



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Twenty-Third Board Meeting
Geneva, Switzerland, 11-12 May 2011

GF/B23/6
Board Decision

Revision 1

REPORT OF THE FINANCE AND AUDIT COMMITTEE

PURPOSE:

This report summarizes the deliberations of the Finance and Audit Committee (FAC) at its meeting on 23-24 March 2011 and in subsequent email communications, and its resultant recommendations to the Twenty-Third Board Meeting.

Matters relating to FAC oversight of the Office of the Inspector General are contained in a separate report (GF/B23/12).

The revision to this report relates to the addition of two attachments. Attachment 1 contains a paper on communication of losses and status of recoveries from OIG Audits and Investigations. Attachment 2 summarizes the deliberations of the FAC and the FAC sub-committee on OIG matters arising from a meeting held on 9 May 2011.

PART 1: INTRODUCTION

1.1 The Finance and Audit Committee (FAC) met in Geneva on 23-24 March 2011 for its 16th meeting. The Chair was Peter Van Rooijen (Developed Countries NGO) and the Vice-Chair was Lars Kjaer Knudsen (Point Seven).

1.2 Parts 2 and 3 of this report contain the following items for Board Decision:

- i. Potential Impact of Round 11 Timing on Existing Programs
- ii. OIG Investigation Reports (release of report and amendment to Disclosure Policy)

1.3 Parts 4 to 11 of this report contain the following items for Board information:

- i. Comprehensive Reform Working Group
- ii. Financial Matters
- iii. Resource Mobilization Matters
- iv. Screening and Risk Management Processes for Private Sector Partners
- v. Corporate Risk Management
- vi. Staff Council Issues
- vii. Tax Equalization
- viii. Other Financial Matters

1.4 This report contains the following Attachments:

Attachment 1: Communication of Losses and Recoveries arising from OIG Audits and Investigations

Attachment 2: Supplementary Report of the Finance and Audit Committee and the FAC Sub-Committee on OIG Matters

1.5 This report contains the following Annexes:

Annex 1: Policy on Exceptional Extension Funding Related to the Timing of the Approval of Round 11

Annex 2: Guidance on Location of Further Information

PART 2: POTENTIAL IMPACT OF ROUND 11 TIMING ON EXISTING PROGRAMS Decision

2.1 Arising from the Board request (GF/B22/DP25) that the Global Fund Secretariat prepare an analysis of the potential impact of program implementation being interrupted as a consequence of the timing of funding decisions on Round 11 being at the first Board meeting of 2012 rather than at the last Board meeting of 2011, the FAC reviewed the paper prepared by the Secretariat (GF/FAC16/04) and noted the following.

2.2 The FAC noted that the analysis is based on costs related to continuity of programs (i.e. continuing all activities, not just life-saving treatment) which assumes a similar level of funding as in Phase 2 and that in the most conservative scenario, the estimated cost would be approximately US\$ 202 million across 72 grants.

2.3 The FAC noted that the actual figure is likely to be substantially less, as not all expiring grants may be successful in Round 11 and a significant number may have existing grants from various Rounds which could finance program activities of the expiring grants or have sufficient undisbursed funds which could be used to continue to finance the program until the Round 11 grant is signed.

2.4 The FAC agreed that to mitigate the risk of disruption to program implementation, an extension funding mechanism would be recommended to the Board. The parameters of the extension funding are based upon the “Interim Bridge Funding for Expiring Grants” policy approved at the Sixteenth Board Meeting (GF/B16/DP17) which was designed to provide extension funding for grants until the policies for Rolling Continuation Channel were approved. It was noted that providing such extension funding would have no significant impact on Secretariat resources. It was fully acknowledged that any funds made available for extension funding would however reduce the pool of funds available for Round 11 approval.

2.5 The FAC noted that the paper (GF/FAC16/04) had been considered by the PIC and the FAC concurred with the suggestion from PIC to consider flexible signing timeframes in the extension funding solution. The FAC suggests to not incorporate the PIC proposal to deduct any extension funding from the Round 11 proposal as this period of funding would be prior to the Round 11 start date and would therefore not overlap. The FAC also considered the PIC suggestion that no extension funding should be provided for expiring grants with rejected Round 11 proposals. The FAC further noted that for grants expiring shortly after the Round 11 Board approval date there would be little time to properly close out the grant. The FAC therefore recommended a limited period of extension funding for these grants to finance program activities up to three months after the Board approval date of Round 11. The number of affected grants is expected to be limited (less than ten).

Decision Point 1: Exceptional Extension Funding Related to the Timing of the Approval of Round 11

- 1. Further to GF/B22/DP25 (“Measures Associated with Funding Proposals”), the Board notes the potential funding gaps faced by certain countries as a result of the decision of the Board to approve Round 11 proposals at the first Board meeting of 2012, instead of at the last Board meeting in 2011.***
- 2. To mitigate the potential adverse impact on service delivery, the Board approves Exceptional Extension Funding to grants that reach the end of their Phase-2 terms under the Rounds Based or the Rolling Continuation funding channels on the basis of the policy contained in the Report of the Finance and Audit Committee GF/B23/6 Annex 1.***
- 3. The Secretariat shall review Exceptional Extension Funding requests and provide a funding recommendation to the Board for approval under the “no objection” voting procedures set forth in Article 12 of the Board Operating Procedures.***

4. *If incremental funding is not required because there are sufficient funds remaining under the Expiring Grant to cover the Exceptional Extension Funding, the Board authorizes the Secretariat to approve the Request, on the same conditions and subject to the same limitations set out in this policy.*

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

PART 3: OIG INVESTIGATION REPORTS

Decision

3.1 The FAC noted that the investigation report into the Mali Tuberculosis and Malaria grants was nearing finalization and was made available to FAC members at the meeting in hard copy in redacted form. This was to ensure that the report did not jeopardize the domestic investigation in Mali or prejudice due process in relation to any Global Fund Secretariat policies regarding staff.

3.2 As the FAC members needed time to properly review the report, it was decided that the Chair and Vice-Chair of the FAC would review the unredacted version of the investigation report. They proceeded this way with a view to further guiding the FAC on the actions required, and in order to make a recommendation to the Board in line with the Disclosure policy on whether the FAC approves the redactions proposed by the OIG, or the report is to be released in full.

3.3 Subsequent to the meeting of the FAC, the FAC Chair and Vice-Chair held a teleconference with the Secretariat on 30 March 2011 and again on 20 April 2011 to make recommendations to the OIG and the Secretariat regarding the report. The recommendations related to a few presentation issues with the report to ensure that the redactions read clearly, that there be as little blackened text as possible, that the responses of the CCM and the Secretariat are reflected into the report, and that a message from the Board Chair and Vice-Chair be integrated into the report as a cover page.

3.4 It was also suggested by the FAC Chair that the Disclosure policy be amended to ensure that all OIG Investigation reports, including unrestricted reports, are reviewed by the FAC who would in turn make a recommendation to the Board regarding their publication, and that the FAC, as well as the OIG, have the ability to restrict reports from publication. These proposed modifications are to be discussed by the FAC at a meeting scheduled on 9 May 2011 for recommendation to the Board for approval at the Twenty-Third Board Meeting. Under the current policy, only reports in which the OIG proposes redactions may be considered by the FAC. The Disclosure Policy, as it currently stands, strongly favors full reporting, and redaction should only be applied in limited and exceptional circumstances.

Decision Point 2: Approval of the Public Release of the Investigation Report on Mali Grants

The Board approves the public release of the redacted version of the OIG Report of Investigation of Mali Malaria (Round 4 and 7) and Tuberculosis (Round 1 and 6) (“the Restricted Report”), as set out in GF-OIG-11-002, and authorizes the Inspector General to make the Restricted Report publicly available on the OIG website.

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

PART 4: UPDATE FROM THE COMPREHENSIVE REFORM WORKING GROUP Information

4.1 Mr. Anders Nordström and Mr. Jorge Saavedra briefed the FAC on the work of the Comprehensive Reform Working Group (CRWG).

4.2 The FAC noted the initial five priority areas for accelerated reform, as follows:

- i. Enhanced fiduciary control and risk management
- ii. Improved resource allocation and increased value for money
- iii. The business model
- iv. Improved partnership and in-country structures
- v. Improved governance

4.3 Members of the FAC queried why Resource Mobilization was not a priority area and it was clarified that while this area requires significant work and attention, it does not need significant reforms. In the follow up discussions it was pointed out however that the current Replenishment cycle might result in an adverse impact on country level planning processes, as was signaled in the Comprehensive Funding Policy review process. The CRWG member agreed to bring this back to the CRWG for consideration.

4.4 The FAC also noted the positive stakeholder consultations which the CRWG had undertaken and the plan for additional consultations with stakeholders and in various regions.

PART 5: FINANCIAL MATTERS

Information

Operating Expenses Review for 2010

5.1 Total Global Fund operating expenses in 2010 amounted to US\$ 264.1 million, which was 94% of the total approved budget of US\$ 281.8 million. Within this total amount, Global Fund Secretariat operating expenses of US\$189.9 million reflect a budget utilization rate of 97%.

5.2 The Secretariat had a full staffing complement in 2010 and this contributed to the higher levels of budget utilization compared to prior years. Other factors increasing budget utilization were accelerated Information Technology (IT) implementation, and the weakening of the US Dollar in 2010 versus the Swiss Franc.

5.3 Areas contributing to the underspend include savings achieved on travel and meeting costs, underutilized rent budget as expected additional office space was not required, LFA fees and the delay of the independent AMFm evaluation.

5.4 On the Finance related KPIs, it was noted that no improvements have been recorded in the average grant signing time, but that disbursement processing time had significantly improved, while the volume of disbursements KPI had also been achieved. The FAC questioned the usefulness of the current KPIs, supported the recommended changes to the KPIs proposed by the PSC and requested the Secretariat to start a process of developing more appropriate KPIs for the next cycle.

5.5 The FAC noted the increase in operating expenses per active grant, and it was clarified that due to increased use of grant consolidation into single stream financing, the number of active grants was less than expected, while the value of commitments signed in 2010 also was less due to the number of Round 9 grants which were signed in 2011 rather than 2010. The FAC noted that the presentation of these figures may need to be reconsidered.

5.6 The FAC queried the continued underspend of the LFA budget, while noting the increase in this budget for 2011. It was clarified that significant efforts had taken place to reduce delays in issuing purchase orders for LFA services and therefore this is expected to have an impact on budget utilization in 2011.

5.7 The FAC also noted that, given the Global Fund has a stable budget, for future Operating Expenses (OPEX) reviews, both current year figures and a comparison to the previous year should be presented.

5.8 The FAC requested the Secretariat to disclose whether there were any significant areas of concern, and it was clarified that while there are always areas that require special attention, such as the continued weakness of the US dollar, mechanisms are in place to manage this. However, the impact on resources due to implementation of initiatives such as the Country Team Approach was a concern considering the flat budget for 2011. The FAC suggested that future OPEX reports should include a section on management concerns.

5.9 FAC members were briefed by the Executive Director on his approach to provide the FAC in June 2011 with a full costing for implementing the reform agenda. The FAC commended the Executive Director on the comprehensive approach, but strongly suggested that to accelerate the implementation of the Country Team Approach, the Secretariat should make a proposal for some additional resources and present it to the FAC as soon as possible. The FAC noted that the necessity of successful implementation was well recognized by the FAC and that the Board had welcomed the accelerated Country Team Approach during a teleconference held in February 2011. It was recommended that the cost of the additional resources could be temporarily met by accelerating funds from the latter half of the year and any final budgetary implications could be addressed as part of the costing of the reform agenda initiatives in June.

Update on Programmatic Efficiencies

5.10 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.

5.11 The table on the next page 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	3,057	10%	306	14.4%	420
Phase 2, (after 15% performance reduction)	2,410	10%	241	10.2%	246
RCC	1,903	10%	190	15.4%	293
Round 9 and NSA, Phase 1	2,350	10%	235	13.8%	325
Total	9,720	10%	972	13.2%	1,284

5.12 The FAC noted that some of the efficiency gains requirements ended on 31 December 2010 while there was no Board mandated efficiency gain amount for Round 10. The FAC therefore decided that the formal update on programmatic efficiencies would not be required going forward.

5.13 The FAC did, however, express an interest in how the Global Fund moves from efficiency gains to Value for Money and will consider this issue in subsequent meetings.

Forecast of Assets Available for Grant Approvals

5.14 The FAC reviewed the forecast of assets available (GF/FAC16/05). Based on currently confirmed pledges, uncommitted assets of US\$ 205 million are forecast to be available at the end of 2011 after meeting commitment needs in 2011 (including US\$ 21 million expected to be approved for Round 10 Appeals by the end of March / early April). At the end of 2013 a shortfall of US\$ 553 million is forecast after meeting projected commitment needs before the end of 2013.

5.15 Based on the outcome of the Third Voluntary Replenishment, it is expected that additional contributions will be received from donors that have not yet pledged and from other donors who do not pledge. Assuming that these additional contributions are received, it is forecast that US\$ 836 million of uncommitted assets will be available at the end of 2011 and US\$ 1,738 million at the end of 2013.

5.16 The FAC noted that the expectation of US\$1.7 billion being available at the end of 2013 is in line with the figures presented at the Twenty-Second Board meeting. The FAC noted that if Bridge Funding was approved to mitigate the risk of disruption to program implementation, the assets available at the end of 2013 to finance Round 11 proposals could be reduced by US \$0.2 billion under the most conservative scenario (See Part 2 of the present report).

5.17 The FAC requested that the forecast include the commitment reserve which was created by the Board at the Twenty-Second meeting (GF/B22/DP22), even if the reserve is not required.

5.18 The FAC noted the potential risks of both delays in contributions or lower than expected contributions. The FAC will discuss this issue again prior to the Twenty-Third Board meeting based on updated information, to determine whether this issue should be brought to the attention of the Board.

PART 6: RESOURCE MOBILIZATION MATTERS

Information

Update on Resource Mobilization

6.1 The Secretariat updated the FAC on resource mobilization efforts with public donors, innovative financing, and private sector initiatives. The FAC noted the efforts to closely engage with donors on OIG issues, actively respond to inaccurate media reports, expand outreach to key stakeholders, and expand the dialogue by refocusing on the key messages of saving lives, providing health care, achieving the MDGs and converting pledges into contributions.

6.2 The FAC noted that a number of donors are expected to link their decisions on pledges and contributions to the outcome of the High Level Independent Review Panel and/or confirmation that strengthened control mechanisms are in place. Other Donors are expected to link decisions to progress with the reform agenda.

6.3 The FAC noted the result of the United Kingdom Multilateral Aid review which found that the Global Fund was one of nine organizations with an “excellent track record” for delivering results and that would receive increased funding from the UK.

6.4 The FAC acknowledged the efforts of the Secretariat to follow up on outstanding contributions and to work with traditional donors that have not yet pledged for 2011-2013. The FAC further noted that the final funding amount from the United States for 2011 was still subject to finalization of the 2011 budget, but that the U.S. Administration has presented a contribution for US\$ 1.3 billion in the 2012 budget.

6.5 The FAC noted the efforts of the Secretariat to expand the traditional donor base. It also noted that sustaining the gains would be considered by the Policy and Strategy Committee (PSC) in the development of the Global Fund Strategy.

6.6 The FAC noted the progress made on resource mobilization from the Private Sector, and in innovative financing through the Exchange Traded Funds and the Debt2Health initiatives. The FAC noted that the Secretariat was discussing with Germany and Egypt a possible agreement involving the cancellation of debt owed by Egypt, with counterpart funding to be provided for disease programs in a third country, Ethiopia. The FAC noted that such proposals required policy clarification from the FAC and requested a paper on the issue for decision prior to the next FAC meeting. The FAC also requested information on Global Fund grants in Egypt.

6.7 The FAC will review at its meeting prior to the Twenty-Third Board meeting the uptake of Multi-Year Contribution Agreements (MYCA), and will in the spirit of transparency also consider the possibility of sharing the findings of the European Commission audit which is currently ongoing.

Update on Investment Assets and Portfolio Returns

6.8 The World Bank updated the FAC on investment returns in 2010. The FAC noted that despite the difficulties in the investment environment for conservative fixed income based investors, the Global Fund Trust Fund's liquid asset portfolio had a solid performance through 2010, returning 2.66%. This compares well with the 2.74% seen through 2009. The FAC did note that the investment return in Quarter 4 of 2010 was just 0.02%.

6.9 The FAC further recognized that asset classes such as equities performed strongly in comparison through 2010, with developed country equity indices returning almost 9% on average and that with the low level of bond yields, investment returns may continue to be low going forward and possibly even negative.

6.10 Considering this new information, the FAC requested the Secretariat and the World Bank to develop a note for FAC consideration on the possibility of having a small equity allocation in the portfolio to help mitigate the risk of low or negative investment returns in fixed income investments.

PART 7: SCREENING AND RISK MANAGEMENT PROCESSES FOR PRIVATE SECTOR PARTNERS

Information

7.1 The FAC notes that private sector entities including corporations, foundations and individuals, make a significant and valued contribution to the mission of the Global Fund.

7.2 The FAC further notes that a key risk identified in the Corporate Risk Register involves that of partnering with partners who "may prove to be involved in behavior that is incompatible with the Global Fund's mission and principles and in other ways offend public sensibilities."

7.3 The FAC acknowledged that, while the Secretariat already has a number of measures in place to manage this risk, a further codification and revision was welcome. Consequently a revised "Global Fund Partner Screening Guidelines" was put forward for FAC consideration in Annex 1 of GF/FAC16/06. These guidelines clearly state how donations and partnerships involving the transfer of resources of different sizes to the Global Fund will be screened and approved. The Guidelines propose a lighter-touch internal screening process for smaller donations and a more comprehensive external approach for larger donations. Both are described in detail in Annexes 2 and 3 of GF/FAC16/06 respectively. The Global Fund will continue to ensure alignment of the sector from which the partner originates with the Global Fund's values.

7.4 The FAC made the following decision:

FAC Decision Point 1: Screening and Risk Management Processes for Private Sector Partners

The FAC notes the arguments and processes described in the paper entitled "Screening and Risk Management processes for Private Sector partners", and endorses application by the Global Fund of these processes as well as the "Global Fund Partner Screening Guidelines" set out in Annex 1.

PART 8: CORPORATE RISK MANAGEMENT

Information

8.1 The Secretariat updated the FAC on the current status of risks as outlined in the Corporate Risk Register (CRR) as well as outlining the current risk management process.

8.2 The FAC acknowledged the helpful update and noted that risk management needs to be improved at the Committee and Board level. The FAC noted the proposed Board decision from the PSC to take on the coordination of risk management. Certain members of FAC expressed the view that this should be the responsibility of the FAC.

8.3 The FAC will suggest to the Board leadership to engage in a facilitated discussion of the Board and Committee leadership on the Corporate Risk Register and the mechanisms for full Board/Committee engagement in the future, including considering an Executive Committee. The FAC noted the urgency for such action and the FAC Chair committed to contacting the Board Chair and Vice-Chair shortly after the conclusion of the 16th FAC meeting to ensure that the issue be properly addressed at the Twenty-Third Board meeting.

PART 9: STAFF COUNCIL UPDATE

Information

9.1 The Chair of the Staff Council updated the FAC on a number of staff concerns related to tax equalization, the staff survey results and other issues related to respect and diversity, recruitment processes, and performance management.

9.2 The FAC noted the assurances from the Secretariat that the Human Resources issues would be comprehensively addressed in the September 2011 FAC meeting.

9.3 The FAC also noted the lack of budget for the Staff Council to seek legal and technical advice which puts the Council in a disadvantaged position. The FAC asked the Global Fund Secretariat to consider ways to assist the Staff Council with the right support.

PART 10: TAX EQUALIZATION

Information

10.1 The FAC noted the proposed changes to the tax equalization policy (GF/FAC16/08) which would change the methodology used to calculate the tax allowance for staff with private or spousal income, and would propose a sunset clause to remove tax equalization for a number of staff that are currently tax resident in countries other than Switzerland, France or subject to Worldwide taxation (US Citizens/Green card holders) at the end of 2012.

10.2 It was noted that the Staff Council had significant concerns regarding the proposed changes, particularly on whether these changes breached the “Grandfathering” principle which was a fundamental assurance provided to staff transitioning from World Health Organization’s employment contracts to Global Fund contracts as a result of the Administrative Services Agreement (ASA) transition. The Staff Council had additional concerns regarding the perceived lack of involvement in the proposed changes to the policy.

10.3 The FAC acknowledged the potential impact of the change on staff morale, and reiterated the importance of the “Grandfathering” principle in relation to tax equalization in that staff should be treated in the same manner as when they were under the World Health Organization (WHO). However the FAC noted that if additional benefits were inadvertently provided under the tax equalization policy that went beyond what was provided under WHO, this needed to be reconsidered.

10.4 The FAC requested and acknowledged the commitment of both the Executive Management Team and the Staff Council to work together to find an agreed solution which could be shared with the FAC at the next meeting prior to the Twenty-Third Board meeting.

PART 11: OTHER FAC MATTERS

Information

Hedging

11.1 The FAC noted the update from the Secretariat on the approach to establish the hedging contract, and further noted given the current value of the US dollar, the benefits of the approach taken by the FAC and the Board. The FAC further noted that with the hedging contract in place, the final budget for 2011 was established at US\$ 325.6 million.

Audit

11.2 The FAC noted that the external audit of the financial statements by Ernst & Young is ongoing. It is expected that the auditors will attend the next FAC meeting in May and the FAC will then be in a position to recommend to the Board approval of the Financial Statements at the Twenty-Third Board meeting.

Investment Policy for the Global Fund Provident Fund

11.3 The FAC approved the minor changes proposed to the investment policy (GF/FAC 16/11).

FAC Decision Point 2: Changes to the Investment Policy of the Global Fund Provident Fund

Based on the information outlined in paper (GF/FAC16/11), the FAC adopts all the suggested changes to the GPF Investment Policy.

This decision does not have material budgetary implications for the 2011 operating expenses budget.

NSA Budget

11.4 The Board delegated to the FAC under DP/GF22/26 authority to agree the budgetary implications related to the launch of Round 11, the Second wave of National Strategy Applications (NSA) and the Health System Funding Platform. These implications resulted in the need for additional costs of US\$ 1.35 million to cover additional Round 11 and Health Systems Funding Platform preparations as well as changes to the design of the Second Wave of National Strategy Applications.

11.5 However due to the delay in the launch of Round 11, some US\$ 3.8 million will be deferred to the 2012 budget.

11.6 The FAC acknowledged the necessity of these adjustments and approved the following decision point.

FAC Decision Point 3: Secretariat Budgetary Implications of the Deferral of Round 11 and Additional 2011 Access-To-Funding Costs

The FAC refers to the Board decision on the “Launch of Round 11, the Second Wave of National Strategy Applications and a Health Systems Funding Platform Pilot” (GF/B22/DP26). Under the authority delegated to it by the Board in this decision, the FAC approves the use of an amount of US\$ 1.35 million to cover additional Round 11 and Health Systems Funding Platform preparations as well as changes to the design of the Second Wave of National Strategy Applications.

The FAC further notes the deferral to 2012 of costs relating to the screening and review of proposals from Round 11, the Second Wave of National Strategy Applications and the Health Systems Funding Platform Pilot in the amount of US\$ 3.8 million.

The budgetary implications of this decision for the 2011 Operating Expenses Budget are estimated at a net reduction of US\$ 2.4 million impacting professional fees, meeting, travel and communications costs.

Secretariat Office Space

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

Special FAC Meeting

11.8 The FAC decided to meet on 21 June 2011 to discuss the expected budgetary implications of the reform agenda. Prior to this meeting, the FAC will engage with the Board on the mandate that FAC will have with regard to these costs.

Other

11.9 The FAC congratulated Oren Ginzburg and Urban Weber on their appointment as Unit Directors in the Country Programs Cluster.

Complaints Procedure and Mediation Mechanism

11.10 The Board Chair and Vice-Chair have agreed on a complaints procedure in cases of allegations of inappropriate behavior by OIG staff or consultants engaged in audits or investigations or by Secretariat staff in pursuit of their functions. The OIG and the Legal Unit have proposed a mediation procedure for recipients to voice substantive concerns or disagreements about the findings of OIG audits and investigations prior to full blown arbitration as provided in the grant agreement. The Procedure would be voluntary, and would not be a substitute for Arbitration, but an informal mechanism to allow for resolution of disputes prior to costly arbitration.

11.11 The OIG and the Legal Unit are in the process of finalizing the proposed mediation procedure. It is envisaged that a three-member independent mediation panel, selected by the Board, would be formed to hear such cases which should be pursued in a timely manner. The two proposed procedures are subject to FAC review, and it is intended to present this to the Board at its Twenty Third meeting for approval. The approved procedures will be posted on the Global Fund website thereafter.

This document is part of an internal deliberative process of the Global Fund and as such cannot be made public until after the Board meeting.

Exceptional Extension Funding Related to the Timing of the Approval of Round 11

Definitions

1. This measure applies to grants that reach the end of the term of Phase 2, Rolling Continuation Channel (“RCC”) (“Expiring Grants”) after 30 April 2012.

Eligibility Criteria

2. The Country Coordinating Mechanism (“CCM”)¹ is eligible to apply for Exceptional Extension Funding according to the policy on income level and cost sharing policy under which they were originally rendered eligible for applying for Global Fund financing.
3. The applicant shall have already applied for funding in Round 11 to continue the activities of the Expiring Grant for the same component.
4. No other source of funding (including any existing Global Fund grant) shall be available to fully continue the activities of the Expiring Grant.
5. The Expiring Grant shall not have been rated “C” in its last two disbursement requests prior to such application.

Timing of Applications

6. Applicants shall be allowed to submit a request for Exceptional Extension Funding up to six months prior to the end of the Expiring Grant.

Funding Period

7. The Exceptional Extension Funding may be provided from the End Date of the Expiring Grant :
 - (a) Up to three months after Round 11 is approved in the case of grants where the corresponding Round 11 proposal has been rejected,

Or

 - (b) Up to twelve months after the approval of Round 11 in the case of grants where the corresponding Round 11 proposal has been approved.

¹ In cases where the original application was approved by the Board as a non-CCM proposal, the original grant applicant is eligible to apply.

Upper Ceiling Amount under Exceptional Extension Funding

8. The upper ceiling amount of the Exceptional Extension Funding amount shall be made on the basis of the following calculation:
 - a. The Funding Period established pursuant to paragraph 7,

Multiplied by
 - b. The average monthly amount of actual and projected expenditures for Phase 2, RCC 2 of the Program, in accordance with the agreed budget for the Expiring Grant.

Additional Funding

9. If there are no unspent or undisbursed amounts remaining under the Expiring Grant, additional funding may be made available up to the Upper Ceiling Amount calculated pursuant to paragraph 8.
10. If there are unspent or undisbursed remaining under the Expiring Grant, additional funding may be made available based on:
 - a. The Upper Ceiling Amount, calculated pursuant to paragraph 8;

Less
 - b. Funds which are unspent, uncommitted and undisbursed at the end of the Expiring Grant.
11. In the event the Board subsequently approves additional funding under Round 11 or another funding channel to cover the same activities covered by the Exceptional Extension Funding, the Global Fund Secretariat shall have the delegated authority to adjust as appropriate either the additional funding or the Exceptional Extension Funding so as to avoid duplication of financing for the same activities.

GUIDANCE ON LOCATION OF FURTHER INFORMATION

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

All documents listed below are available on the FAC password-protected website:
<http://www.theglobalfund.org/protected/committees/fac/>

Item:	Further information available:
1. Potential Impact of Round 11 timing on existing program implementation	GF/FAC16/04 Potential Impact of Round 11 timing on existing program implementation
2. OIG Investigations Report	GF-OIG-11-002 REPORT OF INVESTIGATION OF MALI MALARIA (1 & 6) AND TUBERCULOSIS (4 & 7) GRANTS
3. Financial Matters	GF/FAC16/03 Operating Expenses Review 2010 GF/FAC16/05 Forecast of Assets available for Grant Approvals
4. Resource Mobilization Matters	GF/FAC16/07 Trustee Report
5. Screening and Risk Management Processes for Private Sector Partners	GF/FAC16/06 Screening and Risk Management Processes for Private Sector Partners
6. Tax Equalization	GF/FAC16/08 Proposed changes to the Tax Equalization Policy
7. Other FAC Matters	GF/FAC16/10 NSA - adjustment to 2011 Operating Expense Budget GF/FAC16/11 Changes to Provident Fund Investment Policy