

Thirty-Third Board Meeting

FOPC Report to the Board

GF/B33/18

For Board Information

PURPOSE: This report serves to inform the Board about the decisions taken by the Finance and Operational Performance Committee (the “FOPC” or “Committee”), in accordance with its charter, since the Thirty-Second Board Meeting in November 2014.

Introduction

1. This report compiles decisions recommended to the Board by the Finance and Operational Performance Committee (the “FOPC” or “Committee”), decisions taken by the committee under its delegated authority according to its Charter, and an overview of items discussed under the committee’s oversight since the last Board Meeting.

2. Since the Thirty-Second Board meeting in November 2014, the FOPC assembled one time in person. Soltan Mammadov and Jason Lawrence served as Chair and Vice-Chair of the Committee, respectively. The Vice Chair of the Audit and Ethics Committee (the “AEC”) was invited to participate in certain Committee discussions, particularly those related to risk oversight, as an observer so as to facilitate committee collaboration on cross-cutting issues. The leadership of the Strategy, Investment and Impact Committee (the “SIIC”) was also represented during certain FOPC discussions to further facilitate committee coordination around cross-cutting issues related to the oversight of market-dynamics matters as well as the financial, operational and strategic considerations related to the implementation of the funding model.

3. The 14th FOPC Meeting was held from 3-4 March 2015 in Montreux, Switzerland. The Committee agenda for this meetings followed the FOPC Work-plan structured around the following responsibilities:

- a) Financial oversight;
- b) Performance oversight;
- c) Risk oversight;
- d) Resource mobilization strategies, policies and activities of the Secretariat; and
- e) Corporate and administrative policies and activities of the Secretariat.

4. For an exhaustive account of committee deliberations, governance officials are invited to read the Chair and Vice Chair’s Report of the 14th FOPC Meeting, available on the electronic repository of Board and committee documents.

5. This report on the FOPC’s deliberations since the Thirty-Second Board Meeting 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

6. There were no decisions recommended to the Board since the Thirty-Second Board Meeting.

Part 2: Decisions taken by the FOPC pursuant to its delegated authority

Revision of the Amended and Restated Human Resources Policy Framework

7. At the 14th FOPC Meeting, the Secretariat proposed a series of changes to the Global Fund's Tax Equalization Policy embedded in Part 4 of the Amended and Restated Human Resources Policy Framework ("HRPF"). The proposed changes reflect the implementation of an internal taxation¹ policy that became effective in January 2013 and other minor changes to align the text of the Tax Equalization Policy with current practice².

8. On this basis, the FOPC unanimously approved the following decision:

GF/FOPC14/DPO1: Approval of the Amended and Restated Human Resources Policy Framework

Based on the recommendations of the Secretariat, the Finance and Operational Performance Committee approves the Amended and Restated Global Fund Human Resources Policy Framework as set forth in GF/FOPC14/13-PART B, which incorporates amendments to the provisions on tax equalization and shall become effective 04 March 2015.

Administrative changes to the Constitutional Declaration and Benefit Rules of the Global Fund Provident Fund

9. The Global Fund Provident Fund (the "GFPPF") was established in 2009 to provide retirement, death and long-term disability benefits for employees and their qualifying dependents and beneficiaries. The FOPC has decision-making authority over all aspects of the GFPPF including any changes made to Constitutional Declaration and Benefit Rules, while the operations of the GFPPF rests with the GFPPF Management Board in accordance with its Charter and the Benefits Rules. As such, the GFPPF Management Board establishes and maintains regulations and procedures as necessary, including but not limited to implementation of the Benefits Rules.

10. At the 14th FOPC Meeting, on the recommendation of the GFPPF Management Board, the Secretariat introduced proposed changes to the GFPPF's Constitutional Declaration and Benefits Rules. The main purpose of the proposed changes was to further tighten GFPPF policies, including the elimination of any gaps between the GFPPF benefits and the Global Fund's insurance coverage, while a) allowing the GFPPF Management Board sufficient discretion in the administration of benefits; b) minimizing the risks and liabilities GFPPF is exposed; and c) ensuring competitive benefit coverage³.

¹ Internal Taxation is defined as hypothetical deduction of tax from an employee's salary, meaning, it theoretically reduces an employee's gross salary by a notional amount of Swiss taxes. In effect, the employee's net income remains the same and no tax payments are made to Swiss tax authorities. This is a common practice implemented by a number of international organizations which results in certain groups of employees being exempt from tax on employment income.

² For additional information on the proposed changes to the HRPF refer to document GF/FOPC14/13 – Part A and Part B

³ Refer to FOPC document GF/FOPC14/09 for further details on the changes to the Constitutional Declaration and Benefit Rules of the Global Fund Provident Fund.

11. Accordingly, the FOPC unanimously approved the following decision point:

GF/FOPC14/DPO2: Approval of the amended Global Fund Provident Fund Constitutional Declaration and Benefits Rules

Under the authority delegated by the Board, the Finance and Operational Performance Committee approves the amended Global Fund Provident Fund Constitutional Declaration and Benefits Rules, as set out in Annex 2 to GF/FOPC14/09.

Part 3: Matters addressed by the FOPC as part of its oversight and advisory functions in accordance with its charter

Funding model update

12. In March 2015 the FOPC received an update on the funding model implementation with special focus on progress made in funding requests. Among other topics, the FOPC discussed the following: (i) the number concept notes that has gone through technical review thus far, (ii) amounts of funding requests that have been revised and recommended to the Board for approval, (iii) efficiencies identified during the grant making process, (iv) domestic funding trends, and (v) timing of technical review from concept note submission to decision notification. The Committee also received an update on the register of Unfunded Quality Demand (“UQD”) which is now available on the Global Fund website. The FOPC recognized no resources are available to fund items in the UQD Register at this time. The FOPC was also informed about the Secretariat’s approach to address difficult recovery cases.

Financial oversight

13. At the 14th FOPC Meeting the Committee received an update on core financial matters within the FOPC remit. This update focused on the presentation of preliminary information regarding the financial position of the Global Fund at the end of 2014, which included preliminary actual figures for pledges and contributions, grants expenses and disbursements and operating expenses (“OPEX”). End of year results for grants and OPEX budgets for the past fiscal year were compared against the first and last forecast exercises conducted in 2014. Complementing the financial information, the Secretariat presented an update on the improved cash management practices that have facilitated the stabilization of cash balances in country. Furthermore, the FOPC received the latest analysis of the impact of shortened grant durations. The potential impact of shortened grant durations in 2017 is estimated to be approximately USD 1.1 billion, which has decreased from the initial, interim views in September 2014 and November 2014, when the estimates were USD 1.8 billion and USD 1.3 billion, respectively.

14. FOPC discussions also touched on the challenging global environment in 2014 and the consequent foreign exchange impact on Global Fund resources, as well as efforts to establish relationships with commercial banks to mitigate currency and other financial risks. The World Bank (the “Trustee”) provided an update on the 2014 performance of the investment of assets held in the Trust Fund of the Global Fund (“TFGF”). The assets in the TFGF are managed by the Trustee in accordance with the Revised Investment Framework⁴ approved by the FOPC in June 2014. In December 2014, the Global Fund’s portfolio totaled approximately USD 4.3 billion, with an equity

⁴ GF/FOPC11/DP01

allocation⁵ of USD 100 million. Overall, the investment portfolio returned 0.93% in 2014 and earned a total investment income of approximately USD 40.4 million during the course of the year.

Corporate Key Performance Indicators

15. The Committee received an overview of the 2014-2016 Corporate Key Performance Indicator (“KPI”) Framework covering 2014 performance assessments and updates and the updated 2015 targets for KPI 6 (alignment with national reporting systems), KPI 12 (human rights), and KPI 16 (quality of management and leadership). The same information was shared with the SIIC at its 14th Meeting held in February 2015. Following SIIC and FOPC review, the remaining 2015 targets will be presented to the Board in March 2015 for final approval.

Risk Management

16. Ahead of the 14th FOPC meeting, the Chief Risk Officer (the “CRO”) shared with the Committee the Report on Risk Management (GF/FOPC14/05 – Revision 1); the same version of the report was also shared with the SIIC and AEC for information and discussion at their respective February and March meetings. This version of the Risk Management Report captured observations about the first annual assurance opinion issued by the Office of the Inspector General on governance, risk management and internal control. The updates since the last report in November 2014 highlighted: a) improvement in the risk related to the Secretariat culture, which was downgraded from “high” to “medium”; b) elevation of IT related risks from “medium” to “high” following the system outage incident that took place in mid-December 2014; and c) higher exposure of the Global Fund to foreign exchange-related risks.

17. The CRO also briefed the Committee on the second phase of the risk and assurance initiative which will consist of the launch of pilot projects executed by Country Teams at the Secretariat working together with risk owners, and supported by a dedicated team in the Risk Management Department. These pilots will entail the development of assurance plans for individual grants as well as their implementation. Full deployment of this work across the portfolio will follow after validation of outcomes and lessons learnt through the pilot exercise.

Human Resources Matters: the Global Fund Provident Fund

18. The Treasury and Deputy Chief Financial Officer, in her capacity as Chair of the Global Fund Provident Fund (“GFPPF”) Management Board, presented to the Committee a summary of the 2014 end-of-year results of the GFPPF. As at 31 December 2014, the assets of the GFPPF fully cover the underlying liability of CHF 97.4 million for employee benefit reserves, and the membership of the Provident Fund increased from 637 in 2013 to 686 in 2014. CHF 90.6 million was held in investments for funding the future employee benefit obligations. The full 2014 annual financial statements of the GFPPF are available in document GF/FOPC14/09.

Resource Mobilization

19. In March 2015 the Secretariat updated the FOPC on the latest developments to raise additional resources for Global Fund programs. To date, since the initial allocation⁶ was announced to countries in March 2014, an additional USD 42 million have been pledged by private sector donors⁷. The Secretariat also shared with the Committee a series of the challenges to secure contributions from High Net-Worth Individuals (“HNWIs”), for example donor preferences to make pledges in their local

⁵ Under the Revised Investment Framework up to 10% of the assets in the TFGF can be invested in equities.

⁶ GF/B31/DPo8

⁷ PRODUCT (RED) and Partners increased their pledge to the Global Fund by USD 30 million following a successful campaign around World AIDS Day 2014, and M-A-C AIDs Funds, Goodbye Malaria and Comic Relief have contributed USD 12 million

currency. The Secretariat plans to explore alternative options that could help facilitate such contributions and present this analysis to the FOPC at its next meeting.

20. Further, the Secretariat shared with the FOPC an overview of the upcoming activities and key milestones in preparation for the Fifth Replenishment of the Global Fund. Traditional donors, the private sector, emerging powers and domestic finance were introduced as the key pillars of the next replenishment strategy.

Honorarium Framework

21. Following on previous FOPC discussions, the Chair and Vice Chair of the FOPC led a discussion on possible changes to the current honorarium arrangements at the Global Fund. A full account of the FOPC discussion on this matter is provided in the Chair and Vice-Chair's notes of the 14th FOPC Meeting. Even though there was general agreement on a set of core principles, including the lack of support for broadening the scope of the current honorarium arrangements, no formal recommendation will be presented at the March 2015 Board Meeting as the FOPC felt this issue warrants further discussion and consultation.

Procurement matters and market shaping dynamics oversight

22. The Committee received updates on a series of procurement matters including the E-marketplace initiative and the recent revision of the procurement regulations of the Global Fund. Following last year's FOPC discussions on the E-marketplace, the Chief Procurement Officer provided an overview of the rationale and operating model of the online platform under development, the business case, a qualitative risk and benefit assessment of the overall initiative and the capability building program under development for future users. Included among the next steps to advance this initiative are to continue the development of, and subsequently test, the online platform in close collaboration with a subset of future users (i.e., pilot phase), which will involve examination of processes, workflows, procurement guidelines, and technology readiness among other things. In relation to the updated procurement regulations, the Secretariat informed the Committee that the regulations have been updated to align with existing procurement practices and initiatives.

23. Further to the Board's decision in November 2014 to allocate oversight responsibility for market dynamics matters to both the FOPC and SIIC,⁸ in February 2015, the Secretariat shared the proposed procedures for FOPC and SIIC joint oversight of market dynamics matters. These proposed procedures have been developed in collaboration with the FOPC and SIIC Focal Points for market dynamics matters⁹.

IT Update

24. At the FOPC Meeting in March 2015, the Secretariat briefed the Committee on a systems outage experienced in December 2014. Noting the successful efforts to recover inaccessible data, the Secretariat provided an overview of the ongoing IT transformation at the Global Fund, progress in 2014, and the 2015 work-plan.

⁸ GF/B32/DP08

⁹ GF/FOPC14/14 – GF/SIIC14/04

Part 4: Decisions recommended by FOPC and approved by the Board via electronic vote

25. There have been no electronic decision points recommended to the Board by the FOPC since the Thirty-Second Board Meeting in November 2014.

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.