Twenty-Second Board Meeting
Sofia, Bulgaria, 13-15 December 2010

GF/B22/6
Board Decision

REPORT OF THE FINANCE AND AUDIT COMMITTEE

PURPOSE:

This report summarizes the deliberations of the Finance and Audit Committee (FAC) at its meeting on 19-21 October 2010 and in subsequent email communications, and its resultant recommendations to the Twenty-Second Board Meeting.

Matters relating to FAC oversight of the Office of the Inspector General are contained in a separate report (GF/B22/7).

PART 1: INTRODUCTION

1.1 The Finance and Audit Committee (FAC) met in Geneva on 19-21 October 2010 for its 15th meeting. The Chair was Peter Van Rooijen (Developed Countries NGO) and the Vice-Chair was Clarisse Paolini (France and Spain).

1.2 This report contains the following topics for Board Decision:

Part 2: 2011 Operating Expenses Budget
Part 3: Management of Foreign Exchange in the Budget
Part 4: Outstanding Amounts Receivable
Part 5: Privileges and Immunities
Part 6: Review of the Comprehensive Funding Policy

1.3 This report contains the following topics for Board information:

Part 7: Financial Matters (Part 7)
Part 8: Resource Mobilization Matters (Part 8)
Part 9: Employee Remuneration (Part 9)
Part 10: Other FAC Matters (Part 10)

1.4 This report contains the following Annexes:

Annex 1: Proposed 2011 Operating Expenses Budget
Annex 2: Sample Presentation of Accounts Receivable from Donors and Implementers in Annual Report
Annex 3: Comprehensive Funding Policy, with proposed changes
Annex 4: Guidance on Location of Further Information

1.5 This report contains the following Attachment:

Attachment 1: Further Details on the 2011 Operating Expenses Budget

PART 2: 2011 OPERATING EXPENSES BUDGET — Decision

2.1 The FAC reviewed the Secretariat's draft proposed 2011 budget for Operating Expenses (GF/FAC15/06). 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 2011 are:

i. Continuing increase in grant activity (e.g.,: the number or grants will increase 13 percent, the number of Principal Recipients will increase by 27 percent, and the value of disbursements will increase by at least 13 percent).
ii. Significant non-discretionary costs in the 2011 budget over and above similar costs in the 2010 budget: this includes US$ 9.3 million for corporate priorities including increased scope of IT initiatives (US$ 3.1 million), grant management support (US$ 2.4 million), extended scope and costs for the Affordable Medicines Facility – malaria (AMFm) evaluation (US$ 1.4 million), TRP function (US$ 0.9 million), and the 4th Partnership Forum (US$ 1.5 million).

iii. A significant depreciation of the United States Dollar (USD) against the Swiss Franc (CHF) resulting in a significant increase in USD required to fund CHF based costs.

2.2 The Secretariat has identified the following corporate priorities for 2011 around which the operating expense budget has been developed:

i. Country Team Approach (CTA): Strengthen grant management by enhancing the application of CTA through the re-allocation of human resources to these teams.
ii. Information Systems: Fully develop and integrate Information Technological (IT) systems to allow for proper support to grant management.
iii. Resource Mobilization: Sustain resource mobilization efforts after the Replenishment Conference in 2010.

2.3 A fundamental principle that has guided the formulation of the 2011 budget is cost efficiency and effective allocation of existing resources. The guidance of the Executive Director is reflected in the budget as follows:

i. Zero growth for Secretariat: A context driven, self-imposed zero increase in the Secretariat budget value and headcount.
ii. Reallocation of positions: The recruitment process was frozen in June-July 2010 to allow clusters to re-examine the use of 75 unfilled positions and identify positions that could be shifted towards grant management processes. This innovative rebalancing exercise freed up 31 positions through reassigning open vacancies and lateral moves to allow strengthening of grant management in Country Teams (27 positions) and IT (four positions).
iii. The basis for developing the staffing budget has been changed from using average rates to actual salary costs. The budget for travel and meetings has been closely reviewed across all clusters to ensure maximizing the cost synergies resulting from combining smaller events within the scope of regional meetings. Further efficiencies have been reflected resulting from the enforcement of the travel policy requiring travel bookings to be made at least 10 days in advance.

2.4 Based on these factors, the initial 2011 operating expenses budget presented to the FAC was US$ 295.2 million, with a staffing of 604 positions, which represented an additional one position for the Office of the Inspector General compared to 2010.

2.5 As presented, the initial 2011 operating expenses budget would have resulted in an increase in the budget limited to 4.8 percent, attributable to increases in Country Coordinating Mechanism (CCM) funding, the Office of Inspector General (OIG) Budget, Technical Evaluation Reference Group (TERG) budget and the Local Fund Agent (LFA) budget. The Secretariat specific budget would have decreased by 1 percent. The initial budget is summarized in table 1 below:

US$ millions	2010	2011	Increase on 2010	% Increase
	Budget	Budget		
Secretariat	196.8	195.1	(1.7)	-1%
In-country Oversight (LFA fees)	67.3	74.2	6.9	10%
Funding of CCMs	6.9	12.4	5.5	79%
TERG	0.6	1.1	0.5	87%
Office of the Inspector General	10.1	12.4	2.3	22%
Total Operating Expenses	**281.8**	**295.2**	13.5	**4.8%**

2.6 The FAC expressed appreciation for the excellent work of the Secretariat in preparing the 2011 budget and for the efforts taken to keep increases to the budget and staffing levels to the minimum. The Chair of the FAC noted that the budget review process for 2011 was the easiest to date and congratulated the Secretariat for this.

2.7 The FAC noted that this was the second time the Secretariat was asked to produce a zero growth budget in the context of increasing grant activities and requested further details as to whether the Secretariat's reallocation of staff to support grant management, rather than increasing staff numbers, would have any negative repercussions. The FAC also supported the increase in the OIG budget for 2011 but queried if the increasing volume of work that the OIG performed would generate additional work for the Secretariat, noting that the Secretariat budget was not increasing.

2.8 The FAC also highlighted the need for a new process to review the budgets for the OIG, TERG, and Chair and Vice Chair going forward. For the 2012 budget process, this process will be led by the FAC leadership, with the support of the World Bank representative on the FAC.

2.9 The FAC welcomed and appreciated the level of detail provided to explain the LFA budget and requested that this information be also shared with the Portfolio Implementation Committee (PIC).

2.10 When preparing the 2011 budget, the Secretariat had highlighted the foreign currency exchange risk because 52 percent of total operating expenses (for example salaries, rent, most professional fees), including 79 percent of the Secretariat budget, are paid in CHF but the budget is prepared in USD, the functional currency of the Global Fund (as the majority of grants are denominated in USD). LFA fees, CCM funding and some Secretariat costs are paid in USD.

2.11 Before the separation of the Secretariat from WHO, the exposure was much less as the WHO took on and managed the foreign exchange risk. In 2009 and 2010, the budgeted exchange rate was close to the average for the year and therefore the risk did not materialize. However, the 2011 budget was prepared using a rate of 1.097 CHF to 1.00 USD, which at the time of starting the budget process (May 2010) was a reasonable assumption. By the time the budget was presented to the FAC (October 2010), the USD had weakened by 14.3 percent against the CHF and was trading at 0.959 CHF to 1.00 USD.

2.12 The weakening of the USD means it is more expensive to pay costs in CHF and the estimated impact on the 2011 budget is to increase it by US$ 22.1 million as shown in table 2 below:

Foreign Exchange Impact on Operating Expenses Budget (in millions)			
Operating Expenses Budget in Currency of Expense	Budget using 2010 Rate of 1 USD = 1.121 CHF	Rate used to prepare 2011 Budget 1 USD = 1.097 CHF	Actual Rate 1 USD = 0.959 CHF
CHF 168.9	USD 150.7	USD 154.0	USD 176.1
USD 141.2	USD 141.2	USD 141.2	USD 141.2
TOTAL 2011 BUDGET IN USD	USD 291.9	USD 295.2	USD 317.3

2.13 During the FAC Sub-Committee deliberations on OIG Matters (GF/B22/7), the OIG raised concerns that the initial budget submitted by the OIG at the time of the budget process of US$12.4 million was insufficient to manage the expected workload in 2011. The Sub-Committee also expressed concerns over the increasing number of unaddressed allegations and therefore at the request of the FAC Sub-Committee, an updated 2011 budget was submitted by the OIG and discussed by the FAC on 15 November 2010. The FAC decided to recommend an increased OIG budget for 2011 of US$18.7 million (US$ 19.8 million using actual exchange rates) which included an increase of seven positions from the 2010 budget. Details of the increase to the OIG's budget are contained in the OIG's Progress Report to the Board (GF/B22/9).

2.14 The FAC also decided that US$ 3 million of the OIG budget for 2011 will be a contingency fund to allow the OIG respond to unexpected increases in workload arising from investigations. This contingency fund may only be used with prior approval from the FAC.

FAC Decision Point 1: Use of OIG Contingency Budget
The use of any of the US$ 3 million contingency fund within the OIG budget for 2011 is conditional upon the advance approval of the FAC.

2.15 The FAC also requested that the OIG should give careful consideration to the need to find efficiencies and savings when preparing budgets and when incurring expenditure, in the same manner that the Secretariat has shown.

2.16 Table 3 below summarizes the significant adjustments decided by FAC since the submission of the initial 2011 Operating Expenses Budget (GF/FAC15/6)

2011 Operating Expenses Budget - Summary table of adjustments recommended by FAC	
Original 2011 Budget (GF/FAC15/6)	US$ 295.2m
Increase for impact of Foreign Exchange (Secretariat US$ 22.1 m and OIG budget US$ 1.1m)	US$ 23.2m
Increase in OIG Budget (from US$ 12.4m to US$ 15.7 m)	US$ 3.3m
Create contingency budget for OIG	US$ 3.0 m
TOTAL 2011 OPERATING EXPENSES BUDGET	**US$ 324.7m**

2.17 After these adjustments, the revised summary of the 2011 Operating Expenses Budget is now as follows:

US$ millions	**2010**	**2011**				**Increase on 2010**	**% Increase**
	Budget	**Budget as submitted to the FAC**	**Adjustments recommended by the FAC**	**Impact of Foreign Exchange**	**Total Revised Budget**		
Secretariat	196.8	195.1	-	22.0	217.1	20.3	10%
In-country Oversight (LFA fees)	67.3	74.2	-	-	74.2	6.9	10%
Funding of CCMs	6.9	12.4	-	-	12.4	5.5	79%
TERG	0.6	1.1	-	0.1	1.2	0.6	102%
<u>Office of the Inspector General</u>							
Office of the Inspector General: Regular	10.1	12.4	3.3	1.1	16.8	6.7	66%
Contingency	0.0	0.0	3.0	-	3.0	3.0	
Office of the Inspector General: Total	10.1	12.4	6.3	1.1	19.8	9.7	95%
Total Operating Expenses	**281.8**	**295.2**	**6.3**	**23.2**	**324.7**	**42.9**	**15.2%**

Staff Numbers							
Secretariat	578	**578**	-	-	**578**	0	**0%**
TERG	2	**2**	-	-	**2**	0	**0%**
Office of the Inspector General	23	**24**	**6**	-	**30**	7	**30%**
Total	**603**	**604**	**6**	-	**610**	**7**	**1%**

<u>Decision Point 1:</u>* *2011 Operating Expenses Budget

The Board approves the 2011 Operating Expenses Budget in the amount of US$ 324.7 million as set out in Annex 1 to the Report of the Finance and Audit Committee to the Twenty-Second Board (GF/B22/6).

The use of any amount in the US$ 3.0 million contingency within the OIG budget for 2011 is conditional upon the advance approval of the Finance and Audit Committee.

<u>The budgetary implications of this decision amount to US$ 324.7 million in 2011, which includes an allocation of seven additional staff positions for the Office of the Inspector General for 2011</u>.

PART 3: MANAGEMENT OF FOREIGN EXCHANGE IN THE BUDGET <u>Decision</u>

3.1 During the 15th FAC meeting, the Secretariat highlighted the potential impact of the current exchange rate between the USD and CHF on the 2011 budget as described in Part 2.

3.2 The FAC recognized that the 2011 Operating Expenses Budget includes approximately CHF 169 million of costs. In order to give a higher degree of certainty about the cost of the Global Fund Secretariat Operating expenses when measured in the reporting currency (which is the USD), the FAC recommends that the Secretariat be given authority to sign forward contracts to purchase CHF for the period of the approved budget. This authority is given at the time of approving the annual budget.

3.3 Subsequent Budgets from 2012 will be prepared and approved using the contracted CHF/USD rate of the previous year to allow for full year-on-year comparability. The foreign exchange rate impact of changing the contracted rate at the time of budget approval will be calculated on an annual basis. The FAC might consider the relevance of approving subsequent budgets from 2012 in CHF.

<u>Decision Point 2: Management of Foreign Exchange in the Budget</u>

The Board acknowledges that a significant percentage of the Operating Expenses budget is denominated in Swiss Francs (CHF) whereas the budget is presented in United States Dollars (USD) and the reporting currency of the Global Fund is the USD.

To give greater certainty to the Board at the time of approving the USD budget, the Board decides to give the Secretariat authority to manage foreign exchange transactions in a manner which minimizes the exposure of the budget to volatility in the exchange rate between the USD and the CHF.

The Board further authorizes the Executive Director to take all necessary steps to manage this exposure. The steps taken to manage this exposure will be under the oversight of the Finance and Audit Committee.

<u>This decision does not have material budgetary implications for the 2011 Operating Expenses Budget.</u>

PART 4: OUTSTANDING AMOUNTS RECEIVABLE <u>Decision</u>

4.1 The Report of the FAC to the Twenty-First Board Meeting (GF/B21/6) queried whether funds owed by implementers should be treated as receivables in the Annual Report. The Secretariat presented to the FAC, the relevant accounting policy and how this type of information could be presented in the Annual Report.

4.2 The FAC recommended that the details of implementers with amounts owed to the Global Fund should be presented in the Annual Report in accordance with the information presented by the Secretariat (See Annex 2).

4.3 Due to the difference in accounting treatment of amounts owed by Sovereign implementers, these will be distinguished from other implementers. There will also be a distinction clearly highlighted between amounts owed as a result of OIG Audits/Investigations and amounts owed arising from routine grant closure operations.

4.4 The FAC also considered whether outstanding amounts owed by donors following a written contribution agreement should be detailed in a similar manner as implementers and it was agreed that in line with the principle of transparency that they should be.

4.5 Although within the authority of the FAC to recommend these changes, the FAC believes that this is a decision that should be taken by the Board.

<u>Decision Point 3: Outstanding Amounts Receivable</u>

The Board decides that the names of implementer organizations and the United States Dollar (USD) equivalent amounts owed to the Global Fund shall be disclosed in the Annual Report.

The Board further decides that the names of donors and USD equivalent amounts committed to the Global Fund but which are overdue for payment shall also be disclosed in the Annual Report.

<u>This decision does not have material budgetary implications for the 2011 Operating Expenses Budget.</u>

PART 5: PRIVILEGES AND IMMUNITIES <u>Decision</u>

5.1 The FAC discussed concerns around security and safety of Global Fund staff in the field and requested a joint update from the Secretariat and OIG on the adequacy of current arrangements in place.

5.2 It was noted that the issue of Privileges and Immunities is extremely important in terms of security and safety of Global Fund staff and that to advance this issue will require the continued involvement of the Board.

<u>Decision Point 4: Privileges and Immunities</u>

The Board acknowledges the serious challenges and risks faced by Global Fund staff in the discharge of their duties in many countries, and reiterates the importance of states granting to the Global Fund such privileges and immunities as are necessary for the effective exercise of its functions and efficient use of its resources as approved by the Board in its Electronic Decision Point on 14 December 2009 (EDP/09/32).

The Board recognizes the measures taken by the Secretariat to secure privileges and immunities for the Global Fund from countries around the world. In this connection, the Board welcomes the signature by the Government of Moldova of the Agreement on Privileges and Immunities of the Global Fund.

The Board reiterates the critical need for the Global Fund to pursue its drive to obtain privileges and immunities, and urges relevant stakeholders, including all Board members and their respective constituencies, to support, facilitate and promote the Secretariat's efforts to secure privileges and immunities for the Global Fund with all deliberate speed.

The Board requests the Secretariat to update the Board regularly on the status of progress on this matter.

<u>This decision does not have material budgetary implications for the 2011 Operating Expenses Budget.</u>

PART 6: COMPREHENSIVE FUNDING POLICY **<u>Decision</u>**

6.1 The Board of the Global Fund at its Twenty-First Meeting requested the FAC to "conduct a review of the Global Fund Comprehensive Funding Policy (CFP) with the support of the Secretariat." The Board also requested the FAC to consider "[a]ny proposed changes to the Comprehensive Funding Policy," such that "recommendations would be provided by the FAC to the Board before the Twenty-Second Board Meeting" (GF/B21/DP13).

6.2 The review of the CFP has been conducted in two stages. The first stage examined the use of promissory notes and possible use of other similar financial instruments, considering the experience of other organizations' replenishment mechanisms and the need for greater predictability and assurance of contributions. Following the conclusion of this first stage of the review, the Board agreed to adopt a new instrument for use by the Global Fund, the Multi-year Contribution Agreement (MYCA), and also agreed to change the CFP to permit the use of promissory notes by private donors (GF/B21/20).

6.3 The second stage was the focus of the FAC deliberations and details are outlined in a paper submitted to the 15th FAC meeting (GF/FAC15/09), which examines the elements and the role of the CFP itself and proposes adjustments to the policy that better address the current financial environment of the Global Fund. The evolution of the Global Fund's financial assets was considered (including a review of the cash balance over time) and the cycle of approving and committing grant funding was examined in greater detail.

6.4 The importance of the MYCA as a contribution instrument is highlighted and recommendations are made regarding its inclusion in commitment authority. Finally, additional topics were suggested for future review and consideration.

6.5 The FAC discussed the various recommendations arising from the paper and the next steps. The FAC noted that the CFP had implications in terms of the impact of funding new rounds on renewals in subsequent replenishment periods but as these issues had not been considered by the CFP working group, they would not be considered by the FAC but would need to be raised with the Chair and Vice Chair of the Board in the context of the discussion on the funding of Round 10.

6.6 The FAC endorsed the following recommendation:

i. The CFP should continue to provide full asset coverage for commitment authority. Accordingly, grant agreements should be signed with a full backing of cash or non-cash assets, such that cash is available either at the time of signing or, in case of use of promissory notes and MYCAs, reasonably ahead of when such funding is needed for disbursement to grantees (i.e., a "full visibility" of assets).

6.7 The FAC made the following decisions:

FAC Decision Point 2: Treatment of temporary shortfalls in forecast of uncommitted assets

When determining the amount of funding that can be approved for a new round, the Finance and Audit Committee will consider the total amount of uncommitted assets forecast to become available during the full year following approval, regardless of any temporary shortages of uncommitted assets within that year (sufficient uncommitted cash or non-cash assets are still required to be available at the time of grant signing).

FAC Decision Point 3: Forecasting uncommitted assets

For purposes of forecasting uncommitted assets available at the time of expected grant signing for the purpose of Board approval of new proposal rounds, the Secretariat will, under the guidance of the Finance and Audit Committee and based on pledge conversion trends, determine the value of non-MYCA-backed pledges that are expected to be contributed.

For similar purposes of forecasting uncommitted assets, the Secretariat will consider as assets (in addition to cash and promissory notes) unqualified portions of MYCAs, plus a percentage of qualified MYCAs (by applying a discount factor to be determined annually under the guidance of the Finance and Audit Committee), which are expected to become unqualified prior to the time when commitment needs are recorded.

FAC Decision Point 4: Areas for further review
The Finance and Audit Committee recommends that the following areas be considered for further review to be led or initiated by the FAC:

i. *Additional measures to address the uneven impact of the Voluntary Replenishment Cycle (cf. end of Section 8 of GF/FAC15/09)*
ii. *Guarantee instruments*
iii. *Longer-term promissory notes (innovative opportunity to leverage private sector partners in longer-term funding arrangements)*
iv. *Minimum cash policy (to provide additional tools in managing cash flow issues)*
v. *Options for facilitating liquidity management*

6.8 The FAC recommends the following decision points to the Board:

<u>Decision Point 5: Commitment Reserve for Grant Renewals</u>

In order to ensure that funding is available within a replenishment period (or a pre-determined period) for grant renewals, the Board proposes that a new Commitment Reserve be created for this purpose.

Under this measure, the amount of assets determined to be available for approval of a new round may be reduced by an amount to be added to this Reserve to ensure that funding is available for forecasted grant renewal needs during the subsequent three years.

The Board amends the Comprehensive Funding Policy[1] by deleting the existing Section 3.d and replacing it as follows:

"The Board may approve proposals and commit funds for the resulting financial commitments up to the cumulative uncommitted amount of assets that the Board determines will be available at the time the Secretariat commits the funds in the related grant agreements. When making this determination, the Board will set aside the amount of assets required to meet forecasted grant renewal needs in respect of the subsequent three years (a 'Commitment Reserve'), taking into account projections regarding available donor contributions for the same three-year period provided by the Finance and Audit Committee with the support of the Secretariat."

<u>This decision does not have material budgetary implications for the 2011 Operating Expenses Budget.</u>

[1] http://www.theglobalfund.org/documents/comprehensive_funding_policy.pdf (As approved at the Sixth Board Meeting and amended at the Thirteenth Board Meeting, Fifteenth Board Meeting and Twentieth Board Meeting)

Decision Point 6: Consideration of unqualified portions of multi-year contribution agreements as assets

Taking note of Board's decision (GF/B21/EDP20, 10 September 2010) to approve the use of multi-year contribution agreements (MYCAs), preferably on an unconditional basis, as the principal mechanism through which donors should pledge and contribute to the Global Fund, the Board decides that the unqualified portions of MYCAs are considered as assets under the category 'or similar obligations' in Section 4 of the Comprehensive Funding Policy.

This decision does not have material budgetary implications for the 2011 Operating Expenses Budget.

PART 7: FINANCIAL MATTERS <u>Information</u>

Operating Expenses Review (January – June 2010)

7.1 The FAC noted that US$ 101.9 million out of the total budget for the year of US$ 281.8m had been spent during the first half of 2010.

7.2 The Secretariat conducted an in depth mid-year review of the 2010 budget and reallocated resources to meet corporate priorities such as strengthening grant management, supporting resource mobilization and Information Technology. It is expected that expenditure against the budget will have increased significantly by the year-end but is not expected to exceed the budget.

7.3 It was noted that the new initiatives on achieving savings in areas such as travel are being strictly applied.

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 23 KPIs set for 2010, 11 were due to report on mid-year results, five out of the 11 indicators either achieved or exceeded their targets, four indicators performed adequately and two indicators performed below expectations. Compared to the end-2009 results, three indicators continued to perform strongly, three improved significantly, three deteriorated in performance, and two continued to perform inadequately.

7.5 An analysis of meeting costs was also provided to the FAC as a result of a request at the previous FAC meeting. The FAC appreciated the information and requested the Secretariat to prepare a further short analysis of key meeting costs comparing the costs of holding meetings in Geneva and outside of Geneva and the related implications.

Update on Programmatic Efficiencies

7.6 At its Eighteenth Meeting (GF/B18/DP13) and Twentieth Board Meeting (GF/B20/DP9), the Global Fund Board had requested the Secretariat to identify, together with Principal Recipients and CCMs, efficiency gains in new grants to be signed as well as in grant renewals.

7.7 Building on lessons learned and concerns from the initial implementation of the efficiency gains requirements, the Secretariat initiated a number of steps to improve this process:

i. Communications sent to CCMs outlining the process to be used to identify the efficiency gains and clarifying issues of confusion during Round 8 such as whether TRP reductions counted towards the efficiency gains.
ii. Creation of a budget review template and guidance note to ensure more consistent LFA budget reviews and approach to identifying efficiency gains.
iii. Closer review by the FPM with specialist technical teams to ensure that efficiencies are appropriate and not damaging to the grant, and in grants that did not reach 10 percent efficiency gains that there are appropriate reasons to accept a reduced saving.

7.8 An analysis of efficiency gains has shown that savings are achieved across the majority of cost categories and that as expected, savings on unit prices and quantifications of Pharmaceuticals and other Health Products account for a significant proportion of the savings achieved.

7.9 The table below provides a summary of the efficiency gains identified to date on fully signed components and Phase 2 funding amounts that have been either approved by the Board but not yet signed, or fully signed.

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	2,877	10%	288	14.5%	418
Phase 2, (after 15% performance reduction)	1,752	10%	175	8.0%	140
RCC	1,401	10%	140	14.7%	206
Round 9 and NSA, Phase 1	375	10%	38	13.1%	49
Total	**6,405**	**10%**	**641**	**12.7%**	**813**

7.10 The FAC was extremely pleased with the level of efficiencies identified but expressed concerns that it was difficult for them to fully determine whether the process to identify efficiencies during the grant negotiation process did not adversely affect implementers, especially at the sub-recipient level. It was clarified that with current resources it would not be possible to carry out very detailed analysis in this area.

7.11 The FAC noted that the Board decision point GF/B20/DP9 mentioned the desire to increase the funding limit for the periods beyond year 2 of Round 8, 9 and National Strategy Applications from 75% to 90%. The decision to implement this action rests with the Board, not the FAC.

Forecast of Assets Available for Grant Approvals

7.12 Based on currently confirmed pledges through 2011, uncommitted assets of US$ 1,265 million are forecast to be available for approval of Round 10 in December 2010, in accordance with the current Comprehensive Funding Policy.

7.13 At its Twenty-First Meeting, the Board decided that for the determination of assets available for Round 10, "only pledges to be received within (and for use within) the period up to and including 31 December 2011 shall be considered". Furthermore, the Board decided "the determination of available assets as at 31 December 2011 will be updated at the end of the first quarter of 2011 in relation to new pledges" (refer to GF/B21/DP19 at paragraph 4). Therefore, only additional pledges received by 31 March 2011 to be received within (and for use within) 2011 will be taken into account when forecasting the updated amount available for Round 10."

7.14 Further pledges are expected to be confirmed by 31 March 2011 and may increase the amount available for Round 10. With a conservative estimate of such additional pledges, it is forecast that US$ 1,819 million would be available for Round 10.

7.15 The Secretariat will provide an updated forecast in a separate paper to the Board prior to the Twenty-Second Board Meeting.

PART 8: RESOURCE MOBILIZATION MATTERS <u>Information</u>

Update on Resource Mobilization

8.1 The Secretariat updated the FAC on resource mobilization matters and on the activities undertaken in the lead up to the Third Voluntary Replenishment pledging conference and on the outcome of the conference.

8.2 The FAC noted that this was a collective effort, involving the Board, civil society, partner organizations and other stakeholders.

8.3 Participants at the pledging conference held in New York on 4-5 October 2010 outlined pledges and projections worth US$ 11.7 billion for the 2011 to 2013 Replenishment period, involving funding from public donors, the private sector, and innovative financing mechanisms. It was noted that this represented a 20 percent increase over the funding announced following the Berlin pledging conference in 2007.

8.4 The Secretariat will undertake continued intensive resource mobilization activities in the lead up to the Replenishment mid-term review meeting. Key priorities include securing pledges from those donors that were not able to pledge in New York, engaging new public and private sector donors, and continuing to develop innovative financing mechanisms.

8.5 The FAC thanked the Resource Mobilization Team and applauded them for their successful work.

Innovative Financing

8.6 The FAC were provided with an update on a potential new initiative involving the use of promissory notes, which is currently under discussion with the Gates Foundation but may be a means of attracting additional resources from other private foundations.

8.7 The FAC were encouraged by these initiatives but recognized that issues such as the security of the promissory note needed to be considered, as did issues around equity with sovereign donors. The FAC requested a technical paper from the Secretariat on this issue.

Update on Investment Assets and Portfolio Returns

8.8 The World Bank updated the FAC on investment returns through the second and third quarters of 2010. It was noted that the Global Fund liquid portfolio (which totaled US$ 5.3 billion at the end of June 2010) returned 1.17% through the second quarter of 2010 comparing very favorably with investment returns on the portfolio through the second quarter of 2009. In addition, the 1.17% generated compared well with the 0.74% returns for the overall Trust Fund investment pool managed by the World Bank over the same period.

8.9 As requested by the FAC at its 14th Meeting, the World Bank provided an update on the type of assets which make up the Global Fund portfolio.

8.10 The FAC agreed to invite a member of the World Bank investment team to its 16th meeting in March 2011.

PART 9: EMPLOYEE REMUNERATION <u>Information</u>

Equity Review

9.1 Since the 14th FAC meeting, when the FAC considered the Employee Remuneration paper (GF/FAC14/14), a review has been conducted of all salary and grade inequity cases brought to the attention of the Human Resources function since the transition from WHO.

9.2 An Independent Review Panel (IRP) was formed. It reviewed recommendations from the existing job classifier who used the International Civil Service Commission (ICSC) methodology to evaluate whether reclassifications were merited, a specialist consulting firm, Hewitt and Associates also supported the IRP by providing a second independent recommendation.

9.3 73 cases were examined from Grades 1 – 7 (equivalent to Team Leader and below) and this resulted in recommendations to reclassify to a higher grade, sixteen incumbents and adjust salaries for eight others. Salary adjustments ranging from 5% to 7% were also recommended for five incumbents across Grades 8 and 9 (Unit Director and above) using similar rules and principles.

Senior Management Remuneration

9.4 In May 2010, the Remuneration Group, through the Chair, expressed a concern that the Global Fund pays senior staff more than similar organizations and suggested that the Secretariat benchmark such salaries, against those of senior management in similar organizations

9.5 A general benchmark study of grades 8 – 10 (Unit Director and above) covering both base pay and benefits was conducted in June 2010 and it concluded that the overall remuneration package offered by the Global Fund to its staff remains competitive with the chosen market a mix of international and private sector organizations as laid out in the initial transition agreements. Further details are provided in Annex 1 of GF/FAC15/4.

Clarifying the rules over the use of consultants

9.6 The FAC noted that the Secretariat has taken a number of steps to clarify the rules and regulations regarding the use of consultants, to ensure they have clear terms of references and rates are benchmarked both internally and externally. Procedures have also been introduced to ensure that their work is quality assured.

Pay for Performance

9.7 The Global Fund Human Resources Policy Framework, approved by the Board when the Global Fund transitioned out of WHO, called for the establishment of a performance-based pay framework. A concept paper on the “Pay for Performance” framework has been presented to the Executive Management team for deliberation. It is intended that the progress update on the performance-based pay framework will be brought to a special meeting of the FAC in December 2010.

9.8 The FAC noted that considering the current economic environment and financial constraints, performance could also be recognized by means other than additional pay.

PART 10: OTHER FAC MATTERS <u>Information</u>

Bank Accounts

10.1 The Financial Controller updated the FAC on the number of bank accounts held and the need for these accounts, especially the need to have additional accounts to accommodate certain donor contributions arising from resource mobilization efforts. It was clarified that these accounts are regularly cleared to transfer the funds to the Global Fund account with the World Bank.

10.2 The Financial Controller also requested approval from the FAC to create a separate banking arrangement other than Credit Suisse to ensure that the Global Fund benefits from competition as this may lead to savings in transaction fees and more preferable rates when dealing with foreign exchange.

10.3 The FAC expressed the desire not to create too many accounts, but noted that the issue of opening new bank accounts should be a management issue for the Secretariat under the supervision of the FAC.

> ***FAC Decision Point 5: Authority to open bank accounts***
>
> *The Secretariat will have authority to open new bank accounts as needed and will update the FAC on the list of bank accounts held by the Secretariat and their purpose during FAC meetings.*

Secretariat Office Space

10.4 The Director of Corporate Services updated the FAC on progress in relation to the development of the new health campus. The FAC were pleased to note that the development is on track.

GF/B22/6
Annex 1

PROPOSED 2011 OPERATING EXPENSES BUDGET

INTRODUCTION

The table below summarizes the significant adjustments decided by FAC since the submission of the initial 2011 Operating Expenses Budget (GF/FAC15/6).

2011 Operating Expenses Budget - Summary table of adjustments recommended by FAC	
Original 2011 Budget (GF/FAC15/6)	US$ 295.2m
Increase for impact of Foreign Exchange (Secretariat US$ 22.1 m and OIG budget US$ 1.1m)	US$ 23.2m
Increase in OIG Budget (from US$ 12.4m to US$ 15.7 m)	US$ 3.3m
Create contingency budget for OIG	US$ 3.0 m
TOTAL 2011 OPERATING EXPENSES BUDGET	**US$ 324.7m**

<u>The information covered in the following sections refers to the original budget of US$295.2 million presented to FAC. The adjustments summarized in the table above are explained in Part 2 of this paper.</u>

Part 1: FACTORS INFLUENCING BUDGETARY NEEDS IN 2011

1.1 The Secretariat has identified the following corporate priorities for 2011 around which the operating expense budget has been developed:

i. <u>Country team approach</u>: Strengthen grant management by enhancing the application of the Country team (CT) approach through the allocation of additional human resources.

ii. <u>Information Systems</u>: Fully develop our Information Technological (IT) systems to allow for proper support to grant management.

iii. <u>Resource Mobilization</u>: Sustain resource mobilization efforts after the Replenishment Conference in 2010.

1.2 The development of the 2011 operating expenditure budget was preceded by a comprehensive critical review of 2010 mid-year operating expenditure. Under the guidance of the Office of Executive Director (OED) and Finance, all clusters closely reviewed their projections for the second half of 2010 and reallocated budgetary resources to fund the corporate priorities of grant management strengthening, replenishment and resource mobilization and accelerated IT implementation. This also helped set the tone for the 2011 budgeting process.

1.3 Cost efficiency: A fundamental principle that has guided the formulation of the 2011 budget is cost efficiency and effective allocation of existing resources.

1.4 The guidance of the Executive Director is reflected in the budget as follows:

i. Zero growth for Secretariat: A context driven, self-imposed zero increase in the Secretariat budget value and headcount. The OED has identified the 2011 corporate priorities and provided firm budget guidance on reallocation of resources towards strengthening grant management processes and other corporate priorities.

ii. Reallocation of positions: The recruitment process was frozen in June-July 2010 to allow clusters to re-examine the use of 75 unfilled positions and identify positions that could be shifted towards grant management processes. This innovative rebalancing exercise freed up 31 positions through reassigning open vacancies and lateral moves to allow strengthening of grant management in Country Teams (27) and IT (4). Details of the reallocation are outlined in the table below:

TEAM	INCREASE	DECREASE
Office of the Executive Director	0	-1
Finance		
Office of the Unit Director	0	-1
Accounting and Financial Reporting	0	-1
Program Finance	+6	0
Country Programs		
Regional Teams	+8	0
Other Country Programs teams	0	-4
Corporate Services		
Front Office	0	-1
Admin	0	-4
HR	0	-2
IT	+4	0
Legal	+2	0
Strategy Performance and Evaluation-		
M&E team	+4	0
Performance Impact Evaluation (PIE)	+1	0
Pharmaceutical Management Advisory Services	+6	0
Other SPE teams	0	-11
External Relations and Partnerships		
All Teams	0	-6
TOTAL MOVEMENT	**+31**	**-31**

1.5 The basis for developing the staffing budget has been changed from using average rates to actual salary costs. The budget for travel and meetings has been closely reviewed across all clusters to ensure maximizing the cost synergies resulting from combining smaller events within the scope of regional meetings. Further efficiencies have been reflected resulting from the enforcement of the travel policy requiring travel bookings to be made at least 10 days in advance.

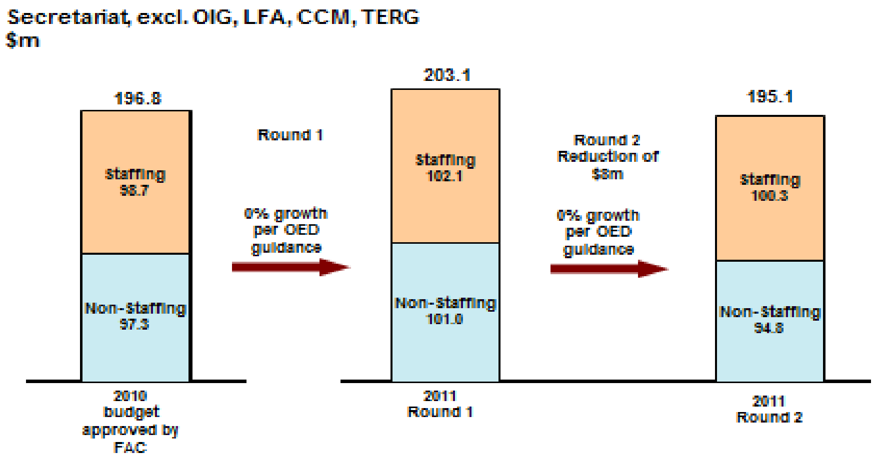
2. DEVELOPMENT OF THE 2011 BUDGET

2.1 As in previous years, the proposed budget has been developed through a 'bottom-up' approach, consistent with the Budget Framework[2], 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 2011. These are aggregated to form the overall budget.

2.2 In the context of a zero growth budget, all teams were asked to prioritize their activities and classify all non-staffing costs as either non-discretionary or discretionary costs, further sub-classified into high, medium and low priority. Non-discretionary were defined as those costs for which either there is an existing external commitment (such as office rent) or an existing mandate from the Governance (such as the independent AMFm evaluation). Discretionary high-priority costs included activities that are critical to the implementation of the corporate priorities in 2011. All medium and low priority activities were analyzed for their relative financial impact on the overall budget and de-prioritized accordingly.

2.3 During June-September 2010 the budget development process passed through critical reviews and approval with the Finance team, then the OED and finally by the Executive Management Team (EMT). The budget for Information Technology was subject to the review of the Information Technology Advisory Board (ITAB).

2.4 The outcome of the 2011 budget review stages and outcomes is reflected in the following diagram.



2 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).

3. OVERVIEW OF THE 2011 BUDGET

Composition of the budget

3.1 The composition of the budget by expense category is summarized in the table below. Further breakdowns by cluster are contained in Annex 1, Part 1, outlining the strategic role of each cluster, the respective budget summary and reasons for any significant budget increases.

US$ millions	2010	2011	Increase on 2010	% Increase
By Expense Type	Budget	Budget		
Staff	99.4	100.3	0.9	1%
Professional fees	48.0	48.5	0.5	1%
Travel	19.4	17.8	(1.6)	-8%
Meetings	7.5	6.7	(0.8)	-10%
Communication materials & services	3.8	4.0	0.2	5%
Office infrastructure	18.4	17.2	(1.2)	-7%
External co-funding	(0.5)	(0.2)	0.3	-54%
Board Constituency Funding	0.8	0.8	0.0	1%
Secretariat	**196.8**	**195.1**	**(1.7)**	-1%
In-country Oversight (LFA fees)	67.3	74.2	6.9	10%
Funding of CCMs	6.9	12.4	5.5	79%
TERG	0.6	1.1	0.5	87%
Office of the Inspector General	10.1	12.4	2.3	22%
Total Operating Expenses	**281.8**	**295.2**	**13.5**	**4.8%**

Staffing costs

3.2 Under the OED guidance to achieve zero growth, the Secretariat took the innovative step to reallocate its existing staffing resources internally towards strengthening grant management processes. During May-July 2010, the recruitment processes were frozen to re-examine the use of 75 unfilled positions and identify positions that could be shifted towards grant management processes.

3.3 In the process 27 positions were transferred to grant management functions in Country Programs, SPE (Monitoring and Evaluation, Pharmaceutical Procurement and Performance), Legal and Program Finance; and four positions were transferred to the Information Technology Unit. The internal reallocation initiative undertaken by the Secretariat has avoided a budgetary request for 31 additional positions, which would have a budgetary implication of US$ 5.9 million. In addition two existing Secretariat positions have been transferred to support the functioning of the TERG.

3.4 The Secretariat is aiming to complete recruitment on most unfilled positions during 2010. With this, the Secretariat will achieve a fully resourced staffing structure and the earlier assumption made in 2010 that at-least five positions will remain vacant throughout a given year will no longer remain valid.

3.5 The 2011 budget considers the Secretariat to be mostly fully staffed during the year. The revised staffing position across the Secretariat stands as below:

Staff numbers	2010	2011	Increase on 2010	% Increase
-- Full-Time Equivalents	FTE	FTE		
	Approved			
Country Programs	179	183	4	2%
Strategy, Policy & Evaluation	145	143	-2	-1%
External Relations & Partnerships	89	83	-6	-7%
Office of the Executive Director	21	20	-1	-5%
Corporate Services	111	110	-1	-1%
Finance	34	38	4	12%
Office of the Chair of the Board	1	1	0	0%
Secretariat	**580**	**578**	**-2**	**0%**
Office of the Inspector General	23	24	1	4%
TERG Support	0	2	2	100%
	603	604	1	0%
less: positions assumed not filled	-5	0		0%
Total Staff (FTE)	**598**	**604**	**1**	**0.2%**

3.6 The basis for the development of staffing costs has been changed from the standard average grade rate to actual position costs. Post separation from the WHO, the Secretariat has gained adequate experience on the actual costs of its current staff strength. This actual cost information has been used as the basis for 2011 staffing costs.

3.7 Costs that were previously incorporated into the average budget rates for each grade (such as cost of living adjustment, performance incentives) have now been centralized in a common pool that will be centrally administered by Human Resources under the guidance of the OED. The central pool includes a provision for US$ 5.6 million to meet the staffing costs that cannot be reasonably allocated to the cost of individual positions and may not be uniformly needed across the Secretariat. The following table reflects all elements included in the central salary provision

	FTE	US$'000	US$'000	US$'000
Salary costs from detailed costing per person, per team:	578			94,741
Central Salary Reserve:				
Re-balancing grade adjustment 2 remaining positions		117	117	
Provision for:				
Cost of living increase @ 1%		949		
Performance incentives		500	1,449	
Staff turnover replacement costs (relocation etc) 5% turnover		1,513		
Education grant for new eligible cases in 2011:		618		
Reserve for Settlement agreements (3)		450		
Reserve for Termination agreements (10)		760	3,341	
Temporary resource replacement cover for:				
parental leave cover 6 months	5			
long term illness cover 6 months	4	668	668	
Total Central Salary Reserve:				5,575
Total Salary costs (ex OIG. TERG):				**100,316**

3.8 The following provides a brief description of the main elements included in the central salary provision:

i. Rebalancing grade adjustment (US$ 117,000): The rebalancing process has been completed for all 31 positions. However two of these positions will be specified shortly. It is estimated that these two positions for the grant management process will be of a higher grade than the positions that will be freed up.
ii. Cost of living adjustment (COLA) (US$ 949,000): The EMT has decided to create a central provision of 1% of the total salary budget. [The actual rate will be determined in 2011 based on then prevailing inflation index.]
iii. Performance incentives (US$ 500,000): The first step in the implementation of the Performance Pay framework will occur in 2011. A central provision of US$ 500’000 has been made to recognize and reward staff members whose performance is determined to be above expectation. The performance framework has been developed by the Human Resources Unit and is being presented to the FAC for its consideration.
iv. Staff turnover costs (US$ 1,513,000): It is assumed that the Secretariat will experience a 5% turnover rate in 2011 which would cause additional costs in terms of handover period, relocation and removal costs of incoming and outgoing staff.
v. Education grant (US$ 618,000): The Secretariat has a relatively young workforce and it is estimated that at least 44 children will reach the qualifying age for entitlement to education grant or will require additional educational grant.
vi. Unforeseen staffing costs:
    a. Settlement agreement (US$ 450,000): Based on past experience, the Secretariat is assuming it may need to reach settlement agreements with at least 3 employees, each case budgeted at US$ 150’000.
    b. Termination indemnity (US$ 760,000): It is estimated that the Secretariat may need to discontinue service of at least 10 employees which would require an indemnity for redundancy.
    c. Parental and long term illness cover (US$ 668,000): Guided by current experience, provision has been created to provide temporary staffing cover for incumbents who are away from regular service during their entitled period of parental (five employees) or long term sick leave (four employees).

Professional Fees

3.9 There is a net 1% increase of US$ 0.5 million in professional fees budget over 2010 (US$ 0.4 million, 1% increase over the 2010 forecast). While building the 2011 budget special attention has been given to the professional fees category so that zero-based growth could be achieved while allocating necessary resources required for supporting corporate priorities, namely strengthening country programs and further development of IT systems.

3.10 With careful analysis and prioritization, the Secretariat has been able to absorb a significant increase of US$ 7.9 million in key corporate activities:

i. US$ 3.1 million; increased scope of IT enablement initiative
ii. US$ 2.4 million; strengthening of grant management systems
iii. US$ 1.4 million; expansion in the scope of the independent AMFm evaluation

iv. US$ 0.9 million; expansion in scope of TRP functions
v. US$ 0.1 million; Partnership Forum (Total cost of Partnership Forum is US$ 1.5 million included under Travel (US$ 992k) and Meetings (US$ 378k)

(US$'000)	CP	SPE	ERP	FIN	CS	IT	OED	C/VC	Total
2011 Budget									
Non-discretionary	2,360	9,584	502	3,445	5,821	14,105	525	397	36,739
Partnership Forum	-	-	145	-	-	-	-	-	145
Discretionary:	-	-	-	-	-	-	-	-	-
High	657	2,928	1,598	-	2,307	-	-	-	7,491
Medium	1,031	967	1,281	-	186	-	-	-	3,464
Low	110	-	512	-	-	-	-	-	622
2011 Total:	1,799	3,895	3,390	-	2,493	-	-	-	11,577
2011 Total:	4,159	13,479	4,037	3,445	8,315	14,105	525	397	48,460
2010 Forecast Total	1,694	13,795	4,625	3,050	9,693	14,343	436	399	48,036
2011 inc over 2010	2,465	(317)	(588)	395	(1,379)	(238)	89	(2)	424
% inc over 2010	145%	-2%	-13%	13%	-14%	-2%	20%	-1%	1%

Travel

3.11 The overall travel budget has decreased by US$ 1.6 million, or one percent (a US$ 0.4 million, or two percent decrease over the 2010 forecast). The travel budget has increased for Program Finance to support the grant management country visits for six additional positions transferred to the team. In addition the OED has increased its 2011 travel budget to correct the projected overrun in the 2010 travel budget planned to support the travel of Executive Director and the Deputy Executive Director. The four percent increase in travel budget for the ERP cluster is mainly on account of the travel budget for funded participants for the 4th Partnership Forum consultations across 2011.

3.12 The Country Programs cluster pioneered a critical review of travel costs incurred by their staff members across various countries. Significant optimization of travel trips was achieved resulting in a reduction of seven percent over the 2010 forecast. The approach was later rolled out for other clusters to adopt.

(US$'000)	CP	SPE	ERP	FIN	CS	IT	OED	C/VC	Total
2011 Budget									-
Non-discretionary	6,090	1,246	2,129	500	1,024	105	668	60	11,821
Partnership Forum			992						992
Discretionary:									-
High	-	2,760	629	64	186	-	-	-	3,639
Medium	-	-	-	-	-	-	-	-	-
Low	-	-	1,384	-	-	-	-	-	1,384
Total:	-	2,760	2,013	64	186	-	-	-	5,022
2011 Total:	6,090	4,006	5,134	563	1,211	105	668	60	17,836
2010 Forecast	6,550	3,937	4,919	509	1,888	-	403	58	18,265
2011 inc over 2010	(460)	68	214	54	(677)	105	266	1	(429)
% inc over 2010	-7%	2%	4%	11%	-36%	100%	66%	2%	-2%

Meetings

3.13 The Secretariat has undertaken an in-depth review of the main events and meetings organized by each cluster. Efforts have been made to use regional meetings as the main meeting forum and integrate other cross-functional events into the schedule. Accordingly most clusters, except ERP, have contributed to efficiency savings in their travel budget. Due to the expanding scope of regional meetings, the Country Programs meeting budget has increased by 53 percent. The budget for meeting expenses in ERP primarily increased to support the upcoming Partnership Forum in 2011.

(US$'000)	CP	SPE	ERP	FIN	CS	IT	OED	C/VC	Total
2011 Budget									-
Non-discretionary	2,823	564	963	-	104	18	-	-	4,472
Partnership Forum	-	-	378	-	-	-	-	-	378
Discretionary:									-
High		-	280	-	61	-	31	-	373
Medium	-	912	578	2	2	-	-	-	1,494
Low	-	-	-	10	10	-	-	-	20
Total:	-	912	858	12	73	-	31	-	1,887
2011 Total:	2,823	1,476	2,200	12	177	18	31	-	6,737
2010 Forecast	1,839	2,300	1,707	23	89	-	40	0	5,999
2011 inc over 2010	984	(824)	492	(11)	88	18	(9)	(0)	738
% inc over 2010	53%	-36%	29%	-48%	98%	100%	-21%	-100%	12%

3.14 The other expenses categories, namely- communication materials, office infrastructure, external co-funding and board constituency funding have been analyzed under the detailed cluster summaries included in Annex 1, Part 1.

OIG costs

3.15 The overall OIG budget has increased by 22% over 2010, which includes an additional position. The 2011 OIG headcount is increased from 23 in 2010 to 24 in 2011. As for the Secretariat, the OIG staffing costs have been developed on an actual cost basis and include a one percent provision for cost of living increase for the OIG staff.

3.16 The increase in professional fees and travel for the OIG is primarily due to the increase in the number of country audits and investigations undertaken by the OIG. An additional investment of US$ 317,000 is planned for advanced audit and investigation tools and software.

3.17 The table below reflects the composition and the changes in the OIG budget for 2011.

US$ millions	2010	2011	Increase on 2010	% Increase
By Expense Type	Budget	Budget		
Staff	4.2	4.6	0.4	8%
Professional fees	4.9	6.0	1.1	22%
Travel	0.6	1.4	0.8	133%
Meetings	0.1	0.1	0.0	0%
Communication materials & services	0.2	0.1	(0.1)	-60%
Office infrastructure	0.1	0.3	0.2	200%
Total OIG Expenses	**10.1**	**12.4**	**2.3**	**22%**

In-country oversight: Local Fund Agent (LFA) services

3.18 The LFA budget was developed through a bottom-up process and a rigorous review of the LFA service requirements for 2011, including each regional team having to identify and justify the specific LFA services required for each grant, Principal Recipient (PR) and country.

3.19 The current budget estimate, including provision for Data Quality Audits (DQA), is US$ 74.2 million. This is a US$ 6.2 million or a ten percent increase over the 2010 budget of US$ 67.3 million (the original 2010 budget was US$ 68 million, net of a one percent efficiency saving approved in the 2010 budget).

S no	LFA service type	Activity Driver	2010 Budget		2011 Budget	
			#	$ million	#	$ million
1	Assessments of Principal Recipients	# new grants	157	8.2	117	6.0
2	Verification of Grant Implementation	# active grants	503	45.9	570	53.8
3	Phase 2 Renewal Reviews	# Phase 2 reviews	102	3.8	139	5.4
4	Grant Consolidation Reviews	# grants consolidated	25	0.4	55	1.4
5	Grant Closure Reviews	# grants closed	97	1.7	61	1.5
6	Assessments of Sub-Recipients			2.6		1.7
7	Independent Data Quality Audits	# grants	20	1.4	20	1.4
8	PR Surveys and verification of year-end programmatic results	# grants	503	1.3	570	0.8
9	LFA review of CCM funding requests	# countries	131	0.6	135	0.4
10	LFA costs on introduction of new requirements, training and LFA handovers			2.0		4.4
11	Expected savings due to price negotiations and slippage					(2.6)
	Efficiency savings @1%			(0.68)		
	Total			**67.3**		**74.2**
	Average cost per Active Grant			***$134 k***		***$130 k***

3.20 As further explained in Annex 1, Part 2 of the paper, the nine percent increase in the 2011 LFA budget is significantly less than the 27 percent increase in the number of PRs and the 13 percent increase in active grants in 2011. PRs and grants drive 94 percent of LFA costs.

3.21 In addition, the LFA terms of reference for four major services [progress updates and disbursement requests (PU/DRs), Phase 2 grant renewals, on-site data verification reviews (OSDVs) and PR and sub-recipient program audit reviews] will be expanded in 2011 to meet the Secretariat's increased information requirements for effective decision-making and to implement specific OIG recommendations to improve risk management. The unit cost for these services in 2011 will be higher than in 2010.

3.22 The budget also includes the costs for six new LFA services being introduced in 2011 to strengthen risk management and the transition to the new grant architecture.

3.23 The initial gross increase in the 2011 LFA budget was US$ 16 million over the 2010 budget. However, the budget includes savings totaling US$ 6.6 million to be achieved through the development of more efficient use of the LFA resources in delivering a number of services including PU/DR reviews, OSDVs, anti-terrorism certification, the PR/Portfolio Survey and CCM funding reviews. These changes have limited the 2011 growth rate to ten percent, as compared to 2009 (16 percent over 2008) and 2010 (17 percent over 2009).

3.24 The LFA budget includes a $2.9 million budget line to support the implementation of the 'Country Team Approach' in high and medium risk countries. This will provide the country team members with the necessary flexibility to better tailor the scope and volume of LFA services in each country to specific risks in the implementation environment and to the Secretariat's information needs.

3.25 A detailed analysis of individual elements of the LFA budget is included in Annex 1, Part 2.

In-country oversight: Country Coordinating Mechanism (CCM) funding

3.26 The 2011 CCM Funding budget has increased from US$ 6.9 million in 2010 to US$12.4 million, an increase of 79 percent (the original 2010 budget was US$ 7 million, net of a one percent efficiency saving approved in the 2010 budget).

in US$ million

CCM Funding Category	Fixed- 2nd disbursement	Projected New Grants	Total
Basic Grants		41	41
Average Size		0.05	
Total		1.9	1.9
Expanded Grants	28	41	69
Average Size	0.2	0.2	
Total	4.3	6.2	10.5
Total number of grants	**28**	**82**	**110**
Total budget	**4.3**	**8.1**	**12.4**

3.27 The significant increase is in line with the Board decision point GF/B19/DP20. The new CCM Funding model developed a performance framework, including a core set of indicators to facilitate target setting. The indicators focus on four key performance areas (governance, civil society and private sector engagement, oversight, and harmonization and alignment). They were developed through broad consultation with CCM partners and technical experts, and shared with CCMs.

3.28 The revised CCM Funding policy has been expanded to include two CCM funding products:

i. Basic- US$ 50,000 ceiling; one-year funding and
ii. Expanded-No ceiling; two-year performance based funding.

3.29 The expanded CCM Funding is aimed to achieve the following objectives:

i. The reduction of identified financial constraints on CCM performance through access to increased funding amounts;
ii. The promotion of strategic focus by CCMs on oversight, constituency engagement, CCM alignment, and capacity building in areas relevant to the Global Fund's strategies on Gender Equality and on Sexual Orientation and Gender Identities;

iii. Improved transparency and measurability of CCM performance to promote partner confidence and support, with the ultimate goal of strengthening grant implementation; and
iv. The linking of performance information to subsequent targeting of technical support to identified areas of weakness.

3.30 The 2011 projections are based on 28 CCMs asking for the second year of expanded funding, and 41 CCMs asking for basic funding. Forty-one additional CCMs are expected to request for the expanded funding. The 2011 projections are also based on direct CCM input, wherever possible, and in concurrence with the regional teams. The size of an expanded grant is based on an average of the actual annual uptake of US$ 150,000 on expanded CCM funding experienced in 2010.

TERG support

3.31 The TERG budget has been separately identified from the Secretariat budget to facilitate the efficient functioning of the TERG. Two staff positions have been made available to provide support to the TERG. The TERG Vice-Chair has endorsed the 2011 proposed budget for the TERG for US$ 1.1 million. This includes US$ 403,000 for the two staff positions and US$ 727,000 for supporting the independent evaluation planned by the TERG in the areas of Key Performance Indicators, Sexual Orientation and Gender Strategy, Country Team Approach and AMFm.

4. RESOURCE AND RISK CONSIDERATIONS

Resource considerations

4.1 The Secretariat has been extremely conscious of the current economic climate and diligently executed a self-imposed, context driven zero-growth plan. The internal reallocation of staffing positions and absorption of costs for significant corporate priorities has contributed to a reduction in the Secretariat budget.

4.2 The increase in OIG (22 percent), CCM Funding (79 percent) and TERG support (87 percent) costs are based on the Governance mandate are beyond the control of the Secretariat. As explained further in Annex 1, Part 2, the increase in the LFA budget (10 percent) is to ensure effective monitoring of in-country grant management processes.

Future Board Decision Points

4.3 Recently the Secretariat has absorbed all Board decision points having financial implications. The proposed 2011 budget no longer has this flexibility and it will be necessary to add the financial implications of future Board decision points onto the annual approved operating expenditure budget.

Risk analysis and risk mitigation

4.4 The Global Fund grant portfolio and donor base is mainly administered in United States Dollars (USD). Accordingly the budgeting and reporting currency of the Secretariat has been adopted as USD. However 79 percent of the Secretariat operating budget is administered in Swiss Francs (CHF) to meet expenses like salaries, office rent and travel. The 2011 budget has been developed at a mid-year average USD: CHF rate of 1.09668. In the original proposed budget there was no provision to absorb adverse exchange rate fluctuation due to the depreciation in the USD.

4.5 The following table reflects the foreign exchange sensitivity analysis in the 2011 budget based on a weakening of the USD.

The reporting currency of the Global Fund is the US$

The following amounts are costs which are contracted in Swiss Francs (CHF):

	Contract Currency CHF'000	budget rate	Reporting Currency USD'000
2011 Budget amounts for:			
Salaries	CHF 110,015	1.09668	$100,316
Rent	CHF 11,107	1.09668	$10,128
Travel	CHF 19,775	1.09668	$18,032
Other	CHF 28,000	1.09668	$25,532
	CHF 168,897		**$154,007**
(Total OPEX Budget before OIG, LFA, CCM, TERG:			**$195,094**)

Secretariat budget contracted in CHF as a % before OIG, LFA,CCM and TERG budget **79%**

Sensitivity analysis on depreciation of US$ against the CHF

% change	1%	2%	5%
additional US$ m needed	1.6	3.1	7.8

4.6 The Secretariat will update the FAC, periodically throughout 2011, on the actual foreign exchange gains and losses against the budget.

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Annex 2

Sample Presentation of Accounts Receivable from Donors and Implementers in Annual Report

Amounts Receivable from Grant Activities						USD '000
Recoverable as a result of OIG audit or investigation:						
From Sovereign Governments:						
Country	Grant	Agency	Currency	Currency Amount	USD Equivalent	
X	XYZ-401-G03-H	Ministry of Health	USD	4,100	4,100	
Y	YYC-306-G02-T	Ministry of Health	USD	4,000	4,000	
	Total Recoverable from Sovereign governments:					8,100
	Less: bad debt provision:					- 2,050
	Net total recoverable:					6,050
From Other Entities:						
Z	ZZZ-602-G01-M	NGO Z	USD	2,652	2,652	
						2,652
Recoverable in the normal course of grant closure:						
	Total	(not detailed)				5,000
Total Net Recoverable:						13,702

Amounts Receivable from Donors					USD'000
From Sovereign Governments:					
			Currency	USD	
Country	Date of Signed Commitment	Currency	Amount	Equivalent	
A	30 June 2008	USD	10,000	10,000	
B	1 Sep 2008	USD	2,000	2,000	
	Total Recoverable from Sovereign governments:				12,000
	Less: bad debt provision:				-4,000
	Net total recoverable:				8,000
From Other Entities					
C	1 Jan 2009	USD	1,000	1,000	
					1,000
Total Net Recoverable:					9,000

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Annex 3

COMPREHENSIVE FUNDING POLICY *

(As approved at the Sixth Board Meeting and amended at the Thirteenth Board Meeting, Fifteenth Board meeting, Twentieth Board Meeting[3] and by EDP/B21/20)*

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

2. TRP-recommended proposals submitted should be approved up to the total of resources available.

3. The Board approves in principle proposals for the entire term of the proposal (up to five years) with the following conditions:

   a. The initial financial commitment shall be for an amount equal to the remaining time in the then current commitment period for the approved grant(s), which shall not exceed three years.

   b. Continued funding may be approved by the Board for up to three years based on the most recent consolidated proposal approved by the Board for that disease (an "Additional Commitment"). An approval of an Additional Commitment may include supplementary funds not included in an approved proposal, based on policies approved by the Board from time to time ("Scale-up Funds").

   c. Upon approval of the Board of funding for an Additional Commitment that exceeds two years, the Secretariat shall commit funds for such approvals (by signing a related grant agreement or extension) as follows:

      i. a financial commitment limited to two additional years of the approved funding (the "First Commitment"); and

      ii. an anticipated financial commitment for the remaining year of the approved additional funding, to be committed not earlier than 18 months after the starting date of the First Commitment, conditional upon the availability of funding (the "Second Commitment").

[3] Although the Comprehensive Funding Policy itself was not amended at the Twenty-First Board Meeting, for Round 10 only, the prioritization provisions described in Article 8 were replaced with the provisions set out in the Annex to GF/B21/DP17.

d. ~~The Board may approve Rounds-Based proposals and commit funds for the resulting financial commitments up to the cumulative uncommitted amount of assets that the Board determines will be available at the time of the Secretariat committing the funds in the related grant agreements~~. The Board may approve proposals and commit funds for the resulting commitments up to the cumulative uncommitted amount of assets that the Board determines will be available at the time the Secretariat commits the funds in the related grant agreements. When making this determination, the Board will set aside the amount of assets required to meet forecasted grant renewal needs in respect of the subsequent three years (a 'Commitment Reserve'), taking into account projections regarding available donor contributions for the same three-year period provided by the Finance and Audit Committee with the support of the Secretariat.

e. An amount of assets equivalent to the maximum financial commitment under a grant agreement must be deposited with the Trustee or readily available on demand prior to the Secretariat committing the funds in a grant agreement.

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

4. The Global Fund shall consider as assets for the purposes of entering into grant agreements the following: cash; promissory notes or similar obligations issued by the government of a sovereign state (or its designated depository); and, subject to approval by the Finance and Audit Committee, promissory notes or similar obligations issued by private donors. For these purposes, promissory notes and similar obligations shall be non-negotiable, non-interest bearing and payable at par value to the account of the Global Fund in the designated depository on demand or in accordance with an encashment schedule agreed on between the contributor and the Secretariat.

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

6. At the final Board meeting of each year, the Global Fund will forecast resources, based on confirmed pledges, and estimate demand for the next year. This estimate will show clearly the funds available for commitment. This estimate should be updated at each Board meeting.

7. Prioritization for funding amongst proposals:

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

b. If insufficient resources are immediately available to approve all TRP-recommended proposals, proposals shall be prioritized for funding in accordance with paragraph 8 below.

c. The Board will not partially approve components.

8. The system for prioritizing among TRP-recommended in the event that insufficient resources are immediately available to approve all TRP-recommended proposals is as follows [4]:

a. A composite index is used to assign scores to TRP-recommended proposals as described below.

b. The indicators, values, and scores for the first two criteria are:

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

c. In the event that insufficient resources are immediately available to finance all TRP recommended proposals, TRP-recommended proposals are financed in the following order:

1. Proposals in TRP category 1,

2. Proposals in TRP category 2.

d. If category 2 is sub-classified by the TRP into sub-categories, these are financed sequentially, with the proposals in the higher-rated being financed before those in lower rated sub-categories.

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

f. There is no further sub-division of the groups formed by the combination of the TRP category/sub-category and score.

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

[4] For Round 10 only, the provisions set out in Article 8 of the Comprehensive Funding Policy were replaced by the provisions set out in the Annex to the Board's decision entitled "Prioritization Criteria for Round 10 Proposals" (GF/B21/DP17, available at http://www.theglobalfund.org/documents/board/21/GF-BM21-DecisionPoints_en.pdf).

9. Prioritization of Funding Needs

The procedures set out below shall apply in the event of there being insufficient resources during a certain calendar year to fund all anticipated commitments.

The available resources shall be applied in the following sequence:

First: Extraordinary Requests for Continued Funding for Treatment

Second: Second Commitments of Additional Commitments

Third: First Commitments of Additional Commitments

Fourth: Scale-up Funds

Fifth: Incremental funding requested in new Proposals

10. With respect to each of the first four funding priority categories:

a. Provided that funding is available for at least one year's needs for the category during a certain calendar year:

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

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

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

b. If funding is not available for at least one year's needs for the category during a certain calendar year, special procedures will be decided by the Board at the final Board meeting of the previous year. This may include placing limits on the amounts available for Scale-up Funds.

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

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Annex 4

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:
2. 2011 Operating Expenses Budget	GF/FAC15/06 Presentation of the proposed 2011 Operating Expenses budget GF/FAC15/06, Addendum 1 Note on performance-based pay in the 2011 Operating Expenses budget
3. Management of Foreign Exchange in the Budget	No Paper
4. Outstanding Amounts Receivable	No Paper
5. Privileges and Immunities	No Paper
6. Review of the Comprehensive Funding Policy	GF/FAC15/08 Review of the Comprehensive Funding Policy, Part 1 (use of promissory notes) GF/FAC15/09 Review of the Comprehensive Funding Policy, Part 2 (other aspects)
7. Financial Matters	GF/FAC15/05 Operating Expenses Review 2010 (1 Jan - 30 Jun) GF/FAC15/07 Progress report on Programmatic efficiencies GF/FAC15/11 Forecast of Assets available for Grant approvals
8. Resource Mobilization Matters	GF/FAC15/12 Update on Resource Mobilization Matters GF/FAC15/10 Trustee Report
9. Employee Remuneration	GF/FAC15/04 Update on Employee Remuneration
10. Other FAC Matters	No Paper