



Investing in our future

# The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Twenty-First Board Meeting  
Geneva, Switzerland 28-30 April 2010

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GF/B21/6  
For 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 8 - 10 March 2010 and in subsequent e-mail communications, and its resultant recommendations to the Twenty First Board Meeting.

Matters relating to FAC oversight of the Office of the Inspector General are contained in a separate report.

## **PART 1: INTRODUCTION**

### **1.1 This report contains the following topics**

#### **i. Items for Board decision**

- Reattribution of 2009 Budget (Part 2)
- Employee Remuneration (Part 3)

#### **ii. Items for Board Input**

- Risk Management (Part 4)

#### **iii. Items for information**

- Secretariat Office Space (Part 5)
- Global Fund Provident Fund (Part 6)
- Financial Matters (Part 7)
- Resource Mobilization Matters ( Part 8)
- Other FAC Matters (Part 9)

### **1.2 Annexes to this document**

- Letter of Intent signed with a property developer regarding Secretariat office space
- The Secretariat approach to the 10% efficiency gains in Round 9
- Guidance on location of further information

### **1.3 Attachment (separate document)**

- Overview of Corporate Risks Assigned to Committee Oversight

## **PART 2: REATTRIBUTION OF 2009 BUDGET**

## **Decision**

2.1 The Secretariat requested to carry-forward, from 2009 to 2010, the Affordable Medicines Facility - malaria (AMFm) professional fees budget under-spend in the amount of US\$ 2.85 million. The main part of this under-spend (US\$ 2.02 million) was intended for the contracts for the delivery of services in 2009 relevant to the Independent Evaluation of Phase 1 of the Affordable Medicines Facility-malaria (AMFm); for reasons explained below, this work could not be conducted in 2009 but will be implemented in 2010. The total carry-forward of US\$ 2.85 million for professional fees will fill the expected budget requirement gap in 2010 for the revised scope of the AMFm Phase 1 Independent Evaluation.

2.2 The reasons why the US\$ 2.02 million independent evaluation budget was not spent in 2009 are the following:

- Board decision affecting the timeline of AMFm Phase 1;
- Delay in finalizing the AMFm Phase 1 Monitoring and Evaluation Technical Framework; and
- Time required to ensure due diligence for and cost minimization of the evaluation.

2.3 The FAC understood the need to carry forward this budget item and recommended the following decision point for the Twenty First Board Meeting:

### Decision Point 1: Reattribution of 2009 Budget

*In light of the considerations set out in the Finance and Audit Committee's Report to the Board (GF/B21/06), the Board approves the reattribution of US\$ 2.85 million of the Affordable Medicines Facility - malaria (AMFm) professional fees budget from 2009 to 2010.*

*The budgetary implications of this decision are to reduce the 2009 budget by US\$ 2.85 million and to increase the 2010 budget by the same amount.*

### **PART 3: EMPLOYEE REMUNERATION**

### Decision

3.1 Further to a Board request, the FAC requested the Secretariat to provide a summary of the process followed and principles applied to the establishment of the current Global Fund remuneration system and a copy of the relevant documents. Furthermore, the FAC sought clarification as to the manner in which consistency is ensured in applying the current salary scales and to what extent the process for salary negotiations is streamlined. Finally, the FAC requested the Secretariat to provide input on several issues arising in the context of the threshold salary of CHF 245,000 beyond which the Board has to approve the salary. The paper prepared for the FAC (GF/FAC14/14) also addressed the use of consultants in the Secretariat.

3.2 The paper presented to the FAC described the development of the Human Resources (HR) policies and system for remuneration arising from the transition out of WHO. It also described the system currently in place to ensure that salary reviews and negotiations are performed consistently. With the transition out of WHO and the large recruitment undertaken in 2009 (177 positions), there was evidence of salary inequities across the organization. This is most pronounced in Grades 8 (Unit Director) to 10 (Executive Director) where the analysis showed that more recently recruited staff were on a higher salary than longer-serving members of staff. With large overlaps between salary bands at all levels, there was also evidence of salary inequities in Grades 1 to 7.

3.3 To remedy this problem, the Executive Director has set up a salary review panel to consider potential cases of inequity in Grades 1 to 7. The panel will meet in quarter 2 of 2010 to review individual cases and to recommend salary adjustment decisions to the Executive Director. Any adjustments in Grade 8 and higher will be decided by the Executive Director after considering advice from HR.

3.4 During the FAC discussion, it was clarified that the remedy did not reflect "salary equalization" (i.e.: bringing everyone in a grade up to the highest salary in that grade) but rather "salary equity" (i.e.: looking at individual cases to ensure that staff with equal qualifications, experience and responsibilities are getting a similar salary).

3.5 During an Executive session, the FAC discussed the approval of salaries above the current threshold of CHF 245,000 and, in particular, whether the current system should be changed so that the salary of the Executive Director would always be the highest salary in the organization. The FAC emphasized that there needs to be a clear and robust process for approving salaries above the threshold. Currently, such decisions are taken at full Board meetings. The FAC suggested setting up a "Remuneration Group", composed of the Chair and Vice-Chair of the Board and the Chair and Vice-Chair of the FAC, to approve such salaries in the future. This group would devise a set of criteria against which future staff, whose proposed salary exceeded the threshold, would be assessed. For new employees whose salary is proposed to exceed CHF 245,000, the Executive

Director would prepare a written justification, based on the established criteria, and seek approval from the Remuneration Group. For existing exceptions to the threshold and for existing staff who may exceed the threshold due to a salary increase, the Executive Director will notify the Remuneration Group. The FAC also recommended not to change the current situation regarding the Executive Director's salary, i.e.: the Executive Director has the right to recruit senior executives at a higher salary than his own, if (where the salary exceeds the threshold) the higher salary is approved by the Remuneration Group before signing the employment contract.

3.6 The FAC also considered that the current threshold salary of CHF 245,000 may need to be adjusted at times to correspond to the salary bands adjusted for an increased cost of living or as a result of a market review. The FAC recommends that the Remuneration Group be given the authority to consider and, if appropriate, to make any adjustments to the current threshold salary.

3.7 On the use of consultants, the Secretariat will clarify the rules and policies on hiring consultants and staff transferring their status to consultants (and vice versa).

3.8 The need to assess the quality of all consultants (both paid and pro bono) on a systematic basis was recognized.

3.9 The FAC recommends the following decision point to the Board:

**Decision Point 2: Exceptions to the Salary Threshold**

***The Board delegates its authority to the Chair and Vice Chair of the Board as well as to the Chair and Vice Chair of the Finance and Audit Committee ("Remuneration Group") to approve new staff salaries that exceed the threshold of CHF 245,000 set in the Global Fund Human Resources Policy Framework.***

***The Board also asks the Executive Director to present to the Group the existing exceptions to the threshold and the salaries that exceed the threshold as a result of raises given to staff, based on satisfactory justifications.***

***The threshold may be adjusted by the Remuneration Group, when needed, taking into account the process set out in the Global Fund Human Resources Policy Framework (GF/EDP/08/16 - Annex 1, Section 2.3).***

**This decision has no material budgetary implications.**

**PART 4: RISK MANAGEMENT**

**Input**

4.1 At its Sixteenth Meeting in November 2007, the Board (GF/B16/DP23) requested the Secretariat to develop a Risk Management Framework.

4.2 At its Twentieth Meeting in November 2009, the Board (GF/B20/15) endorsed the Risk Management Framework of the Global Fund (see Attachment 3 to the Report of the Finance and Audit Committee, GF/B20/6).

4.3 The Risk Management Framework 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; and
- iv Applying the Risk Management Framework - how the Framework document itself is used, including the integration of the Accountability Framework.

4.4 The Corporate Risk Register for the Global Fund (see Attachment 4 to the Report of the Finance and Audit Committee, GF/B20/6) sets out the key corporate risks facing the Global Fund with:

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

4.5 To strengthen the link between the Framework and the Corporate Risk Register, an annex to the Framework was created (see Annex 1 of Attachment 1 “Overview of Corporate Risks Assigned to Committee Oversight” of this report), 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.

4.6 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. At the previous Board meeting, the Chair of the FAC had recommended that this engagement and review would be best performed at a retreat of the Committees’ leadership and senior Secretariat staff. However, with the Board retreat in early 2010, there was insufficient time for this additional retreat.

4.7 Therefore separate reports giving an overview of the current status of actions being taken to mitigate these key risks were prepared for the FAC, PSC, PIC and MDC and the Committees were asked for their initial input. A combined paper, summarizing all the risks included in the Corporate Risk Register and the inputs from the Committees, is attached to this report (Attachment 1, “Overview of Corporate Risks Assigned to Committee Oversight”).

4.8 The FAC chair and vice-Chair feel that a meeting of the Committee leadership would still be a useful way of having a holistic view of the many important issues raised by the work on the Corporate Risk Register. The FAC Chair will contact the Committees’ leadership to raise this issue.

## **PART 5: SECRETARIAT OFFICE SPACE**

## **Information**

5.1 The Secretariat 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. This is part of the Swiss government's desire to continue being an attractive location for Global Health Initiatives.

5.2 This opportunity was presented to the FAC at its 13<sup>th</sup> meeting (GF/FAC13/20) and the Board at the Twentieth Board Meeting (GF/B20/DP19). It was agreed that the Secretariat would negotiate a Letter of Intent (Lol) with a property developer. Immediately before the Twentieth Board meeting, the identified property developer withdrew and the Secretariat consequently informed the FAC and the Board.

5.3 The Swiss government has supported the Secretariat through a competitive process run by the FIPOL<sup>1</sup> to identify a new suitable property developer. The Secretariat recommended to the FAC that the Lol with Implenia, the selected property developer, be signed.

5.4 The annual costs of the lease of the building to be developed are estimated to be in the region of CHF 6.6 million as opposed to the CHF 7.5 million included in the previous FAC report (GF/FAC13/20) and it represents a considerable saving on the CHF 11.0 million that the Secretariat currently pay. The CHF 6.6 million annual lease cost is based on a combination of the total cost of the building, and the rate of return for the developer, which are both capped based on 2010 prices.

5.5 The building will be constructed to accommodate 1000 work spaces and the developer has agreed the Secretariat will rent only 700 work spaces with the right of first refusal for some or all of the remainder.

5.6 The Secretariat is also negotiating the Development Contract with Implenia. This Development Contract will cover all stages of work from the architectural contest to the handover of the building and is expected to be finalized shortly. The key elements of this Development Contract are contained in the Lol.

5.7 The Secretariat will request the FAC to review the Development Contract after its 14<sup>th</sup> meeting by email or teleconference and, if deemed acceptable, recommend it to the Board for approval by its Twenty First meeting.

5.8 The Secretariat updated the FAC on the Secretariat's progress, key phases of the project, and risks and mitigation strategies associated with each stage prior to the Secretariat leasing and occupying the spaces in the building. The project risk assessment, requested by the FAC at its 13<sup>th</sup> Meeting, is included in Annex 2 (of FAC paper GF/FAC14/13) and the text of the proposed Lol with the property developer is included in Annex 1 of this report.

5.9 The FAC welcomed the good progress made on the project and the detailed update in the FAC paper, particularly the work done on risk analysis. They requested that the paper be updated to reflect: (i) the estimated costs of moving buildings (e.g.: purchase of any new equipment, overlapping leases for a short period); and (ii) emphasize that if the Secretariat requires less than 700 workspaces by 2015 (the expected moving date), it will make every effort to sublet the additional space to another organization (note: Swiss law expressly allows subletting of commercial space).

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<sup>1</sup> FIPOL: This acronym represents 'Fondation des Immeubles pour les Organisations Internationales', the Building Foundation for International Organizations, which is a joint Swiss federal/cantonal body whose mandate is to assist international organizations like the Global Fund to find suitable accommodation.

5.10 The FAC asked if the option of staying in the current building and renegotiating at the end of the current lease (2013) had been considered as a way of reducing rental costs. This option has been considered but, with the current property market in Geneva where many organizations are looking for limited commercial space, the expectation is that no reduction in rent would be achieved. A contributor to the reduction in the cost to the Global Fund by moving to the building to be developed is the low cost of the land that the Geneva government is making available at a rate that is well below the market rate.

5.11 On the sensitivity analysis of changes to the cost structure of the proposed arrangements, it was noted that either the overall cost of the construction or the expected rate of return of the developer would have to increase significantly before the project became less financially attractive than the cost of the current lease [note - this is commercially sensitive information which we would want to delete before this report is made publicly available].

5.12 Subsequent to the FAC meeting, a few minor changes to the Lol were approved by e-mail. The Lol was signed by the Secretariat on 29 March 2009.

5.13 The FAC approved the following FAC decision point (under the delegation granted by the Board at the Twentieth Board meeting):

**FAC Decision Point: Secretariat Office Space**

***Further to the Board decision (GF/B20/DP19) endorsing the concepts set out in the Letter of Intent presented to the Board at its Twentieth Meeting and requesting the Finance and Audit Committee to oversee the arrangements for the Secretariat's future office space, the Finance and Audit Committee endorses the Letter of Intent to be signed with Implenia (Annex 1 to GF/B21/06) and requests the Executive Director to sign the Letter of Intent.***

**This decision does not have material budgetary implications**

**PART 6: GLOBAL FUND PROVIDENT FUND**

**Information**

6.1 Following feedback from the 13<sup>th</sup> FAC meeting (September 2009) regarding the proposed Additional Voluntary Contribution (AVC) structure, the Management Board of the Global Fund Provident Fund considered an alternate lower cost approach. The proposal presented to the FAC was designed to meet the Secretariat's desire to attract and retain staff without incurring material additional costs. This entails allowing members joining The Global Fund to buy limited past service credits in The Global Fund Provident Fund.

6.2 The proposed Past Service Buy-Back Contributions system would give Members an opportunity to make additional savings for retirement with a guaranteed return of 2.0% each year (and not the Swiss LLP rate + 2 %), increasing with any Surplus Investment Return determined by the Management Board.

6.3 The proposed amount of additional savings is:

- Limited to 10 years worth of retirement savings;
- Reduced for any transfers-in and UNJSPF Transition Credit and Withdrawal Settlement in relation to those staff members who transferred from the World Health Organization to the Global Fund as part of the ASA transition;

- Reduced if the Member is under age 30 and could not have accrued 10 years' service; and
- Stopped by the Management Board if existing members are adversely affected for reasons such as adverse economic circumstances.

6.4 These additional savings must be deposited into an employee's Provident Fund account within his or her first year of Membership of the Provident Fund.

6.5 It was clarified that this was a feature of pension schemes that most organizations would like to offer staff and was not directly related to the transition out of WHO.

6.6 The FAC approved the following decision point:

**FAC Decision Point: Amendment to the Global Fund Provident Fund Benefits Rules**

*Under authority delegated by the Board, the Finance and Audit Committee approves the amended Global Fund Provident Fund Constitutional Declaration and Benefits Rules as set out in GF/FAC14/07 Annex 1 - Constitutional Declaration and Benefits Rules.*

*The Finance and Audit Committee approves the transitional arrangements as set out in the Secretariat's Report to the Finance and Audit Committee on the Global Fund Provident Fund (GF/FAC14/07) for the Past Service Buy Back Benefit Contributions for Members who joined the Provident Fund between 1 January 2009 and the date the amended Global Fund Provident Fund Constitutional Declaration and Benefits Rules come into effect.*

**This decision may have budgetary implications and the Secretariat will endeavor to absorb any such incremental costs by making commensurate savings within the approved budget.**

**PART 7: FINANCIAL MATTERS**

**Information**

**Operating Expenses Review for January - December 2009**

7.1 Operating Expenses in 2009 amounted to US\$ 225.8 million or 89% of the US\$ 252.5 million budget for the whole year. The US\$ 24 million underspend was mainly due to lower expenditure on Staff (US\$ 11.4 million), Travel (US\$ 6.8 million) and Meetings (US\$ 3.8 million).

7.2 The end of year staff count was 569 (2008: 392), 4% less than the 593 budgeted headcount. These vacancies and delays in recruiting staff led to the underspend on staff costs. Travel benefitted from several cost-cutting initiatives and Meetings was underspent due to the cancellation of some meetings.

7.3 Other initiatives on procurement of services, LFA fee negotiations, office space, Information Technology (IT) and telecommunications are making further efficiencies.

7.4 84% (2008: 77%) of KPIs are meeting targets or performing adequately. Areas that need to be improved are Speed of Grant Signing, Speed of Disbursement Processing and Staff Diversity. The FAC emphasized the need to engage with the PSC on KPIs.



7.5 The FAC enquired about exposure to currency fluctuations and whether the Secretariat hedges against such risk. Except for LFA fees, 90% of operating expenses are in Swiss francs but the accounting records are maintained in US dollars as most grants are denominated in this currency (the only other currency used for grants is Euros). Current Board policy is that the Secretariat should not borrow to fund operating expenses or grants and as hedging has an inherent element of borrowing, it is not used at present.

7.6 Concerning travel costs, questions were raised on the use of a corporate travel agency and whether using an internet-based travel booking system would be more efficient. The costs of using the travel agency have been considered during the efficiency review but, to date, the agency was obtaining good prices on flight costs. Also, the need for the agency to provide visa services was much greater now that staff no longer have UNLPs. The Secretariat will look at the possibility of centralizing air miles for corporate use.

7.7 Looking at the analysis of LFA costs and linking it to OIG comments on the extent of the LFA assessment of Principal Recipients, the FAC discussed whether this pointed to potential quality issues and the need to widen the scope of the PR assessment to address systemic issues at the PR level. The FAC leadership will initiate a discussion with the PIC leadership on the issue of LFA quality of services and value-for-money.

7.8 The FAC requested:

- a cost breakdown of meetings held in 2009;
- a short summary of operating expenses ratio for the Board; and
- a focus on finance-related KPIs for the next FAC meeting.

### Programmatic Efficiencies in 2009

7.9 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 13.8%. For grants that have already been signed at the time of the FAC meeting (124 grants) the actual gain is 14.6%. A review of the portfolio of grants shows that across the eight regions the average gain ranges from 6.8% to 21.9%. 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.

7.10 The Board, in its Decision Point GF/B19/DP34 (Geneva, May 2009) recognized that *“prevention of HIV in women and preventing HIV-positive mothers from dying and babies from being infected from HIV is crucial to achieving the goals of universal access and an HIV/AIDS-free generation”* and that *“scaling-up access to and use of effective prevention of mother-to-child transmission (PMTCT) and paediatric care, support and treatment services [...] is a critical component of the Global Fund’s Gender Equality Strategy”*. As a measure to implement this Board Decision, additional efficiencies of US\$ 15.3 million identified during grant negotiations have been reprogrammed to scale-up PMTCT programs in 8 countries (Burundi, Democratic Republic of Congo, Ghana, Gabon, Liberia, Nigeria, Tanzania and Zambia).

7.11 It was noted that in grant negotiations previous to Round 8, efficiencies found during the budget review were usually reinvested in (i) scale-up of targets or (ii) capacity building of the PRs

and the SRs, including technical assistance. The ability to do this has been much reduced (with the exception of the PMTCT example described above).

7.12 It is more difficult to analyze efficiencies by type of implementer (both at PR and SR level) as proposals can cover multiple PRs and often PRs and SRs are not expressly identified in the proposals. The study conducted by OSI and presented at the briefing sessions during the Twentieth Board meeting, highlighted concerns that civil society implementers were being over-penalized by efficiency gains, especially at SR level and for prevention activities. In response, the Secretariat developed a revised approach to implementing the Round 9 efficiency gains (see Annex 2 of this report).

7.13 The Secretariat is currently performing an overview of grant budgets to analyze where Round 8 efficiency gains were made (by cost category and Service Delivery Area). Efficiency gains on Round 9 grants will be reported on a more systematic basis (in the context of the Value For Money framework).

7.14 Efficiencies in Phase 2 Renewals: Grants which came up for Phase 2 renewal since the Board decision (totaling US\$ 1,592 million for original Phase 2 proposal amounts) would normally have been expected to have been funded at 85% of this amount (US\$ 1,353 million) reflecting an average 15% reduction. (This 15% reduction would normally result from performance issues such as underspending 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 7.4% (US\$ 92 million at time of Phase 2 review plus an additional US\$ 8 million during grant negotiations on US\$ 1,353 million) have been achieved across Phase 2 renewals. The target is to show an overall efficiency gain of 10% by the end of 2010.

7.15 The total reductions on Phase 2 amounts are therefore US\$ 331 million, or 21% of the US\$ 1,592 million proposal amounts. It can be more difficult to differentiate between performance-related and efficiency-related reductions when there are delays, underspends and under achievement of targets in Phase 1 couple with proposed budget efficiencies in the Phase 2 budget.

7.16 Efficiencies in RCC grants: The efficiency gains on grant renewals through RCC are currently US\$ 182 million on original proposal amounts of US\$ 1,261 million. This is an 14% reduction against the target of 10%.

7.17 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.

7.18 A summary of the efficiency gains to date is as follows:

Type of Grant	Proposal Amount (US\$ million)	Target efficiency gain %	Target efficiency gain (US\$ million)	Actual efficiency gain %	Actual efficiency gain (US\$ million)
Round 8, Phase 1	2,350	10%	235	14.6%	400
Phase 2, (after 15% performance reduction)	1,353	10%	135	7.4%	100
RCC	1,261	10%	126	14.4%	182
<b>Total</b>	<b>4,964</b>	<b>10%</b>	<b>496</b>	<b>13.7%</b>	<b>682</b>

### Forecast of Assets Available for Grant Approvals

7.19 The FAC reviewed the forecast of assets available to fund Round 10. Based on pledges as currently confirmed and on further pledges anticipated for 2010 only, and taking into account current commitments (before any new rounds), it is expected that there will be US\$ 811 million in uncommitted assets at the end of 2010 and a shortfall of assets of -US\$ 300 million at the end of 2011. As a result, no assets are available for Round 10 to be approved in 2010, based on current and anticipated pledges. Round 10 grants would be signed mainly in 2011 and substantial additional pledges for 2011 are expected to be confirmed before the end of 2010 that would provide funding for Round 10. However, the actual allocation of resources to Round 10 is likely to be clarified in the context of the Third Voluntary Replenishment and take account of contributions expected through 2013 and demand in those years.

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

7.21 In light of the upcoming First Meeting of the Third Voluntary Replenishment, the Secretariat explained some of the assumptions that were used to construct the scenarios from the Replenishment paper entitled "Resource Scenarios 2011-2013".

## PART 8: RESOURCE MOBILIZATION MATTERS

### Information

#### Update on Resource Mobilization

8.1 The Secretariat updated the FAC on resource mobilization matters and on the preparation for the First Meeting of the Third Voluntary Replenishment ("the Replenishment") to be held in The Hague on 24-25 March 2010.

8.2 Despite the current economic climate, contributions in 2009 were US\$ 3.3 billion (a moderate increase on 2008) and 2010 expectations are in the range US\$ 3.3 - 3.6 billion, including AMFm funding of approximately US\$100 million, based on current pledges and conservative projections.

8.3 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 vice-Chair of the Replenishment, supported by the Secretariat, undertook a successful “listening tour” of public sector donors. The objective is to broaden the donor base by identifying new donors and re-engaging former donors.

8.4 Takeda, a major Japanese company, became a new corporate partner pledging Yen 100 million (approximately US\$ 1 million) per year for a period of ten years. The work of the Secretariat’s private sector team and Friends of the Global Fund Japan was recognized for this achievement.

8.5 Product (RED) is expanding with new partners and the United Against Malaria (UAM) initiative (launched at the Twentieth Board Meeting) is generating high corporate-level interest and pledges from companies in Africa.

8.6 The current Debt2Health agreements are on track and new leads are being explored.

8.7 The FAC congratulated the Secretariat on the progress made to date on resource mobilization, and recognized the heavy workload imposed by the replenishment documentation and requested that, for future meetings, the update on resource mobilization be provided as a written paper as members need to provide oversight and report back to their constituencies.

#### **Investment Products to Support the Global Fund**

8.8 The Secretariat provided an update on the “Investment Fund for Health Initiative” presented to the 11<sup>th</sup> Finance and Audit Committee Meeting (29<sup>th</sup> September - 1<sup>st</sup> October 2008) and to the 13<sup>th</sup> Finance and Audit Committee Meeting (29<sup>th</sup> September - 30<sup>th</sup> September 2009). This initiative is supported by a grant from the Bill & Melinda Gates Foundation. As a component of its enhanced resource mobilization strategy, the Global Fund has identified engagement of the private sector as an area of priority for the purposes of increasing and diversifying available resources for fighting the three diseases.

8.9 Accordingly, the proposed resource mobilization approach involved identifying companies participating in the fight against the diseases or contributing to advancements in global health, for inclusion in co-branded indexes developed in partnership with Dow Jones Indexes, one of the world’s leading index providers.

8.10 The co-branded indexes will be developed at no charge to the Global Fund and will serve as a basis for a range of investment products, initially exchange traded funds (ETFs), which will be structured and distributed by interested, select financial institutions. A portion of the proceeds generated from the co-branded indexes and ETFs will be paid to the Global Fund. In this way, the co-branded indexes and related ETFs would enable retail and institutional investors to support the mission of the Global Fund through their existing investment strategies.

8.11 A legal liability risk exists to the extent that an agent or employee of the Global Fund engages in regulated activities such as marketing of ETFs. Specialized legal counsel has been engaged to insulate the Global Fund from this risk by strictly limiting its role to general support of design and development of the product. Careful selection of corporate partners is crucial toward maintaining the Global Fund’s ethical standards and reputation.

8.12 The FAC strongly supported the creation of this product, and discussed their oversight role for such products and the role of the Ethics Committee (the chair of the Ethics Committee joined this part of the FAC meeting by teleconference). The Chair of the Ethics Committee confirmed that he will take this up as an issue with the Ethics Committee. The FAC confirmed that their oversight role should consider the financial and legal issues raised. During implementation of these new products, the Secretariat confirmed that it will review and report on progress in order to update the FAC. In addition, the Director of the Resource Mobilization Unit will arrange a briefing at the upcoming Board Meeting so that there is adequate communication with Board members.

### **Tax-Efficient Private Donations - Establishing a US-Registered Charity**

8.13 The US offers a great number of potential fundraising opportunities to the Global Fund. The overwhelming majority of all private donations to the Global Fund have come from US entities or through US-based partnerships. In addition, in spite of the economic downturn, total charitable giving in the US in 2008 amounted to US\$307 billion.

8.14 In the US, a major incentive for charitable giving by private individuals and corporations is the availability of the charitable tax deduction. The charitable deduction lowers the amount of tax a donor must pay by a percentage of his or her contribution. However, this subsidy for charitable giving is not available for donations to non-US charities.

8.15 To date, the Global Fund has been able to address this obstacle through its fundraising partnership with the United Nations Foundation (UNF). The Global Fund has been extremely grateful for the support of UNF and is committed to continued partnership with UNF. However, this approach to US fundraising involves a number of challenges. For example, a donor may see UNF, and *not the Global Fund*, as the beneficiary charity. The need to explain the relationship with UNF also adds complexity to donor cultivation and management by the Global Fund, and may result in lost fundraising opportunities. In addition, the Global Fund has reached the level of maturity and is launching a number of fundraising initiatives aimed at high net worth individuals that require a more direct relationship with private donors.

8.16 Comparable international organizations, such as UNICEF and WFP, have created organizations in the US for the purpose of providing US donors with the opportunity to receive a tax deduction for their gifts. Based on the success these organizations have experienced and the low costs involved (see below), the Global Fund may significantly enhance its fundraising efforts by creating a new Global Fund-branded US public charity, *the Global Fund US*.

8.17 The Global Fund US would strengthen current fundraising partnerships and campaigns in the US. The organization would also permit the Global Fund to actively pursue new revenue streams for fundraising. The costs of establishing and maintaining this fundraising organization would be minimal because it would receive *pro bono* legal services and would have neither employees nor an office. These costs, estimated to be approximately US\$ 50,000 over a three-year period, are minimal compared to the projected new revenue streams of approximately US\$ 70 million over the same period. After initial set-up, the new US charity would become self-funding, through a negligible administration fee.

8.18 The establishment of a US charity would present minimal reputational or legal risk to the Global Fund. The Global Fund would maintain strong links with the US charity through a variety of channels, such as composition of the Global Fund US Board by partner organizations and a minority of Global Fund directors and officers. Overall, establishing a US public charity provides an effective and efficient tool for achieving the Global Fund's objectives for enhanced US fundraising efforts.

8.19 The FAC supported the proposal and discussed whether a Board decision was necessary in order to set up the US charity. It was noted that from a legal perspective there was nothing specific about the arrangement that made a Board decision necessary and therefore, on balance, it was decided that a Board decision was not required. The FAC noted that it would be necessary to update the US delegation on the process of establishing this new initiative

### **Update on Investment Assets and Portfolio Returns**

8.20 The World Bank presented the investment report for the calendar year 2009 and noted that the conservative investment strategy had led to an overall average return on the portfolio of 2.76%, outperforming the overall Trust Fund Investment Pool, which returned 2.34% over the same period. The 2009 investment return of US\$ 150 million did not fully cover the 2009 operational expenses of US\$ 226 million. However cumulative investment returns from the Trust Fund since 2002 of US\$ 938 million more than cover the cumulative operating expenses since 2002 of US\$ 731 million. Investment returns would need to exceed 5% to cover operating expenses in 2010 which is unlikely to be achieved in the current economic conditions.

8.21 The FAC requested a list of products that make up the Global Fund Trust Fund held by the World Bank.

## **PART 9: OTHER FAC MATTERS**

## **Information**

### **Audit of 2009 Financial Statements**

9.1 As the 14<sup>th</sup> FAC meeting was held a month earlier than usual, the external audit of the 2009 Financial Statements was not yet completed.

9.2 The results of the audit and the recommendation of the Financial Statements to the Board will be made at a special FAC meeting to be held the day before the Twenty First Board Meeting.

### **Accounting Policies**

9.3 In connection with the preparation of the 2009 Financial Statements, the FAC was informed of new accounting policies on deferred revenue and bad debt write-offs.

9.4 The FAC queried whether funds owed by implementers should be recorded as receivables in the Financial Statements.

### **Staff Council**

9.5 Representatives from the Staff Council addressed the FAC on the Council's current work and agreed to send their workplan to the FAC.

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.



LETTER OF INTENT

LETTER OF INTENT

between

The Global Fund To Fight Aids, Tuberculosis and Malaria, Ch. de Blandonnet 8, 1214 Vernier, GE Switzerland (hereafter “the Global Fund”)

on the one hand,

and

Implenia Development SA, Ch. de l’Echo 1, 1213 Onex, GE Switzerland, (hereafter “the Developer”)

on the other hand,

\* \* \*

The signatories to the present letter of intent wish to state the following:

1. The Developer undertakes to study the possibility of constructing a building where the Global Fund would set up its headquarters on plot 1271 of the Commune of the Grand-Saconnex, which the Canton of Geneva undertakes to make available to the Developer on the basis of a leasehold arrangement.

The administrative building to be erected on said plot shall have a capacity corresponding to approximately 1’000 workstations, of which the Global Fund would rent space for 700 workstations.

2. The parties will draft a promise to lease regarding the rental by the Developer, lessor, to the Global Fund, lessee, of the building to be constructed on plot 1271. Following the entry into force of the applicable Area Development Plan (marking the start of Stage 3), the parties will enter into a Conditional and Revocable Promise to Lease. The Global Fund may revoke this Conditional and Revocable Promise to Lease before the start of the construction (Stage 5), subject to the termination provisions of the Development Contract. If the Global Fund does not use its revocation right, an Irrevocable Promise to Lease will be drafted using the terms of the Conditional and Revocable Promise to Lease. The Irrevocable Promise to Lease is to be executed after the deliverance of the definitive building permit and will be replaced by a definitive lease agreement before the handing over of the premises (the "Definitive Lease"). The definitive lease agreement will conform to the provisions of this letter and of the Irrevocable Promise to Lease, and may incorporate any further changes agreed upon by both parties.

The Conditional and Revocable Promise to Lease and the Irrevocable Promise to Lease will conform to the provisions of this letter, the clarifications to the Developer's Bid, the Developer's Bid and the tender ran by the FIPOI and will include in particular the following elements and terms (in case of contradiction or discrepancy between those documents, the documents will prevail in the order indicated above):

- 2.1 Purpose of premises: administrative and office premises, conference rooms, cafeteria and the service facilities typical for this type of construction intended for an international organization.
- 2.2 Duration of the lease: ten years as of the delivery and acceptance of the building; this period will be tacitly extended on five years terms, subject to the same contractual conditions, subject to indexation; during the initial ten year period, the lessee shall not have the right to early termination of the lease other than for reasons provided for under the Swiss Code of Obligations, in particular articles 253 and subsequent.
- 2.3 Notice of termination: 24 months.
- 2.4 Rent: The rent will consist of the following two components:
  - (i) For a maximum final development and construction cost of CHF 115,000,000 (tax excluded), or CHF 124,200,000 (including VAT at 8%), calculated as defined in Point 4 below, the initial annual rent payable by the Global Fund will be, for the first ten year period of no more than 6.1% of gross return over the total development and construction costs for the project corresponding to a maximum annual rent of CHF 4,911,000 (tax excluded TAX) or 5,302,000 (including VAT at 8%). No other charges or taxes will be applied to the calculation of the lease.
  - (ii) The leasehold right due to the Canton of Geneva to the pro-rata of the occupied surfaces of the building, expected to be of CHF 475,000 for the Global Fund premises,

The initial annual rent payable by the Global Fund will therefore amount to 5,384,000 (tax excluded) or 5,777,000 (with VAT at 8%)

To said rent amount will be added ancillary costs and maintenance costs (the "charges") of approximately CHF 45 per square meter and per annum.

The Developer shall exercise full transparency vis-à-vis the Global Fund and shall provide documentary evidence of the development and construction costs for the calculation of the rent, as well as of ancillary costs and maintenance costs used in the calculation of the charges. The Developer will ensure that it acts diligently regarding the costs to be incurred, without compromising the quality of the relevant services.

The rent will be payable in advance each quarter upon submission of an invoice. The Global Fund will remit to the developer a bank guarantee upon first demand covering the rent and ancillary costs for a one year period.

Within three months after the end of the Developer's fiscal year, the Developer shall remit to the Global Fund a statement showing all expenses related to the calculation of the ancillary costs and maintenance costs of the building with their supporting documentation and the amount remaining, for the previous fiscal year.

The Developer acknowledges that the Global Fund is exempt from the payment of taxes, including VAT on the rent payment, pursuant to article 90 of the Federal Law on VAT dated 2 September 1999, and section 9 of the Federal Order dated 29 March 2000 relating to the law on VAT.

The above mentioned rent shall be indexed yearly throughout the duration of the lease and all renewal thereof according to the evolution of the Swiss consumer price index. The reference period will be the date of signature of the Definitive Lease agreement.

- 2.5 The base specifications shall be mutually prepared, in particular by carrying out site visits of buildings of a comparable usage and standing. The designated reference buildings for fit-out quality and design are the current premises in BIBC and the Lancy Innovation Center (Ch. Louis-Hubert 13, Petit Lancy, GE).
- 2.6 The maintenance of the shell of the building shall be the responsibility of the Developer, as well as the maintenance of the technical installations, the floors, the ceilings and the walls.

The Global Fund shall be responsible for:

- The maintenance of all the other elements of the building, in particular minor maintenance works, caretaking and cleaning fees as well as the upkeep of all the Global Fund's own installations.
- The maintenance of all installations and parts of the building not mentioned in the first paragraph of point 2.6.

The maintenance obligations thus undertaken by the Global Fund have been taken into account in the determination of the rent as defined here above at point 2.4.

- 2.7 The Developer shall insure the building and other works with sufficient insurance cover against fire damage and against all risks relating to the civil liability of the owner of the building. The Global Fund will in turn insure all risks relating to its use of the building and any potential interruption thereof. The Irrevocable Promise to Lease shall set out in greater detail, and in accordance with the practice in Switzerland and in Geneva, the insurance policies which are to be borne by each of the parties, both lessor and lessee.
- 2.8 Sub-letting, transfer of the lease and early restitution of the premises shall be allowed within the limits set out in the Swiss Code des Obligations, in particular articles 262, 263 and 264 CO.
- 2.9 In the event of a sale of the building, the Developer will ensure that the lease is taken over by the purchaser.

In the event space in the building is not covered by the Irrevocable Promise to Lease or becomes vacant at any time, the Global Fund will be offered a right of first refusal on the lease of such space to a third-party, under terms identical to the Definitive Lease. The Global Fund will be given a delay of no less than 2 months to exercise its right of first refusal following a request by the Developer.

The Developer will not take any action leading to Global Fund having to exert its right of first refusal before end of Stage 3 Request for construction permit.

The Developer will defer to the FIPOI in the selection of other tenants for the building, in accordance with the terms of the leasehold agreement.

Should FIPOI or the Global Fund suggest a solvent and serious tenant for the remaining surfaces, the fee associated with "Marketing of the remaining surfaces" mentioned in Point 4 below will be waived by the Developer.

- 2.10 Upon expiry of the lease, all fixed installations, financed by the Global Fund, shall be owned by the Developer, without any indemnity being payable by the latter.
  - 2.11 The lease shall be interpreted in accordance with Swiss law, in particular articles 253 and ss CO.
3. As soon as this letter of intent is signed by both parties, the parties will draft an agreement setting out the procedure to be followed for the design studies and construction of the building (the "Development Contract"). The Development Contract will conform to the provisions of this letter, the clarifications to the Developer's Bid, the Developer's Bid and the tender ran by the FIPOI (in case of contradiction or discrepancy between those documents, the documents will prevail in the order indicated above). This Development Contract may be only executed i) by the Global Fund following approval of its terms by its Board of directors and ii) by the Developer following approval of its terms by its Investment Committee. This Development Contract will include in particular the following elements and terms:
- 3.1 The Development Contract will define further the implementation of the provisions contained in this Point 3, in accordance with such provisions that prevail.
  - 3.2 It will also guarantee the involvement and input of the Global Fund in high-level project management as well as state adequate procedures and terms for change management regarding Global Fund requirements.
  - 3.3 The Global Fund will have the right to terminate freely, without cause, without having to give any justification and unilaterally the Development Contract at any time until the signature of the Irrevocable Promise to Lease.

In case of such termination of the Development Contract, liability of the Global Fund will be limited in any circumstances to the lower of the two following amounts: (i) the costs outlined in Point 4 below for Stages 1 to 4, (ii) the actual financial loss incurred by the Developer following termination. If the building is built following the Global Fund's termination, the Developer will be deemed not to have incurred any prejudice. In any circumstances, the amount of damages may not exceed the costs outlined in Point 4 below for Stages 1 to 4 depending on the Stage at which the

Global Fund notified its decision to terminate the Development Contract. For example, if this decision is notified at the end of Stage 2, the maximum amount of damages is only the costs for Stage 1 and 2. The Developer will have no right to any additional damages, notably will not have any claim for loss of profit.

The Global Fund has also the right to terminate the Development Contract for cause. In this hypothesis, the Developer has no right to any indemnity or damages.

3.4 The design studies and construction of the building will follow the Stages set outlined in points 1 to 6 below:

3.4.1. “Architecture competition and verification of costs” (Stage 1).

The Global Fund will participate in the preparation of the specifications and will sit on the jury. The Developer and the Global Fund will define together the maximum cost envelope of the project before starting the competition. The project submitted by participating architects will be assessed on their respective costs by a construction economist appointed by the two parties by mutual agreement.

3.4.2. “Area Development Plan and impact study” (Stage 2).

The impact study shall clarify the project with regard to traffic/mobility, access to the plot, parking, as well as matters relating to energy use, sustainable development and local support to the community.

The Area Development Plan will in particular specify the allowable volumes and the exterior dimensions, the gross surfaces, their allocation, relations with neighbors, any issues relating to easements, existing and future tree cover, energy efficiency requirements and the applicable construction regulations.

The Global Fund will be informed in advance of nature of the Area Development Plan and the impact study projects.

Signature of the Conditional and Revocable Promise to Lease following approval of the Area Development Plan.

3.4.3. “Request for construction permit” (Stage 3).

This stage will consist of the drafting and filing of the request for the building permit and ensure the follow-up throughout the administrative process, including any potential protests by third-parties.

During the preparation of the request for the building permit, the Global Fund and the Developer will complete and finalize the program and the specifications, as well as the costing, in relation with the winning architecture project. It will appoint a representative to supervise the process.

Once the request for the building permit has been filed, the representative of the Global Fund will be kept informed of the progress of the process.

In parallel, the Developer shall conduct a tender for an investment partner, subject to the terms of Points 2.4 above and Point 6 below.

The Global Fund will be closely associated with the rest of the process and, to this end, will designate a representative to follow the progress of the project.

#### 3.4.4. “Tenders and preparation of the work plans” (Stage 4).

Signature of the Irrevocable Promise to Lease following delivery of the Building Permit, based on the final costing by the developer, notably the construction and development costs.

This stage shall consist of the preparation of the relevant tenders and to preparation of the final plans. The Developer may however use the general contractor of its choice provided the financial terms of this Letter are abided to. The general contractor will use an open and transparent tendering and procurement process for its sub-contractors. The Global Fund shall be associated with the process, in particular the choice of the successful bidders, and the finalization of the program and the specifications of the winning project. The representative of the Global Fund shall be associated with the works.

#### 3.4.5. “Construction” (Stage 5).

This stage regards the actual construction of the building.

The Global Fund shall be regularly informed of the progress of the works. It will participate in site meetings.

#### 3.4.6. Handing over of the premises (Stage 6).

Once completed and accepted by the Global Fund, the premises shall be handed over to the Global Fund after the drafting and the signing of the Definitive Lease and the payment of the first annual rent.

### 4. Development and construction costs

Development costs are understood to include developer’s fees and state fees related to administrative formalities. Construction costs are understood to include building cost and building fees related to the third party experts retained by the developer to assist in the development and construction.

The maximum development and construction costs are to be understood as including all services and all authorizations, certifications, fees, levies, charges or taxes required to design and construct the building in accordance to the most recent regulations, norms and directives applicable to the works, including all connections to utility networks (road transportation, water, electricity, fiber optics and telecommunications, heating and cooling (GLN water connection), etc.) required to have the building fully functional and operational at the time of hand over of the premises.

The development costs incurred prior to the Stage 5 Construction and used as a basis for the calculation of the rents will be no more than the amounts listed below for each completed stage:

Stage 1 “Architecture competition and verification of costs”: CHF 500,000 (inc. tax)

Stage 2 “Area Development Plan and impact study”: CHF 100,000 (inc. tax)

Stage 3 “Request for construction permit”: CHF 1,400,000 (inc. tax)

Overall development costs, including state and development fees, will be fixed to lump sum amounts based on construction costs estimates.

The maximum final costs associated with the construction of the construction and development of the building are summarized in the table below; the fees breakdowns being indicative figures. Fees are calculated as a percentage of those construction costs:

	(all figures w/o VAT)	% of Building Cost
<b>Building Cost</b>		
Construction cost	70'817'248	
Fit out Cost	Included	
Contingency	2'086'000	
Roads and exterior design	2'236'260	
<b>Sub-total Building Cost</b>	<b>75'139'508</b>	<b>100.00%</b>
<b>State Fees</b>		
Public administration fee and connecting charges	1'718'500	
Land improvement contribution	1'125'000	
<b>Sub-total State fee</b>	<b>2'843'500</b>	<b>3.78%</b>
<b>Building Fee</b>		
Architect Fee	Included	
Civil Engineer fee	Included	
HVAC & Mechanical Engineer Fee	Included	
Electrical Engineer Fee	Included	
Physic, Security Specialist Fee	Included	
Engineering cost	Included	
General Contractor Fee	Included	
Risk & Benefits General contractor	Included	
<b>Sub-total Building Fee</b>	<b>16'530'692</b>	<b>22.00%</b>
<b>Development Cost</b>		
Land Property transfer taxes	542'000	0.72%
Registration fee	916'700	1.22%
PLQ fees + Environmental Assessment + Competition (Lump Sum)	557'600	
Financial Fee	4'115'000	5.48%

Holding cost of 2 years land lease rent during site work	1'355'000	1.80%
Developer fee (Lump Sum)	2'300'000	
<b>Sub-total Developer Cost</b>	<b>9'786'300</b>	<b>13.02%</b>
<b>Marketing &amp; sales fee + Risk &amp; Benefits</b>	<b>10'650'000</b>	<b>14.17%</b>
Risks and benefits (Lump Sum)	9'500'000	
Marketing of the remaining surfaces	1'150'000	1.53%
<b>Total Investment Cost</b>	<b>114'950'000</b>	<b>152.98%</b>
	<i>(w/ VAT 8%)</i>	<b>124,200,000</b>

5. Each of the stages mentioned here above, from 1 to 6 will be financed by the Developer: their costs being reflected in the rent, except for costs relating to the preliminary studies and site supervision which are internal to the Developer and the Global Fund.

The corresponding costs shall be justified by the Developer with documentary evidence. The Developer shall exempt the Global Fund from the reimbursement of expenses that may otherwise be covered by third parties.

In the event of a mutual agreement to terminate the project, the parties shall support equal shares of the costs incurred to date, and both will keep their rights in relation with the product of their work.

Changes to the estimated construction costs may be indexed following the evolution of the Swiss construction price index, using as a reference the year 2009. The Global Fund may immediately terminate the Development Contract and the Irrevocable Promise to Lease without prejudice if the construction costs increase by more than what is allowed the fluctuation of the Swiss construction price index.

6. The Developer commits to manage the process, including all related documentation, diligently and to undertake all efforts so that said file be completed in the shortest timeframe. In particular, the Developer will ensure that its agents and the general contractor comply with the deadlines for performance of the works.

The duration of the process will however depend upon administrative decisions and third party interventions. As a consequence, and only with respect to the delays that could be associated with those administrative processes or third-party interventions, at this stage the Developer makes no undertaking regarding the deadline within which the building will be completed.

The Developer will use an open and transparent process with regard to selecting investment partner(s) to finance the development and/or construction of the building. The Global Fund shall be associated with the process, in particular the selection of the successful investor(s). Should the terms of the financing be more advantageous to the Global Fund than the rates stipulated in Point 2.4 above, the resulting savings will be shared evenly between the Developer and the Global Fund through a split in the rent amount during the first three years of the applicable financing term, or on the basis of another mutually acceptable arrangement stipulating an even split.



Should the terms of the financing be less advantageous to the Global Fund than the rates stipulated in Point 2.4 above, the Global Fund may terminate all agreements entered into with the Developer without compensation to the developer; the Global Fund may also accept revised financing terms and continue with the project.

7. In the event of a dispute relating to the pre-contractual and/or contractual relations between the parties, said parties shall use their best endeavors to reach an agreement through mediation. Should the parties fail to come to a an agreement, such dispute shall be submitted to arbitration, in accordance with the UNCITRAL Arbitration Rules (United Nations Commission on International Trade Law Arbitration Rules) currently in force. Any award shall be final and shall not be subject to appeal. The seat of the arbitral tribunal shall be in Geneva. The language of the arbitration shall be English. Each party shall appoint an arbitrator. The arbitrators so appointed shall appoint the chairperson of the arbitral tribunal. The appointment authority shall be the International Chamber of Commerce International Court of Arbitration.
8. No provision of the present letter of intent or the contracts and the lease which are mentioned therein may be interpreted as constituting a waiver or renunciation of the privileges, immunities and facilities enjoyed by the Global Fund.
9. The present letter of intent does not constitute a final agreement between the parties. Its scope is only pre-contractual, the parties undertake to follow the process with diligence and to immediately inform the other party of any event of such nature as to substantially modify their willingness to pursue the project or which would lead the party to abandon the project.

The parties shall draft and execute the agreements referred to in Points 2 and 3, respectively the Conditional and Revocable Promise to Lease and the Development Contract.

No indemnity shall be due in a situation where the present letter of intent should not result in the signing of a Conditional and Revocable Promise to Lease and a Development Contract for the procedures to be followed and the rights and obligations of the parties prior to the receipt of the building.

Signed in Geneva by authorized representatives of the parties, in two original copies, on the .....

The Global Fund

Developer

## The Secretariat approach to the 10% Efficiency Gains in Round 9 November 10, 2009

### I. Background and issues

In November 2008 the Board approved proposals for a total of \$3.06 billion, with only \$2.75 billion in available funding; the Secretariat was asked to identify 10% of the total (or \$306 million) in “efficiency gains” - i.e. savings which, to the extent possible, would not affect targets.

The Board further decided that grants “shall collectively be subject” to this 10% adjustment - meaning that rather than applying a 10% cut to each individual grant, the Secretariat needed to develop an approach that would allow it to reach, in the most relevant way, an overall gain of 10% across the portfolio.

This was no small request. While LFAs and the Secretariat always work with Principal Recipients to critically review budgets, never before had the Global Fund undertaken to revise budgets in such a systematic way, and engaging in such detailed budget discussions with partners and PRs.

A year later, the Secretariat has reached overall efficiency gains of 11.4% (figure as of September 2009) with the vast majority of gains reaching between 8 and 12% per grant.

While there is no doubt that the Secretariat has delivered on the Board’s request for 10% in efficiency gains across the Round 8 portfolio, it has been acknowledged by the Secretariat that the process of reaching these gains has been more painful than it could have been, and that the Secretariat could improve its approach to the efficiency gains required under Round 9. The main issues with the Secretariat approach in Round 8 have included:

1. Somewhat delayed communication to countries on how to approach the identification of efficiency gains (letters sent to countries on Dec. 16 2008, and Q&A put on the Global Fund’s website six weeks after the Board decision);
2. Unclear guidelines, in particular around:
  - The percentage of gains that each grant should reach;
  - The way in which TRP clarifications should be included in the efficiency gains;
  - Lack of clarity around issues of equity, with some grants allowed to show gains of less than 10% without clear explanations or criteria on how the final figures were reached.
3. Countries, not knowing what to expect in terms of efficiency gains, were unlikely to submit a first budget which would meet the Global Fund’s requirements;
4. As a result, Round 8 saw multiple budget-related iterations between the LFA, the PR, and the Secretariat, delaying grant signing in some cases by several weeks;

5. This was compounded by a lack of consistency within the Secretariat, with different actors (different staff members, different Clusters) taking different approaches to the negotiations of efficiencies - in particular when deciding whether gains should be reached through a flat cut across grants or through a more tailor-made approach;
6. The Global Fund did not sufficiently define the way in which efficiency gains should be balanced between reductions in PR and SR budgets;
7. Some lack of clarity existed on roles and responsibilities between the Secretariat and LFAs in reviewing efficiency gains;
8. Finally, the approach caused a lack of overall visibility: because grants are signed over time, any signature with less than 10% in savings increases the percentage of cuts on yet-to-be-signed grants.

## II. Broad principles of the approach to efficiency gains under Round 9:

In order to avoid these issues in Round 9, the Secretariat's approach to efficiency gains is guided by four broad priorities:

1. To deliver without fail on the Board-mandated efficiency gains for Round 9;
2. To avoid the messy (though eventually successful) approach of Round 8 by (i) allowing countries to understand the Global Fund's expectations as early as possible and (ii) follow a simple step-by-step approach to the identification of efficiencies;
3. To show some level of flexibility - and thus avoid a blind cut of 10% to each grant;
4. To ensure that budget reductions do not compromise technical soundness, feasibility, and sustainability of programs.

## III. Detailed description of the proposed Round 9 approach

1. As soon as the Board approves Round 9, the Secretariat will send a letter to all CCMs and PRs to explain the need for efficiency gains, and explain the way in which this will be taken forward;
2. The Secretariat will ask that *all budgets of all grants* be developed showing a minimum 10% efficiency gain, i.e. ideally with no target reductions. This means that if a country has been allocated 100 by the Board, the budget they submit to the Global Fund should come to a total of no more than 90. A few clarifications on this request:
  - a. The Secretariat will make it clear that it is not seeking a blanket cut across grants; the budget reductions (of 10% or more) proposed by countries in their budgets will not be considered final - the intention is simply to speed up the review and signing processes;
  - b. Budget reductions resulting from TRP clarifications will count towards the efficiency gains. For example, if the TRP clarifications process result in a budget reduction of 3%, and the country can only identify an additional 8% in efficiency gains, the country will be considered to have reached 11% overall;
  - c. In order to minimize the risk of unfair cuts, the PR will submit the budget to the Secretariat via the CCM, to allow the CCM to monitor and approve the cuts proposed by the PR;
  - d. In the table below (page 3) countries have the possibility to ask that some of the identified efficiency gains be "reprogrammed" - i.e. used for a program purpose other than that originally planned. Please note that:

- i. Countries need to explain their reprogramming requests very carefully, to allow the Secretariat to make decisions on these requests on a case-by-case basis;
  - ii. If a reprogramming request is “material” (i.e. if it would represent a significant change to the program as approved by the Board) then the request will need to be reviewed by the TRP, in line with Global Fund policies.
3. Together with their budget, PRs will have to submit an explanation of the way in which they have gone about identifying savings, and the impact these savings have on the grant. This will be done using the template below (page 3).
4. Countries will be invited to identify efficiency gains which represent a good balance between commodities and other areas of the budget, and which would not compromise the program’s quality and efficiency. To this end, FPMs and countries will invite the involvement of the following stakeholders in the identification and discussion of efficiency gains:
  - a. Health advisory specialists within the Global Fund
  - b. Procurement and Supply Management specialists within the Global Fund
  - c. Global Fund Finance team
  - d. Relevant partners, especially at country-level (including through the CCM)
5. Based on the PR’s responses above, the Global Fund will come to a decision (on a grant-by-grant basis) regarding the percentage of efficiency-gains it will apply to each grant. In reaching its decision, the Secretariat will look in particular at the following:
  - a. The extent to which the cuts proposed by the country are indeed ‘efficiency gains’;
  - b. Whether the country has submitted a budget which is 10% lower than the Board approved amount;
  - c. Whether the arguments offered by the country are valid, and whether the Secretariat itself is able to identify further efficiencies;
  - d. The extent to which targets are maintained.

**Template: identifying efficiency gains**

A. Board approved budget					USD	
B. Proposed budget (this should be no more than 90% of "A")					USD	
C. Gains ("A"- "B")					USD	
D. Percentage gained, i.e. "C" as a percentage of "A"					%	
E. Where did you reduce the budget? Please provide comments on each reduction						
Budget line	Main beneficiary of budget (PR, SR, etc.)	Original amount	New amount	Column 4 (see G below)		Explanations and Comments
				a. Restore	b. Reprogram	
TOTAL						
Total as percentage of A		%				
F. Please describe the consequences that these reductions are likely to have on the program:						
<p>G. If the Global Fund allowed the program to use some of the savings/gains identified under E, how would you use these funds? In column 4 of the table above, please indicate for each "efficiency gain" identified, whether you would choose to:</p> <p>(a) "Restore" the funds to their original purpose (i.e. use them for their original purpose); or</p> <p>(b) Reprogram them for other purposes.</p> <p>Please provide comments to explain your choice and justify any reprogramming requests.</p>						

### GUIDANCE ON LOCATION OF FURTHER INFORMATION

The below table indicates where further information on items dealt with in this report can be found:  
**Where indicated documents are available on the Board Members Extranet site username and password-protected site: <http://extranet.theglobalfund.org/board>**

Item:	
1. Budget Reattribution (DP1)	GF/FAC14/11
2. Employee Remuneration (DP2)	GF/FAC14/14
3. Secretariat Office Space (DP to be presented at Board Meeting)	GF/FAC14/13
4. Risk Management	GF/FAC14/04
5. Global Fund Provident Fund	GF/FAC14/07
6. Financial matters: - Operating Expense Review 2009 - Programmatic Efficiencies in 2009 - Forecast of Assets Available for Grant Approvals	GF/FAC14/10 GF/FAC14/08 GF/FAC14/12
7. Resource Mobilization Matters: - Update on Resource Mobilization - Investment Products to Support the Global Fund - Tax-Efficient Private Donations: Establishing a US Charity - Update on Investment Assets and Portfolio Returns	(no paper) GF/FAC14/05 GF/FAC14/06 GF/FAC14/09
8. Other FAC matters - Audit of 2009 Financial Statements - Accounting Policies	(no paper) (no paper)