an annual basis which could generate between US\$ 2 million and US\$ 15 million per annum following a three-year start-up period.

8.7 The FAC discussed whether such initiatives should be brought to the Board for specific approval. Given the potential ethical and reputational risks the FAC recommended that the Secretariat should get external legal advice on any liabilities that may arise from such a venture and that the Ethics Committee should review the final product and choice of ETF manager.

Update on Investment Assets and Portfolio Returns

8.8 The World Bank presented the investment report for the first half of calendar year 2009 and noted that the conservative investment strategy had led to an overall average return on the portfolio of 1.4% (non-annualized, i.e.: it is the actual return for the 6-month period). Investment performance for the Global Fund portfolio over the second quarter was characterized by positive returns across all investment tranches but it is expected that the annual investment return will not fully cover the 2009 operational expenses.

PART 9: TRANSITION TO NEW ADMINISTRATIVE ARRANGEMENTS

Information

Provident Fund Matters

9.1 The FAC considered approval of the proposed changes to the Benefit Rules, the Management Board Charter, and the Investment Policy (as set forth in Annexes 1, 2 and 4 of GF/FAC13/17). The FAC members required more time to fully consider these three matters and to consult within their respective constituencies, noting that the matters were complex and there was not an opportunity prior to the FAC meeting to fully consider the comprehensive and lengthy paper on these matters. One matter which some members queried was the application of the guaranteed investment return to additional contributions (Additional Voluntary Contributions and transfers-in).

(DRAFT) FAC Decision: Amendments to the Global Fund Provident Fund Benefits Rules

Under authority delegated by the Board (GF/B16/DP21 as renewed in GF/B17/DP22), the Finance and Audit Committee approves the amended Global Fund Provident Fund Constitutional Declaration and Benefits Rules as set out in GF/FAC13/17 Annex 1 - Constitutional Declaration and Benefits Rules.

This decision does not have material budgetary implications.

FAC Decision: The Global Fund Provident Fund Management Board Charter

Under authority delegated by the Board (GF/B16/DP21 as renewed in GF/B17/DP22), the Finance and Audit Committee approves the Global Fund Provident Fund Management Board Charter as set out in GF/FAC13/17 Annex 2 - Provident Fund Management Board Charter.

This decision does not have material budgetary implications.

FAC Decision: The Global Fund Provident Fund Investment Policy

Under authority delegated by the Board (GF/B16/DP21 as renewed in GF/B17/DP22), the Finance and Audit Committee approves the Global Fund Provident Fund Investment Policy as set out in GF/FAC13/17 Annex 4 - Provident Fund Investment Policy

On all matters related to the Global Fund Provident Fund Investment Policy, the Finance and Audit Committee may draw on the expertise of external experts and/or the investment committee reporting to Finance and Audit Committee if established by the Board.

This decision does not have material budgetary implications.

UNJSPF Matters

9.2 At its 16th Meeting, the Board had requested the Secretariat to seek a transfer agreement with the United Nations Joint Staff Pension Fund (UNJSPF) following the termination of the Administrative Services Agreement with the World Health Organization. Such a transfer agreement would enable the Global Fund to recover all or part of the contributions the Global Fund had paid to the UNJSPF for the benefit of its staff members that they could otherwise not receive from the UNJSPF. As requested by the Board, the Executive Director and the Chair of the Board had each written to UNJSPF urging them to grant a transfer agreement.

9.3 The FAC noted the decision of the UNJSPF not to grant a transfer agreement on the basis that it did not recognize the Global Fund as an inter-governmental organization. While this decision not to agree to a transfer agreement was not a satisfactory outcome, the FAC concluded that it was

not worthwhile to pursue the matter further at this point. However, the FAC suggests that the Chair of the Board writes to the UNJSPF (and the Executive Director writes to the CEO of the UNJSPF) expressing the Global Fund's disappointment with the UNJSPF Board decision. Such a letter would also include the statement that the Global Fund reserves its rights to pursue this issue further in view of retrieving the funds that the Global Fund has contributed on behalf of its employees and which would have been the subject of a transfer agreement as requested by the Global Fund.

9.4 The FAC approved the replacement of the actuarial table for Transition Credit calculations with the revised table as updated by the advising actuaries and therefore the pension advisors can now proceed to compute the amounts for each entitled staff member.

FAC Decision: UNJSPF Matters

Under authority delegated by the Board (GF/B16/DP21 as renewed in GF/B17/DP22), the Finance and Audit Committee approves the replacement of the table in the Schedule of factors in Part 3, paragraph 3 of GF/FAC11/04 Annex 2 - Transition Credits with the Revised Table (below):

Revised Table		(Previous Table)	
Age	Factor	Age	Factor
20	3.04	20	7.32
21	3.18	21	8.38
22	3.33	22	9.24
23	3.48	23	9.81
24	3.64	24	10.39
25	3.80	25	10.75
26	3.98	26	10.93
27	4.18	27	10.11
28	4.35	28	9.30
29	4.55	29	9.48
30	4.78	30	9.38
31	4.98	31	9.97
32	5.20	32	10.67
33	5.44	33	10.78
34	5.69	34	10.46
35	5.95	35	10.70
36	6.22	36	10.81
37	6.50	37	11.13
38	6.80	38	11.36
39	7.11	39	11.58
40	7.44	40	11.82
41	7.78	41	12.06
42	8.13	42	12.30
43	8.50	43	12.55
44	8.88	44	12.81
45	9.30	45	13.07
46	9.72	46	13.33
47	10.17	47	13.81
48	10.64	48	13.88
49	11.13	49	14.17
50	11.65	50	14.47
51	12.19	51	14.77
52	12.76	52	15.08
53	13.35	53	15.41
54	13.98	54	15.74
55	14.65	55	16.08
56	15.05	56	16.45
57	15.48	57	16.82
58	15.90	58	17.21
59	16.35	59	17.61
60	16.81	60	18.03
61	17.30	61	18.46
62	17.82	62	18.92

This decision does not have budgetary implications in that the amount reserved for Transition Credits in the budget remains adequate.

Amendment of HR regulations

9.5 The FAC approved the amendment of HR regulations concerning the definition of “domestic partner” and parental leave arrangements.

FAC Decision: Definition of “domestic partner”

The Finance and Audit Committee (FAC) approves the definition of ‘domestic partner’ as set out in paragraph 5 of Part 2 of GF/FAC13/18 - Proposed Amendments to the Global Fund HR Regulations which support family friendly practices.

This decision does not have material budgetary implications.

FAC Decision: Parental leave Arrangements

The Finance and Audit Committee approves the amendments to Human Resources Regulation 400 Attendance and Leave (specifically Sections 400.4.3 to 400.5.5) as set out in GF/FAC13/18 - Proposed Amendments to the Global Fund HR Regulations which support family friendly practices, which shall take effect from the date of this decision and will also apply to any staff member on parental leave as of that date.

Based on an effective date of 1 October 2009 of such amendments, the budgetary implications of this decision for 2009 amount to approximately US\$ 80,000 (the Secretariat will strive to absorb this amount in the approved budget for 2009) and to US\$ 197,050 annually thereafter.

PART 10: OTHER FAC MATTERS

Information

Delegation of Authority for Signature of Agreements

10.1 At its Nineteenth Meeting, the Board decided (GF/B19/DP23) to authorize the Executive Director, as necessary and appropriate for the fulfillment of his responsibilities for the day-to-day management of the operations of the Global Fund, to issue proxies to Secretariat staff to execute agreements on behalf of the Global Fund in accordance with the Financial Rules and Regulations. The Board also requested the Executive Director to inform the FAC of his signature authority policy.

10.2 The Secretariat updated the FAC on the implementation of this delegation of authority.

Recommendations of the Partnership Forum

10.3 The Secretariat reviewed the two relevant recommendations from the Partnership Forum and noted that they were being followed up by the Board Working Group on Managing the Tension between Supply and Demand.

FAC Workplan

10.4 The FAC workplan will be updated to reflect the decisions of the FAC meeting and the Twentieth Board meeting and then circulated to FAC members.

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

PROPOSED 2010 BUDGET FOR OPERATING EXPENSES

Contents

Part 1: Factors influencing budgetary needs and constraints in 2010

Part 2: Development of the Budget

Part 3: Overview of the Budget

Part 4: Workload Analysis

In Attachment 1: Further Details (separate document)

Part 1: Cluster Summaries

Part 2: In-Country Oversight

Part 3: Allocation of 2010 budget by Activity

Part 4: Changes from 2009 to 2010

Part 5: Ratios

Part 6: Linking of budget to Key Performance Indicators

Part 7: Three-Year Outlook

Part 8: Investment in grant management systems

Attachment 2: Summary Accenture Workload Analysis (separate document)

Part 1: Factors influencing budgetary needs and constraints in 2010

Context and approach

1.1 In compiling this budget proposal for 2010, the Secretariat is acutely conscious of the prevailing global economic environment and the need to limit operating expenses to the minimum consistent with the effective functioning of the Global Fund. While activity will be increased by the factors indicated below, every effort has been made to contain costs through efficiencies and by absorbing additional work within already high workload levels to the greatest extent possible.

1.2 These efforts and the enduring commitment of staff have allowed the Secretariat to propose a budget for 2010 that has zero growth in Secretariat staffing. Secretariat costs would increase by 5%, comprised of 6% for the whole-year cost in 2010 of staff added during 2009 plus a net 1% decrease in other costs. Expansion of services by the Office of the Inspector General and Local Fund Agents and support to Country Coordinating Mechanisms would bring the overall increase in Operating Expenses to 8.5%.

1.3 Significant factors influencing Secretariat activity in 2010 will include:

- (a) Round 9: The negotiation and signing of Round 9 grants and the first wave of National Strategy Applications and the implementation of any special measures associated with their approval, along with completion of Round 8 grants approved in mid-2009.
- (b) Replenishment: The preparation of information and analysis to inform the stakeholder meetings of the Third Replenishment, which will mobilize resources for needs in 2011-2013. In addition to intensified resource mobilization and communication efforts, this work will include analyses of program results, estimation of long-term treatment costs and projection of needs scenarios.
- (c) Grant Architecture: Commencement of transition to the new grant architecture (as and when approved by the Board), including grant consolidation and measures to streamline and ultimately simplify processes for implementers and the Secretariat.
- (d) Grant Information Systems: Launching of a radical upgrade of the information systems that enable grant management processes. As well as supporting implementation of the new grant architecture, the systems re-design will enhance the effectiveness of grant management and ultimately yield operational efficiencies.
- (e) Partnerships: The Secretariat will continue to increasingly support partnerships in implementing countries, as well as consolidating partnerships at the global level and supporting preparations for the Partnership Forum.
- (f) Enhanced oversight and governance: The scaling-up of the Fund's oversight capacity through the Office of the Inspector General will generate parallel activity in teams across the Secretariat in supporting the work of the OIG and implementing its recommendations. Governance and Secretariat reporting activities will be expanded by adding the Market Dynamics Committee.

1.4 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 2010.

1.5 Cost efficiency: A fundamental principal that has guided the formulation of the 2010 budget is cost efficiency. This guidance of the Executive Director is manifested in the budget as follows:

- (a) Close-to-zero increase: The 5% increase in the budget proposed for the Secretariat represents a net increase of US\$ 9.8 million of which US\$ 10.2 million is simply the whole-year cost in 2010 of additional positions approved for 2009 which were filled for only part of that year.
- (b) Only 4 additional positions are sought for the Office of the Inspector General, representing a 0.7% addition to staff.
- (c) Senior management will forego a salary increase in 2010. Provision has been made for a 2% overall increase for other staff, to include performance and grade re-classifications.
- (d) The budget for travel shows a reduction of 11% on the 2009 budget. This reflects the change in policy that increases the journey duration threshold for business class travel, and a reduction of the number of travel missions. As a result, the average travel cost per employee has been reduced by 22% compared to the 2009 budget.
- (e) The 2010 budget includes provision for the commencement of a 3 year project to transform the information systems that support grant management processes and enable transition to the new grant architecture (as described further in Attachment 1, Part 8). As well as yielding efficiencies, this investment would greatly enhance effectiveness of grant management. It would also allow integration of the grant system with the administrative system implemented in 2008.

Part 2: Development of the 2010 Budget

2.1 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 2010. These are aggregated to form the overall budget.

2.2 The budget development follows an iterative approach that incorporates reviews by the Executive Management Team to guide the process during June through September 2009. The work plan of each team attributes staff and other costs to each activity that will be required in 2010 – a zero-based approach (that does not take the prior-year budget as the starting point).

2.3 The budget reflects assumptions regarding the number and value of new grants that will result from Board approval of Round 9 proposals. Allowing for dual track financing, it is assumed that 170 new grants will result from Round 9 and first wave of National Strategy Applications. The Phase 1 value of these grants with is assumed to total US\$ 2.7 billion and grant renewals are estimated at US\$ 2.2 billion. Allowing for the completion of Round 8 grant signings in 2010, the total grant commitments projected in 2010 is US\$ 5.3 billion. (The corresponding projection for 2009 is US\$ 5.0 billion).

2.4 The proposed budget for 2010 is summarized below (and outlined further in Part 3). At US\$ 274.0 million, the budget reflects a 8.5% increase compared to 2009. A staffing increase of 4 positions is proposed (all in OIG). The budget includes all operating expenses of the Global Fund, being the expenses of the Secretariat (including the Board, its committees, the TERG and the TRP), the Office of the Inspector General, in-country oversight provided by Local Fund Agents and funding to support Country Coordinating Mechanisms.

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).

Table: Summary of proposed budget

US\$ millions	2008	2009	2010	Increase on 2009	% Increase
	Actual	Budget	Budget		
Secretariat	133.7	181.8	191.6	9.8	5%
Office of the Inspector General	2.0	6.7	10.2	3.6	54%
In-country Oversight (LFA fees)	27.1	58.0	68.0	10.0	17%
Funding of CCMs	1.4	6.0	7.0	1.0	17%
Efficiency Target			(2.8)	(2.8)	
Total Operating Expenses	164.2	252.5	274.0	21.5	8.5%

Staff Numbers

in Positions	392	593	597	4	1%
in Full-Time Equivalents	389	532	597	64	12%

2.5 Assuming grant commitments in 2010 of US\$ 5.3 billion (per 2.3 above), the two ratios set by the Budget Framework as a guide for assessing the reasonableness of the budget are computed below. These ratios can be considered further in light of the Workload Analysis.

Budget Framework ratios:	2008	2009	2010	Guide per Framework
	Actual	Budget	Budget	
1. Operating Expenses as % of Total Expenditure	6.6%	4.8%	4.9%	<6%
2. Grant Commitments per Employee (FTE)	\$6.0m	\$9.4m	\$8.9m	<\$8.8m

- Ratio 1, Operating Expenses as a percentage of Total Expenditure, at 4.9% is lower than the Framework guideline ceiling of 6%, suggesting that Operating Expenses are not excessive relative to the magnitude of grant activity.
- Ratio 2, Grant Commitments per employee, indicates US\$ 8.9 million of grant commitments per employee. This is very slightly above the Framework guideline ceiling, suggesting that staffing is within the level appropriate to the value of grant commitments.

2.6 Implications of new Board decisions: The Twentieth Board meeting will consider various recommendations from Board Committees that will be meeting during September 2009. Some of these recommendations may have budgetary implications in 2010, if so decided by the Board. In advance of any such Board decisions being made, the table below illustrates the impact on the 2010 budget if such decisions were to collectively increase the 2010 budget by US\$ 1.1 million (as an illustrative amount).

Illustrative impact on Operating Expenses of any new Board Decisions

US\$ millions	2009	2010	Increase	% Increase
Prior to new Board Decisions	252.5	274.0	21.5	9%
Provision for new Board Decisions -- illustrative*		1.1	1.1	0%
Including provision for new Board Decisions	252.5	275.1	22.6	9%

Operating Expenses as % of Total Expenditure: 4.9%

*Tentative provision for the budgetary implications in 2010 of any new Board Decisions made subsequent to August 2009

Part 3: Overview of the Budget

Composition of the Budget

3.1 The Composition of the budget is summarized in the table below. Further details are contained in the Cluster Summaries in Attachment 1, Part 1, which outline the strategic role of each Cluster, summarize its budget and explain the reasons for significant budget increases.

US\$ millions	2008	2009	2010	Increase on	% Increase
<i><u>By Function</u></i>	Actual	Budget	Budget	2009	
Secretariat Expenses					
Country Programs	22.0	41.3	42.4	1.1	3%
Strategy, Policy & Evaluation	26.4	45.3	45.2	(0.1)	0%
External Relations and Partnerships	18.6	26.8	28.1	1.3	5%
Office of the Executive Director	3.0	3.5	3.3	(0.2)	-6%
Corporate Services	45.1	52.7	62.7	10.0	19%
Finance	5.8	8.7	9.3	0.6	7%
Office of the Chair of the Board	0.8	0.7	0.7	0.0	1%
Transition credits	12.0	3.0	0.0	(3.0)	
Secretariat	133.7	181.8	191.6	9.8	5%
Office of the Inspector General	2.0	6.7	10.2	3.6	54%
Funding of CCMs	1.4	6.0	7.0	1.0	17%
In-country Oversight (LFA fees)	27.1	58.0	68.0	10.0	17%
Total, before contingency	164.2	252.5	276.8	24.3	10%
Efficiency Target			(2.8)	(2.8)	
Total Operating Expenses	164.2	252.5	274.0	21.5	9%

US\$ millions	2008	2009	2010	Increase on	% Increase
<i><u>By Expense Type</u></i>	Actual	Budget	Budget	2009	
Staff	59.7	93.2	106.2	13.1	14%
Professional fees	29.2	42.9	47.3	4.4	10%
Travel	9.6	22.2	19.8	(2.4)	-11%
Meetings	2.8	7.2	7.4	0.2	3%
Communication materials & services	3.6	3.3	3.1	(0.2)	-5%
Office infrastructure	19.5	16.7	18.5	1.7	10%
External co-funding	(0.6)	0.0	(0.5)	(0.5)	
Transition credits	12.0	3.0	0.0	(3.0)	-100%
Secretariat & OIG	135.7	188.5	201.8	13.3	7%
Funding of CCMs	1.4	6.0	7.0	1.0	17%
In-country Oversight (LFA fees)	27.1	58.0	68.0	10.0	17%
Total, before contingency	164.2	252.5	276.8	24.3	10%
Efficiency Target			(2.8)	(2.8)	
Total Operating Expenses	164.2	252.5	274.0	21.5	9%

3.2 Activity based approach: The Secretariat applies activity-based budgeting which requires each team within each cluster to develop its workplan according to the activity framework and to estimate budgetary resources needed for the implementation of each activity (i.e. a zero-based approach). The following table summarizes the allocation of budget across the activity framework. Attachment 1, Part 3 provides further details.

Activity Code	Activity Grouping	% of total	TOTAL	Staffing		Prof. Fees	Travel	Meetings	Communi-cations materials	Office infra-structure	External co-funding	
			US\$m	FTE	US\$m	US\$	US\$m	US\$m	US\$m	US\$m	US\$m	
1000	Special initiatives ⁽¹⁾	13%	25.6	78	13.8	7.2	2.0	2.0	0.7	-	-	
2000	Optimize grant effectiveness	26%	52.2	186	32.1	9.2	8.0	2.1	0.7	-	-	
3000	Performance and Evaluation	9%	18.2	56	10.1	6.3	0.9	0.3	0.2	0.4	-	
4000	Mobilize resources and communicate results	11%	22.7	74	13.3	5.0	2.7	1.0	1.1	0.1	(0.5)	
5000	Ensure a high-performing and efficient Secretariat ⁽²⁾	26%	52.6	116	19.8	12.4	1.7	0.6	0.3	17.8	-	
6000	Facilitate governance	5%	9.1	28	5.0	1.4	1.9	0.7	0.1	0.1	-	
7000	Provide oversight (by OIG)	6%	13.0	35	6.4	5.3	0.8	0.2	0.2	0.1	-	
8000	Build partnerships <i>less: unfilled staff positions</i>	4%	8.6	30 (5)	5.7	0.5	1.8	0.4	0.0	0.0	-	
Total: Secretariat & OIG Operating Expenses			100%	201.8	597	106.2	47.3	19.8	7.4	3.1	18.5	(0.5)

Secretariat: 191.6
Office of the Inspector General: 10.2

(1) Includes strategy & policy, AMFm, gender issues and knowledge management

(2) Includes office rent, facilities and services (including elements of human man resourcesagement, adminstraion and finance)

3.3 The increase of \$21.5 million from 2009 to 2010 is further analyzed in the table below and the reasons behind the significant components of the increase are explained in the paragraphs that follow.

Composition of Budget Increase

US\$ millions	Secretariat	OIG	LFA fees	CCM	Total	% of total increase
Staff costs:						
- Whole-year cost of positions added in 2009	10.2	0.3			10.5	49%
- Additional 12 positions in 2010	(0.1)	0.8			0.7	3%
- Increases for performance and re-grading	2.0	(0.1)			1.9	9%
<i>Sub-total: Staff Costs</i>	12.1	1.0			13.1	61%
Professional fees	1.1	3.3			4.4	20%
Other (mainly office facilities & services)	1.3	(0.1)			1.3	6%
In-country Oversight			10.0		10.0	46%
CCM Funding				1.0	1.0	5%
less: Transition Credits (not applicable in 2010)	(3.0)				(3.0)	-14%
less: Reduction of travel costs	(1.7)	(0.7)			(2.4)	-11%
Efficiency Target	(2.8)				(2.8)	-13%
Net Increase	7.0	3.5	10.0	1.0	21.5	100%
<i>% increase compared to 2009 budget:</i>	<i>5%</i>	<i>54%</i>	<i>17%</i>	<i>17%</i>	<i>10%</i>	

3.4 Staff costs:

- Of the total increase in budget from 2009 to 2010, US\$13.1 million is represented by staff costs. This increase results mainly from incurring in 2010 the whole-year cost of the additional 122 positions approved for 2009. The cost of these positions was included in the 2009 budget for the appropriate portion of that year. The incremental whole-year cost in 2010 is US\$ 10.5 million.
- Recruitment in 2009: At the start of 2009 the Secretariat and OIG had 201 open positions (comprised of 78 positions unfilled in 2008 and 123 new positions approved for 2009). By the

end of August 2009, 115 positions had been filled, representing 58% completion of the recruitment in the first eight months. Recruitment of the remaining 85 positions is at various stages of advertisement, interview, offer and acceptance and it is expected that by the end of 2009 close to 100% of the vacancies will have been successfully filled.

Table: Recruitment in 2009

Staff numbers	2008	2009	2009	2009	2009
-- Positions	Positions Actual	Positions Approved	Positions Recruited	Positions Current	Positions Vacant
Country Programs	125	180	39	164	16
Strategy, Policy & Evaluation	84	148	42	126	22
External Relations & Partnerships	66	88	6	72	16
Office of the Executive Director	12	15	1	13	2
Corporate Services	71	113	23	94	19
Finance	23	34	4	27	7
Office of the Chair of the Board	1	1	-1	0	1
Secretariat	382	579	114	496	83
Office of the Inspector General	11	19	1	12	7
	392	598	116	508	90
less: Positions assumed not filled		-5			-5
Total Staff (positions)	392	593	116	508	85

- (c) Additional positions in 2010: The 4 additional positions sought for 2010 account for US\$ 0.7 million of the increase. The 4 new positions are to strengthen the investigative capacity of the Office of the Inspector General. The distribution of positions by Cluster is summarized in the table below.

Table: Distribution of 2010 positions by Cluster

Staff numbers	2008	2009	2010	Increase on 2009	% Increase	Distribution of Increase		Distribution of 2010 Positions
	Positions Actual	Positions Approved	Positions			Positions	%	
Country Programs	125	180	180	0	0%	0	0%	30%
Strategy, Policy & Evaluation	84	148	148	0	0%	(0.4)	-10%	25%
External Relations & Partnerships	66	88	88	0	0%	0.0	0%	15%
Office of the Executive Director	12	15	16	0.5	3%	0.5	12%	3%
Corporate Services	71	113	113	0	0%	-	0%	19%
Finance	23	34	34	0	0%	-	0%	6%
Office of the Chair of the Board	1	1	1	0	0%	-	0%	0%
Secretariat	382	579	579	0	0%	0	2%	96%
Office of the Inspector General	11	19	23	4	21%	4	98%	4%
	392	598	602	4	1%	4	100%	100%
less: Positions assumed not filled		-5	-5	0		0		
Total Staff (positions)	392	593	597	4	1%	4		

In Full-Time Equivalents for year	532	597	64	12%
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- (d) Salary increases: Provision has been made for a 2% (overall) remuneration increase in 2010, amounting to US\$ 1.9 million, to include performance, grade re-classifications and cost-of-living increase. Senior management will forego an increase in 2010 to emphasize the need for cost efficiencies. Pending development of the performance pay process, the Executive Director, in consultation with management and staff council, will determine the allocation of this provision.

(e) Summary of staff cost increase: The 14% increase in staff costs is comprised as follows (as detailed in the table below):

11% for whole-year cost in 2010 of the positions filled during 2009 (\$10.5m)

1% for additional 4 positions requested for 2010: (\$0.7m)

2% provision for salary increases for cost-of-living, performance and re- grading (\$1.8m)

Table: Composition of Staff Costs increase

OVERALL	No. of Staff	No. of FTE	Budget \$m	Staff Costs	Profess. Fees	Travel & Meetings	Other	Staff Cost per FTE \$k
Budget 2009	598	537	185	93.2	42.9	29.4	20.0	173
Budget 2010	602	602	202	106.2	47.3	27.2	21.1	176
Assumed unfilled			0.0					
Budget 2010	602	602	202	106.2	47.3	27.2	21.1	176
Increase	4	64	16	13.1	4.4	-2.2	1.1	3
Increase %	1%	12%	9%	14%	10%	-8%	5%	2%

Note: 5 positions are assumed to be unfilled in each year

Total Budget (US\$ million)	2009	2010
Per above	185	202
In-country oversight	58	68
Funding of CCMs	6	7
Contingency/ Transition Credits	3	0
Total	253	277

Composition of the staff costs increase		Cost \$k
11%	Whole-year effect of 2009 additions	10'468
1%	Additional positions in 2010	711
2%	Rate and mix increase	1'874
14%		13'053

3.5 In-country oversight:

Services of Local Fund Agents for In-country Oversight represent 46% (US\$ 10 million) of the total budget increase. This 17% increase in budget results mainly from an assumed 18% increase in the number of grants following approval of Round 9 proposals and the application of dual-track financing. Unit costs reflect an expansion of the scope of LFA services and additional complexity. (See Attachment 1, Part 2 for further details).

Table: Summary of LFA costs

LFA service type	Activity Driver	2008 Actual		2009 Budget		2010 Budget	
		#	\$ million	#	\$ million	#	\$ million
Assessments of Principal Recipients	# new grants	86	4.1	146	13.4	157	8.2
Verification of Grant Implementation	# active grants	495	27.9	518	29.7	613	45.8
Phase 2 Renewal Reviews	# Phase 2 reviews	60	1.5	128	3.5	97	3.8
Grant Consolidation Reviews	# grants consolidated	5	0.2	35	1.2	43	0.4
Grant Closure Reviews	# grants closed	-	-	35	0.9	97	1.6
Special services (various)		-	-		3.0		2.6
Independent Data Quality Audits	# grants	8	0.8	20	1.4	20	1.4
PR Surveys and verification of year-end programmatic results	# grants	-	-	518	2.1	613	1.6
LFA review of CCM funding requests	# countries	121	0.5	121	0.5	136	0.6
LFA costs on introduction of new requirements, training and LFA handovers			0.3		2.4		1.9
Total			35.2		58.0		68.0
Average cost per Active Grant			\$71 k		\$112 k		\$111 k

3.6 Professional Fees

Fees for professional services represent 20% (US\$ 4.4 million) of the total budget increase.

- The increase of US\$ 3.3 million for professional services for the Office of the Inspector General will provide additional capacity to undertake audits and investigations.
- The net increase of US\$ 1.1 million for professional services for the Secretariat provides for US\$ 3.3 million of services for commencement of a major upgrade of Information Systems to support grant management, after eliminating activities in the 2009 budget that will not continue in 2010. (See Attachment 1, Part 8)

3.7 Travel

Travel costs have been reduced by 11% of the 2009 budget amount and offset 11% of the overall budget increase in 2010. Travel costs are an area of particular focus for efficiencies and the budget reduction reflects a reduction in travel and a greatly reduced use of business class fares. Given that the number of staff FTEs will increase by 12% compared to 2009 (because those hired in 2009 were active for only part of that year), the real reduction is even greater than 11%: the average travel cost per employee has been reduced by 22% in the 2010 budget as compared to the 2009 budget.

3.8 Transition Credits:

Transition Credits were a one-time provision in the budgets of 2008 (US\$ 12 million) and 2009 (US\$ 3 million) to compensate staff for the loss of value of pension contributions made to the United Nations Joint Staff Pension Fund as a result of having to leave that scheme upon transfer of their employment from WHO to the Global Fund on 1 January 2009. Hence no budgetary provision for this is required in 2010.

3.9 CCM Funding:

CCM Funding has been increased by US \$1 million over 2009 to provide for the expansion of scope of CCM funding as described in the updated Guidelines on the Purpose, Structure and Composition of Country Coordinating Mechanisms and Requirements for Grant Eligibility, as approved at the Nineteenth Board meeting (GF/B19/DP20).

3.10 Three-Year View

An indicative three-year view of the potential evolution of the budget is provided in Attachment 1 Part 7. This indicates a potential levelling-off of Operating Expenses by 2012 as a result grant consolidation following transition to the new grant architecture.

Part 4: Workload Analysis

4.1 As decided by the FAC, the Secretariat commissioned Accenture Development Partnerships (ADP) to undertake an independent workload analysis to provide information and assurance on the reasonableness of the staffing levels reflected in the budget.

4.2 Approach:

- (a) For those processes that are directly related to grant activity volumes – ‘Group A’ (e.g. proposals and new grant signings, grant renewals, grant disbursements and other aspects of grant management, etc.) – the project surveyed the current work effort for the processes contributed by each of the teams involved and compared that to benchmarks for program management processes in other organizations, and the workload assumptions used for the budget.
- (b) For other processes – ‘Group B’ (e.g. HR and IT services, non-grant aspects of Legal and Finance, resource mobilization, facilitation of governance, evaluation and oversight, advisory/support services, etc.) – the project has assessed the Global Fund staffing relative to benchmarks in other organizations that relate the work effort for such processes to core-business metrics.

4.3 Conclusions:

The executive summary of the ADP report forms Attachment 2 to this paper (as a separate file). Its conclusions are summarized as follows:

“The overall conclusion of the project is that the Workload Analysis confirms the validity of the workload assumptions in the 2010 Budget model.

- The results of the as-is workload by The Global Fund staff confirm the validity of the workload assumptions as used; minor adjustments have been suggested to improve accuracy
- Benchmarking confirms that the size of the grant-related workforce is overall in line with peers;
- Benchmarking renders that the HR, IT and Legal functions are sized in line with of peer set, Finance and Resource Mobilization functions are relatively small. Governance, Oversight and the Strategy & Policy functions are relatively large. “

4.4 Link to budget model: The adjustments suggested by the Workload Analysis have been incorporated in the three-year budget model.

PROPOSED CHANGES TO OIG CHARTER

The Global Fund Charter and Terms of Reference for the Office of the Inspector General (Revised ~~October 2007~~ November 2009)

Mission

1. Led by the Inspector General (IG), the mission of the Office of the Inspector General (OIG) is to provide the Global Fund with independent and objective assurance over the design and effectiveness of controls in place to manage the key risks impacting the Global Fund's programs and operations.

Scope of Work

2. The scope of work of the IG encompasses all aspects of the Global Fund's activities including those carried out on its behalf by its programme recipients, partners and suppliers. All systems, processes, operations, functions and activities within the Global Fund are subject to the IG's review, evaluation, and oversight.

Independence and Reporting Lines ~~and Standards of Practice~~

3. The OIG operates as an independent unit of the Global Fund. To preserve its independence, the IG as leader of the OIG, at the IG's instigation, has free right of access to all Board members, in particular the Chair of the Board and the Chair of Finance and Audit Committee (FAC).
4. The IG reports to the Board for strategic direction, reinforcement and accountability. The Board retains all powers relating to the IG's appointment and removal, performance assessment, remuneration, plan of activities and operating budget. The Board will ensure that the resources for the OIG are sufficient to meet the OIG's agreed activities. ~~The IG reports administratively to the~~ The IG and the Executive Director (ED) coordinate and cooperate with regard to the IG's activities, including through the provisions by the ED of administrative support to the IG for assistance in establishing appropriate support and administrative interfaces. The IG may conduct and report on any audit, investigation or other oversight work he or she deems appropriate consistent with the Board's direction.
5. ~~To establish and maintain professional competence, the OIG implements the Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.~~

Activities

6. The activities of the Office of Inspector General are:

Internal audit

1. To conduct audits of internal control processes at the Secretariat and country level including income, non-grant expenditure, internal projects, information and communication, grant application and grant awards, funds disbursement, and risk assessment and risk management processes.

Inspection

2. To conduct unannounced inspections of transactions at the Secretariat and at sites relating to the Global Fund's programs and operations, ~~where permitted under applicable arrangements~~; also monitoring within the Secretariat of sensitive expenditure and transactions, bank accounts, contracts, journal entries and the like.

Counter-fraud

3. To create (a) mechanisms for reporting potential fraud and abuse, ~~and~~ (b) intake procedures to evaluate incoming reports of potential misconduct within Global Fund programs and operations and to oversee the implementation of appropriate protections for Global Fund employees and others reporting concerns as well as those who are the subject of such reports, ~~in accordance with procedures approved by the Board~~; and (c) to develop, provide and maintain capacity to identify the risk of fraud and abuse in accordance with the scope of work.
4. To identify systemic weaknesses providing opportunities for fraud and abuse in the Global Fund's programs and operations and make recommendations to address them.
5. To develop and administer, as resources permit, a training program for the prevention and detection of fraud and abuse within Global Fund programs and operations, and other counter-fraud activities in line with emerging best practice as and when identified and deemed appropriate by the Inspector General.

Investigations

6. To undertake investigations of potential fraud, abuse, misappropriation, corruption and mismanagement (collectively, "fraud and abuse") within the Global Fund and by Principal Recipients ("PRs"), Sub-Recipients, Country Coordinating Mechanisms ("CCMs"), Local Fund Agents ("LFAs"), as well as Suppliers and those with whom Suppliers engage in connection with their activities to implement Global Fund projects, programs or operations, or that receive, have received, or have sought to receive, Global Fund funds, either directly or indirectly, but not limited to, their agents, intermediaries, subcontractors and assignees. Such investigations may be carried out where the programs and projects are, or have been, implemented as well as those locations where evidence and witnesses may be located.

Assurance validation

7. To validate the assurances provided by other assurance providers by directly testing a sample of assurance work such as data quality audits and LFA Verification of Implementation assignments to assess whether the work performed is reliable.

Functional reviews

8. To periodically validate the assurances provided by other assurance providers by establishing whether they are fit for purpose through assessing their purpose and remit, position and organization, process and technology, people and knowledge and performance and communication. (The assurance provided by OIG itself is subject to verification periodically through an independent quality assurance review in accordance

with the IIA standards).

9. To maintain the Global Fund's assurance framework¹ as a means of identifying, coordinating and avoiding gaps or duplication between the activities of all providers of assurance to the Board, Secretariat and others who have a legitimate need for assurance on the Global Fund's activities and performance. Providers of assurance include, in addition to OIG, LFAs, TERG, TRP, and specialist functions within the Secretariat such as Monitoring and Evaluation, Procurement, Finance, or Legal.

Prioritization, planning and reporting

7. The priorities and plans of activity for the OIG are approved by the Board, based on the advice of the IG. In advising on priorities for approval by the Board the IG will consider the level of risk to the Global Fund's programs and operations and take account of *inter alia* the assurance framework, the activities of other assurance providers and the results of their work, the Secretariat's own risk assessment framework and risk mitigation activities, the extent and results of past OIG work, known changes in the Global Fund's activities or risk profile, the views of the Secretariat and concerns raised by them, and any relevant information from other sources such as whistle-blowers.
8. The Inspector General shall prepare an Annual Plan in consultation with the Finance and Audit Committee that targets areas of audit and inspection for the upcoming year. In addition to the Annual Plan, the Inspector General shall retain the authority, independence and flexibility to investigate allegations of fraud and abuse as they arise and otherwise respond to events that occur during the course of the year.
9. The Inspector General shall prepare a report for each Board meeting measuring actual performance against the Annual Plan and summarizing the operations of the Office of Inspector General during the immediately preceding year. The Board Report should be submitted to the Board, through the FAC, with a copy to the Executive Director.
10. All final reports including Board, Assurance and Investigation Reports will be posted on the OIG's public internet site within 3 working days after they are made available to the Board, except where the Inspector General proposes to restrict full public disclosure for a specific report in accordance with the Disclosure Policy for Final OIG reports.

Authority

11. The Inspector General will have the authority to:
 - Access, **inspect, review, retrieve and make copies of** all books and records maintained by the Global Fund and documents (including financial documents and records) maintained
 - **by the Global Fund Secretariat; Access, inspect, review, retrieve and make copies of all books and records (including financial documents and records) relating to grants funded by the Global Fund or the implementation of Global Fund projects, programs and operations,** Access all books and records relating to grants funded by the Global Fund, whether maintained by Principal Recipients, Sub-Recipients, LFAs of LFA subcontractors, **Suppliers or other individuals and entities who are engaged in, or involved in, carrying out or participating in Global Fund funded projects, programs or operations, and those who have received Global**

¹ Once the assurance framework has been approved by the Board.

Fund monies or assets, either directly or indirectly;~~where permitted under applicable arrangements~~

- Seek any information required from any personnel, including those external to the Global Fund Secretariat (i.e. Principal Recipients, Sub-Recipients and Suppliers) involved in the Global Fund's projects and require such personnel to cooperate with any reasonable request made by the Office of Inspector General, including interviews as requested by OIG staff as well as the production of all documents, including originals², deemed relevant by the IG in connection with any audit or investigation, and the reasonable use of facilities and equipment to assist in the investigation; and
- Obtain independent professional advice and secure the involvement in its activities of outside persons with relevant experience and expertise, if and when determined necessary.

The Inspector General may delegate the authority under this paragraph, as the IG deems necessary, to any OIG officer or other person contracted or working under the authorization of the Inspector General.

12. The Office of Inspector General receives a separate budget allocation, as approved by the Board. The Inspector General has authority to approve travel, expenditure, vacation or other requests submitted by his or her staff. The Inspector General's travel, expenditures, vacation and other such actions will be approved administratively by the ED.
13. The IG and staff of the OIG are not authorized to:
 - Perform any operational duties for the Global Fund outside of the OIG;
 - Initiate or approve transactions external to the OIG; or
 - Direct the activities of any Global Fund employee or consultant not employed by the OIG, except to the extent such persons have been appropriately assigned to the OIG or to otherwise assist the OIG staff.

Working Relationships

14. In order to promote efficiency, avoid duplication, and help ensure a productive working environment, positive working relationships should characterize the Inspector General's interactions with the Global Fund Executive Director and the Secretariat's senior management team; the external auditors; LFAs; the Chairman and members of the TERG; the Chairman and members of the TRP; the Chairs of the Board's standing committees; and other Board members. In particular, it is important for the effective and productive functioning of the OIG and the Secretariat that there is cooperation between the IG and the ED, including through a shared understanding of their respective roles and responsibilities, clarifying processes and procedures and coordinating with regard to communication. In addition, if the Inspector General receives information regarding a matter that is outside the scope of the Office of Inspector General's mission but may be relevant to the work of these or other parties, he or she should inform these individuals or entities as appropriate and as promptly as possible.
15. Certain matters that are brought to the attention of the Inspector General may be covered by the Global Fund's Policy on Ethics and Conflict of Interest for Global Fund Institutions and therefore within the mission of the Board's Ethics Committee, either separately or jointly, as a

² When the production of the original is deemed relevant and necessary by the OIG, substituted identical copies may be provided in return by the OIG.

matter may overlap between the two entities. In such cases, the Inspector General should inform and coordinate with the Ethics Committee as appropriate. Correspondingly, the Ethics Committee should inform the Inspector General of matters of which it becomes aware that are relevant to the mandate of the Office of Inspector General and should refer any such matters to the Office of Inspector General for investigation promptly.

Responsibilities

16. The Inspector General will:

1. Provide leadership and strategic oversight to the Office of Inspector General.
2. Manage strategic relationships (e.g. Board, Secretariat, Finance and Audit Committee, Regulators and External Auditors).
3. Keep the Board and, where appropriate, the Executive Director, fully and currently informed of the Office of Inspector General's activities and findings, through the submission of Annual Reports, reports of audits, inspections and investigations.
4. Support the Secretariat in building strong and effective risk awareness and control consciousness. Facilitate continuous improvement of risk management and control processes.
5. Promote the sharing of best practice with regard to risk management and assurance across the Global Fund.
6. Stay current with changes in the development arena and analyze the impact of those changes on the Fund.
7. Develop continuous improvement initiatives of the OIG and ensure that working practices are fit for purpose.
8. Drive broader, value added thinking in the OIG's work to enhance the cost effectiveness of the OIG proposition.
9. Ensure the quality of OIG deliverables is of the highest standard. Install a culture of "no surprises". Report on activities through the year to the Board and its committees and the Secretariat.
10. Pro-actively support the Finance and Audit Committee with regard to OIG matters. Help ensure meetings and agendas are appropriately planned and that the Chairman is fully briefed ahead of each meeting. Ensure issues are escalated to the Board as required.
11. Develop a comprehensive and flexible audit plan that adequately addresses the Fund's risk profile and has no material gaps in coverage. Contribute to the development of a comprehensive audit plan addressing Global Fund risks.
12. Conduct regular liaison with senior Executives to monitor the risk profile of the Fund and ensure the plan reflects any major change in risk profile. Demonstrate innovative ideas to deliver more assurance with available resource.

13. Maintain the highest standard of work and ensure adherence to the Code of Ethics and International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (the IIA standards) and conduct all investigations in accordance with the guidelines of the conference of International Investigators and in line with international best practice. Drive sustainable quality improvements in all areas and be seen as a strong supporter of a Quality Assurance process.
14. Through follow up with the Secretariat, make recommendations and report on whether ~~sure that~~ audit actions are cleared appropriately and in a timely fashion.
15. Provide input to the ongoing professional development of OIG staff and ensure that all staff have high quality development plans in place.
16. Provide opportunities for other qualified Fund resources to be seconded to the OIG to support development of management talent in the Fund. Selectively move people out of the OIG into the ~~business~~ Secretariat, in accordance with their and the ~~business~~ Secretariat ' needs.
17. Direct and schedule resources to complete the audit plan and other ~~projects~~ activities. Coordinate work by external parties, including external auditors, and joint venture audit and investigations teams ~~and regulators~~.
18. Prepare operational and salary budgets for the OIG and monitor expenses relative to budget projections on an ongoing basis. Manage the OIG budget.
19. Represent the Global Fund at conferences and other forums relevant to the OIG's mission.
20. Implement best international practices for the detection, investigation and prevention of fraud and abuse and for fostering an ethical work environment. Provide advice to the Board, its committees, the Executive Director, senior management, staff, consultants, LFAs, PRs and other third parties involved in the Global Fund grant processes, on policy, operational and programmatic measures that will foster institutional integrity and prevent and combat fraud and abuse.
21. Maintain the Global Fund's whistleblowing hotline, and investigate whistleblower complaints and allegations of misconduct consistent with these Terms of Reference.
22. Direct outreach, training and dissemination of lessons learned from investigative results to Global Fund management, staff, LFAs, PRs and other third parties involved in Global Fund grant processes.
23. Foster collaborative relationships with other partner organizations with the aim of learning from each other, encouraging high standards of ethics and integrity and fighting corruption and fraud. For these purposes, the IG is authorized to negotiate and sign memoranda of understanding (MOUs) and other agreements establishing cooperative arrangements with partner organizations on OIG matters.

POLICY FOR DISCLOSURE OF REPORTS ISSUED BY THE INSPECTOR GENERAL

Introduction

1. The Global Fund's policy is to operate in a transparent and accountable manner, as outlined in the Global Fund's Framework Document and its Documents Policy². Consistent with this policy, the Global Fund has determined that, to the maximum extent possible, all final reports of the Office of the Inspector General ("OIG") should be made publicly available. However, as stated in the Global Fund's Documents Policy, the Global Fund also recognizes that there may be exceptional circumstances where legal or practical constraints limit the Global Fund's ability to achieve full transparency if it is to protect the interests of the Global Fund and its stakeholders, the or legitimate interests of whistleblowers, witnesses, staff , and employees cooperating with the Inspector General to address fraud, abuse and other forms of misconduct, and those who deal with the Global Fund, as well as the continuing oversight activities of the Office of the Inspector General for investigations which are pending or are in progress.

2. This policy governs disclosure of all final reports of the OIG, and supersedes the Documents Policy as regards such final OIG reports. However, the Documents Policy will continue to apply to all other OIG work products and other records and all OIG staff will be considered "Fund staff" for the purposes of the Documents Policy.

General Principles

3. Subject to Paragraph 4 and the further provisions below, the OIG will make all final reports issued by the OIG available publicly in full, including:

- Periodic reports prepared by the OIG for the Board and its Committees as specified in the OIG's Charter and Terms of Reference which summarize (on at least an annual basis) the work done, the findings and the assurance provided and progress against plans for the preceding reporting period ("Board Reports");
- Reports that arise from ~~internal~~ audits, inspections, functional reviews and other assurance work at the Secretariat or grant portfolio level ("Assurance Reports"); and
- Reports of investigations carried out by the OIG in response to specific incidents or allegations ("Investigation Reports").

4. In limited circumstances, and for Assurance and Investigation Reports only, the Inspector General has the discretion to make exceptions to full public disclosure when, in the opinion of the Inspector General, in consultation with the Global Fund's legal counsel, full disclosure would:

- a. Cause undue harm to the interest of the Global Fund, its staff or stakeholders, whistleblowers, witnesses or the legitimate interests of those who deal with the Global Fund;

² First approved by the Board at the Third Board Meeting, and subsequently amended at the Fifteenth Board Meeting.

- b. **Expose witnesses and whistleblowers to possible retaliation or other adverse consequence as a result of the public exposure of their cooperation with the Office of the Inspector General, or their report to the OIG of alleged wrongdoing;**
- c. Expose the Global Fund to the risk of legal action by persons named in the report, or others whose identity may be inferred from it, or by government agencies for alleged violation of a criminal or civil statute;
- d. Impede, jeopardize or interfere with other investigations in progress or pending by the OIG, law enforcement or other investigatory authorities;
- e. Be potentially helpful to anyone perpetrating or contemplating unlawful activities against the Global Fund;
- f. Risk alerting anyone involved with serious crimes, such as money laundering or terrorism, that their activities may be known to investigating authorities or under investigation; or
- g. Put the safety or welfare of anyone who is working for, on behalf of, or with the Global Fund at increased risk, **including witnesses and whistleblowers.**

5. This discretion by the Inspector General, which the Board expects him or her to exercise rarely, is subject to additional checks and safeguards (including final authority over determinations on disclosure by the Board) as described in Paragraphs 8-13 below. The Inspector General will advise Board Members, Alternates and relevant Committee Members of the reason(s) for any decision not to provide full disclosure of a report.

6. The OIG will give Board Members, Alternates and relevant Committee Members the opportunity to read each full report that the Inspector General has not publicly released, as described in Paragraph 12 below. The OIG will provide such access on the basis of signed confidentiality undertakings. The confidentiality obligations will prevent public disclosure, but allow the Board Member, Alternate or relevant Committee Member to discuss the general conclusions set forth in the reports with his/her constituency on an “as needed” basis, provided that (i) no information concerning any person referred to in the reports is disclosed, and (ii) recipients of any information are made aware of the reason for the Inspector General’s decision not to release the report, and the potential harm from further disclosure.

Response to public inquiries about investigations

7. The Global Fund Board and Secretariat and those persons who have received information pursuant to paragraph 6 above will not provide any information, confirm or deny or engage in any discussions in response to enquiries by persons external to the Global Fund related to the detail, nature, scope or substance of any investigations contemplated or in progress by the OIG, other than to make a statement in substantially the following form: “The Global Fund will pass on any information received from employees, agents, partners, contractors or others pertinent to or containing information or allegations about fraud or wrongdoing to the Office of the Inspector General for appropriate investigations, the results of which are reported fully to the Board and made public, as appropriate, in due course”.

Disclosure Process

8. The OIG will post all final reports, including Board, Assurance and Investigation Reports, on its public Internet site within three working days after they are made available to the full Board, except when the Inspector General proposes to restrict full public disclosure for a specific report in accordance with this policy (“Restricted Reports”).

9. The OIG will send Restricted Reports to the Global Fund’s legal counsel within three working days after finalization, together with a written submission from the Inspector General that states his/her reasons for wishing to restrict disclosure by reference to the criteria outlined in this disclosure policy and his/her opinion as to whether the report should be made public in an altered form and, if so, the nature of the proposed alterations.

10. The legal counsel will prepare a written response to give his/her opinion on the issue, including whether the report should be made public in an altered form. If this is the case, the legal counsel will also propose appropriate alterations to the report.

11. The Inspector General will consult with the Global Fund’s legal counsel and may modify his/her proposed restrictions based on the legal counsel’s advice. The Inspector General will then submit the Restricted Report, his/her submission, legal counsel’s opinion and (if applicable) the proposed alterations to the report to the Finance and Audit Committee (FAC) for consideration.

12. If the FAC, ~~after full consideration and consultation with the Director-General of the World Health Organization (WHO) as long as the Global Fund is operating under an Administrative Services Agreement (ASA) with WHO~~, determines that the Restricted Report should not be made available to the public (or should only be made available in altered form), the OIG will make appropriate arrangements for the Board Members, Alternates and relevant Committee Members to read the full report, as specified in this policy. The FAC will also prepare an appropriate decision point on the proposed handling of the Restricted Report for consideration by the Board in executive session. If the Board approves the proposal for the report, the Inspector General will not post the full report on the OIG’s Internet site. (If the Board approves a recommendation to disclose an altered form of the report, the Inspector General will post the altered report on the OIG’s Internet site). The OIG will determine if a virtual version of this process will be followed when referral to scheduled FAC and Board meetings would not result in timely consideration of a report that the OIG recommends should be restricted.

13. If the FAC, ~~after full consideration and consultation with the WHO Director-General as long as the Global Fund is operating under an ASA with WHO~~, determines that the OIG should make the Restricted Report available to the public in full, it will refer the matter to the Board Chair and Vice Chair for consideration. If the Board Chair and Vice Chair agree with the FAC’s determination that the Restricted Report should be made available to the public in full, the Board Chair and Vice Chair will instruct the Inspector General to disclose the full report on the OIG’s Internet site. If the Board Chair and Vice Chair disagree with the FAC’s determination or determine that the disclosure of the Restricted Report warrants further consideration by the Board, the matter will be presented to the Board for decision in accordance with the procedure outlined in paragraph 12 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. 2010 Budget (DP1) (and workload analysis)	GF/B20/6 – Attachment 1 GF/FAC13/08
2. Risk Management (DP2)	GF/FAC13/04
3. OIG Matters (DP3 and DP4)	GF/FAC13/02 GF/FAC13/03
4. Resource Mobilization - In-Kind Non-Health Product Donations (DP5) - Debt2Health (DP6) - Optimizing Investment Returns (DP7)	GF/FAC13/11 GF/FAC13/12 GF/FAC13/15
5. Global Fund Provident Fund (DP8)	GF/FAC13/17
6. Health Campus Project (DP9)	GF/FAC13/20
7. Financial matters: - Operating Expense Review January – June 2009 - Programmatic and Secretariat Efficiencies in 2009 - Forecast of Assets Available for Grant Approvals - Overview of Income and Expenditure	GF/FAC13/07 GF/FAC13/06 GF/FAC13/09 GF/FAC13/10
8. Other Resource Mobilization Matters: - Update on Resource Mobilization - Investment Fund For Health Initiative - Update on Investment Assets and Portfolio Returns	(no paper) GF/FAC13/13 GF/FAC13/14
9. Transition to New Administrative Arrangements: - Provident Fund Matters - UNJSPF Matters - Amendment of HR Regulations	GF/FAC13/17 GF/FAC13/16 GF/FAC13/18
10. Other FAC Matters: - Delegation of Authority for Signature of Agreements - Recommendations of the Partnership Forum - FAC Workplan	GF/FAC13/19 (no paper) GF/FAC13/21