

**GF/B31/15**

**Board Information**

**FINANCE AND OPERATIONAL PERFORMANCE COMMITTEE  
DECISIONS AND RECOMMENDATIONS TO THE BOARD**

**Purpose:**

1. This report serves to inform the Board about the decisions taken by the Finance and Operational Performance Committee (“FOPC”) since the November 2013 Board Meeting in accordance with its charter.

## **INTRODUCTION**

This report compiles decisions recommended to the Board by the Finance and Operational Performance Committee (“FOPC”), decisions taken by the committee under its delegated authority according to its Charter, and an overview of items discussed under the committee’s oversight. For an exhaustive account of committee deliberations, governance officials are invited to read the Chair and Vice Chair’s Summaries of the FOPC meetings.

This report is divided as follows:

- Part 1: Decisions recommended to the Board
- Part 2: Decisions taken by the FOPC pursuant to its delegated authority.
- Part 3: Matters addressed by the FOPC as part of its oversight and advisory functions in accordance with its charter.
- Part 4: Decisions recommended by FOPC and approved by the Board via electronic vote

## **PART 1: DECISIONS RECOMMENDED TO THE BOARD**

### **2014 Operating Expenses Budget**

- 1.1 At its Thirtieth Meeting in November 2013, the Board granted delegation of authority to the FOPC to approve an interim operating expenses (OPEX) budget for the first quarter of 2014. This delegation of authority was subject to a recommendation for the final 2014 OPEX Budget for approval by the Board at its Thirty-First Meeting in March 2014.
- 1.2 In December 2013 the FOPC reviewed and discussed in depth the 2014 OPEX budget recommended by the Secretariat. On this basis, the Committee is recommending Decision Point GF/B31/DPO4<sup>1</sup> to the Board for approval at the Thirty-First Board Meeting.

### **Comprehensive Funding Policy**

- 1.3 During several months the FOPC has been working to finalize the Amended and Restated Comprehensive Funding Policy (the “CFP”). Given the complexity and extent of work required toward the completion of the CFP, the Committee created a “CFP Working Group” formed by a reduced number of FOPC members and senior Global Fund staff. The CFP Working Group convened multiple times over the phone, and other times in person, during the course of almost a full year. The main purpose of updating the CFP is twofold: to conform key provisions to the needs of the New Funding Model and to make elements of the CFP more understandable to a broad audience, including the Board.
- 1.4 The CFP encompasses three pillars of financial safeguards:
  - i. Asset and liability management: the mechanism for matching notional Sources and Uses of Funds on an aggregated portfolio basis for an Allocation Period.
  - ii. Cash management: the mechanism for matching actual and expected cash inflows and outflows, based on Eligible Assets and Eligible Liabilities, on an aggregated portfolio basis over a rolling forward-looking 12-month period.
  - iii. Liquidity-risk management: the approach of establishing a minimum liquidity reserve and the potential to utilize back-up liquidity instruments to further address short-term cash requirements.
- 1.5 On this basis, the FOPC is recommending GF/BM31/DPO5<sup>2</sup> to the Board for approval at the Thirty-First Board Meeting.

### **The Initial Allocation Amount**

- 1.6 The starting point for the FOPC to determine the allocation to Country Bands (the “Initial Allocation”) is the amount of announced replenishment results for the 2014 – 2016 Replenishment Period.
- 1.7 At its 10<sup>th</sup> Meeting, the FOPC endorsed the methodology applied by the Secretariat to calculate the Initial Allocation on the basis of:
  - i. principles and methodology outlined in the Amended and Restated CFP;

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<sup>1</sup> GF/B31/03A 2014 Operating Expenses Budget

<sup>2</sup> GF/B31/04 Comprehensive Funding Policy

- ii. deductions taken to account for certain donor pledges with an incentive nature, technical assistance requirements and other donor-specified conditions; and
- iii. net of deductions and uses of funds not to be accommodated through the allocation formula including: Operating Expenses for the 2014 – 2016 period, Special Initiatives and Regional Programs.

1.8 Accordingly, the FOPC is recommending Decision Point GF/BM31/DPO8<sup>3</sup> to the Board for approval at the Thirty-First Board Meeting.

### **Transition from the Third to the Fourth Replenishment Period**

1.9 The transitioning from the Third (2011 – 2013) to the Fourth (2014 – 2016) Replenishment Period presents unique challenges as it coincides with transitioning from the rounds-based model to an allocation-based funding model. In this context, one-off transitional measures -- to accommodate the transition from the Third to the Fourth Replenishment –including ways to consolidate the Initial Allocation with “Existing Funds”<sup>4</sup> available for allocation –were discussed and approved by the FOPC at its 10<sup>th</sup> meeting

1.10 Additionally, the Strategy, Investment, and Impact Committee (the “SIIC”) and the FOPC worked together to coordinate Committee discussions and enable agreement on the optimal approach to the transition from the Third to the Fourth Replenishment Periods. Based on this common agreement the FOPC and the SIIC are jointly recommending the Decision Point GF/B31/DPO9<sup>5</sup> to the Board for approval at the Thirty-First Board Meeting.

## **PART 2: DECISIONS TAKEN BY FOPC PURSUANT TO ITS DELEGATED AUTHORITY**

### **Operating Expenses Budget for the first quarter of 2014**

- 2.1. As stated in paragraph 1.1 of this report, the Board granted delegation of authority to the FOPC to approve an interim operating expenses budget for the first quarter of 2014.
- 2.2. Accordingly, at its 9<sup>th</sup> Meeting the FOPC approved by consensus the following decision point:

**Decision Point GF/FOPC09/DP1: Operating Expenses Budget for the First Quarter of 2014**

- 1. The Finance and Operational Performance Committee (the “FOPC”):
  - a. Notes the authority delegated by the Board to the FOPC to approve an interim operating expenses budget for the first quarter of the 2014 fiscal year in an amount that does not exceed USD 77.4 million (GF/B30/DP6);

<sup>3</sup> GF/BM31/06 Funding Allocations 2014-2016

<sup>4</sup> Existing Funds refer to the amount of undisbursed sources of funds, as at 31 December 2013, originating from the Third Replenishment or earlier.

<sup>5</sup> GF/B31/05 – Revision 1: Transitioning from the Third to the Fourth Replenishment Period

- b. Acknowledges its receipt, review and discussion of the Corporate Work Plan 2014, as set forth in GF/FOPC09/3, (the “2014 Work Plan”); and
  - c. Recognizes the Secretariat will periodically report to the FOPC on actual versus budgeted expenditures and the Secretariat’s management of any exposure to foreign-exchange rate volatility, as previously authorized by the Board (GF/B22/DP18).
2. Based on the delegated authority, review and discussion outlined in paragraph 1 above, the FOPC approves the interim operating expenses budget for the first quarter of the 2014 fiscal year, in the amount of USD 74.7 million.

This decision’s impact on the 2014 operating expenses budget is USD 74.7 million.

### **Revised Policy on Financial Administration**

- 2.3. The Global Fund has now entered the final implementation stages of the Finance Step-Up Project (the “Step-Up Project”) which has led to a major turnaround in the Global Fund’s grant and financial management capacities, processes and supporting systems. Ultimately, the Step-Up Project aims to redesign processes to implement effective procedures and enhance the Global Fund’s financial capacities, especially those related to grant management and disbursement of resources to principal recipients.
- 2.4. In this context, the Secretariat proposed the revisions to the Policy for Financial Administration<sup>6</sup>, as set forth in (GF/FOPC10/06-PART A/Annex 1), in order to:
  - i. effectively deploy new arrangements with the World Bank (the “Trustee”) to proceed with the transfer of commitments and disbursements to the Global Fund; and
  - ii. support the Secretariat with the broader changes affecting cash management and funding.
- 2.5. Accordingly, the following decision point was approved by the FOPC:

#### **Decision Point GF/FOPC10/DP4: Revised Policy on Financial Administration**

Based on the recommendations of the Secretariat, as outlined in GF/FOPC10/06 – Part A, the Finance and Operational Performance Committee decides to approve the revised Policy on Financial Administration, as set forth in Annex 1 to GF/FOPC10/06 – Part A.

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<sup>6</sup> The Policy for Financial Administration governs the financial administration of the Global Fund. It seeks to ensure that funds entrusted to the Global Fund are used prudently and in accordance with Board-approved policy, its transactions are appropriately approved and recorded in a manner that ensures reliability of information, and that its assets are safeguarded.

## Trustee Relationship

- 2.6. The Trustee and the Global Fund entered into the original Trust Fund Agreement in 2002, which has been subsequently amended in 2003 and 2005. The Secretariat proposed amendments to the original Trust Fund Agreement, as set forth in (GF/FOPC10/06 – PART A), which (a) include those amendments into the main documents; and (b) reflect the changes in the new scope of services under the proposed relationship with the Trustee (i.e. transfer of commitment and disbursements to the Global Fund as stated in paragraph ‘2.4 i’ of this report).
- 2.7. As such, the FOPC adopted the following decision point:

### **Decision Point GF/FOPC10/DP5: Trustee Relationship**

The Finance and Operational Performance Committee acknowledges the Amended and Restated Trust Fund Agreement, as set forth in Annex 2 to GF/FOPC10/06 – Part A, and approves the modified arrangements between the Global Fund and the International Bank for Reconstruction and Development, as Trustee of the Trust Fund to the Global Fund to Fight AIDS, Tuberculosis and Malaria, outlined in the Amended and Restated Trust Fund Agreement.

## Investment Framework for Funds Held in the Trust Fund

- 2.8. The Secretariat proposed the FOPC to adopt the Trustee’s Summary of Investment Procedures and Practices, as set forth as in document GF/FOPC6-PART B/Annex 1, as the main reference investment document to provide background information for the periodic reports prepared by the Trustee on the investment performance of Secretariat’s funds held in the Global Fund Trust Fund.
- 2.9. Accordingly, the FOPC approved the following decision point.

### **Decision Point GF/FOPC10/DP6: Investment Framework for Funds Held in the Trust Fund**

1. The Finance and Operational Performance Committee (the “FOPC”) acknowledges:
  - a. The recommendations of the Secretariat with respect to the framework for investing funds held in the Trust Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria (the “Trust Fund”), as set forth in GF/FOPC10/06 – Part B; and
  - b. The Summary of Investment Procedures and Practices presented by the World Bank as Trustee to the Trust Fund, as set forth in Annex 1 to GF/FOPC10/06 – Part B (the “Investment Procedures and Practices”), which will serve as the procedures and practices applied by the Trustee to manage the investment of funds held in the Trust Fund.

2. Accordingly, the FOPC approves the investment framework for the funds held in the Trust Fund and the investment objectives, as set forth in paragraphs 2.1.3 and 2.1.4 of GF/FOPC10/06 – Part B (the “Investment Framework”).
3. The FOPC requests:
  - a. The Secretariat to review and report on the performance of investments of the funds held in the Trust Fund under the Investment Framework and present any proposed modifications to the FOPC for approval; and
  - b. The World Bank to update the Secretariat of any modifications to the Investment Procedures and Practices, so the Secretariat can inform the FOPC through its periodic reporting on financial and treasury matters.

### **PART 3: MATTERS ADDRESSED BY FOPC AS PART OF ITS OVERSIGHT AND ADVISORY FUNCTIONS IN ACCORDANCE WITH ITS CHARTER.**

#### Global Fund’s Operating Expenses Benchmarking

- 3.1. At its 9<sup>th</sup> Meeting, the FOPC received an update on the methodology and results of a benchmarking exercise on Global Fund’s Operating Expenses in comparison to five similar organizations.

#### Provident Fund

- 3.2 The Secretariat presented an overview of the results of the benchmark study conducted by AON Hewitt consultants to review the financing structure and benefits provided under the Global Fund Provident Fund (GFPPF). The study covered three core areas: 1) risk management, 2) comparison of benefits to attract and retain key talent and 3) assessment of different financing and plan design options.

#### Human Resources Policy Framework

- 3.3. The Secretariat presented a set of proposed revisions to the Global Fund Human Resources Policy Framework (“the Framework”) approved by Board at its 16<sup>th</sup> Meeting in 2008. The Secretariat’s presentation primarily focused on the rationale to update the Framework, current human resources issues and proposed solutions and update of the reward and recognition architecture of the Global Fund.

#### The Health Campus Project

- 3.4. Over the past few years the Global Fund has been working in conjunction with Swiss authorities to identify adequate workspace near to other international organizations active in global health issues. The completion of this project, also known as the “Health Campus Project”, would allow the Global Fund to be accommodated in the Canton of Geneva together with “sister” organizations. At the 10<sup>th</sup> FOPC Meeting, the Secretariat provided an update of the original deadlines and the current timetable toward completion of the Health Campus project and options/solutions to move forward with this project.

**PART 4: DECISIONS RECOMMENDED BY FOPC AND APPROVED BY THE BOARD VIA ELECTRONIC VOTE**

- 4.1 There have been no electronic Decisions recommended to the Board by the FOPC since the Thirtieth Board Meeting in November 2013.