



GF/B5/8

Monitoring, Evaluation, Finance and Audit Committee (MEFA)

Outline: This paper presents the reviews and working progress of the MEFA Committee. It contains the meeting report and four annexes for consideration by the Board, including a list of referenced documents.

Summary of Decision Points:

The MEFA Committee requests the Board **to take note of this report** and to approve the following items:

- 1. Monitoring and Evaluation:** decision points for this item are presented in Board document number **GF/B5/6 Monitoring and Evaluation Strategy** and will be considered separately.
- 2. Fiduciary Agreement:** decision points for this item are considered separately and presented in Board document number **GF/B5/13 Fiduciary Arrangements for Grant Recipients** for endorsement by the Board.
- 3. Annual Report:** This subject is presented in Board document number **GF/B5/12 Annual Report**, approval of which is sought by the Board for the continuation of the current approach taken.
- 4. Procurement Policy:** the Board is requested to approve the Procurement Policy, attached as **Annex 4**.
- 5. External Auditor:** The appointment of Ernst & Young, Ltd. as external auditor of the Global Fund.

Monitoring, Evaluation, Finance and Audit Committee (MEFA)
Global Fund Offices, Geneva

Meeting Report

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Part 1 Meeting Proceedings, 3-4 April 2003

1. Organizational Dinner and approval of Agenda

An organizational dinner was held to review the proposed agenda and work plan for the next 2 days of MEFA committee meetings.

The importance of spending concentrated time on Monitoring and Evaluation in the agenda was stressed. On the agenda item regarding the Trustee agreement, questions were raised about the anticipated outcome of the topic: to hear from the World Bank on their current scope of services, understand how their fees are derived and direct the Secretariat to recommend modifications to the agreement based on the information presented.

Decision

- *The agenda was adopted as distributed.*

2. Approval of MEFA Meeting Report from January 2003

Changes were recommended to the draft report, including clarifying the summary decision on measuring resource effectiveness and adding the recommendations from the MEFA sub-committee on independent consultant case review.

Decision

- *With the recommended changes included in a revised report, the report was approved.*

3. Monitoring and Evaluation

The purpose of this session was to review, discuss and recommend approval to the draft strategy and plan for Monitoring and Evaluation at the Global Fund.

Background information was provided to provide context for the discussion. It was commented that the M&E strategy paper covered some of the key outcomes of the MER working group.

An analogy for organizing an M&E plan, beginning with identifying a problem or set of objectives and asking the following questions:

- 1) "Have we done what we said we would do?" (process/output indicators)

- 2) "Did it have the effects we expected?" (outcome/coverage indicators)
- 3) "How did what we did impact the problem or objectives?" (impact indicators)

In addition, sections of the paper were discussed with recommendations provided as follows:

- a) It was recommended that the M&E strategy begin with a brief description of current international M&E efforts and capacity: what has been done and by whom (e.g. Stop TB, RBM, DHS, UNAIDS, etc.), the quality of the data and its relevance to the Fund, what consensus has been achieved on M&E indicators, what could be done better or is pending design and how the Global Fund leverages and benefits from or adds value to what exists. The Secretariat will propose to MEFA a terms of reference for a brief external study on existing international M&E capacity, the results to be included in the final M&E strategy.
- b) Principles earlier defined by the MER work group and approved by the Board should be included.

To measure the effectiveness of Global Fund resources, performance should be measured at 2 levels: a) country level (e.g. grant performance), b) Fund (e.g. Secretariat performance, key Fund processes) and global levels (e.g. global impact of Fund resources on the diseases, health and economic systems, access for vulnerable populations, etc.).

At the country level, PRs are accountable for ongoing monitoring of grant management and progress. Grant performance should be monitored on a periodic basis and reviewed before the end of the initially approved 2 year period as a basis for continued funding.

At the global level, external evaluations could be used to measure the long-term results the Fund has contributed to in terms of impact on disease, health and economic systems, access for vulnerable populations, etc.

At the Fund performance level, certain key processes could be monitored internally by the Secretariat as well as through scheduled external evaluations. A process to be monitored on an ongoing basis and also the subject of a scheduled external review should be the "proposal submission to approval process", including country capacity for drafting proposals, TRP review and outcomes (including evaluations of rating and recommended funding consistency), Board approval of Categories 1 and 2 and internal appeal.

The importance to distinguish between monitoring and evaluation was stressed. Monitoring is a continuous and immediate activity to measure progress towards goals or processes. Monitoring is usually performed internally to allow concurrent learning and continuous improvement. Evaluation is usually a one-time, comprehensive and scheduled activity, focused on results such as outcomes and impact. Evaluation is usually performed externally through commissioned studies or audits.

The Committee discussed **reporting requirements** and the frequency and timing of M&E at global and country levels.

At the country level, the Global Fund has defined 3 major timelines for receiving performance information from countries:

- i) quarterly (extending to possibly 6 month) requests for performance-based disbursements
- ii) annual reporting, including annual audits of program financial statements
- iii) 2-year reviews for further grant funding commitments.

A distinction was made between the required information needed to justify disbursement requests and the information needed (on a more long-term basis) to review grant achievements.

The principles guiding “**Performance-based funding**” were explained by the Secretariat:

- i) To rely, as much as appropriate, on data and reporting practices that are in place in country.
- ii) To only ask for information that will be used for important purposes: accomplishing this by asking the key questions, “why do we need it?” and “what will we do with it ?”
- iii) To begin with quarterly disbursement requests to assure appropriate funds flow and monitoring of inputs, extending to less frequent intervals as appropriate.
- iv) To seek financial and programmatic performance up-dates. The financial information will come from the PR’s financial statements with explanation of variances compared to budget.
- v) LFAs will review the requests and make recommendations to the Secretariat. The criteria for reviewing requests are under development, including exploring the criteria previously presented by the MER work group.

An annual report linked to the PR's fiscal year will provide consolidated information on programmatic performance and financial information. A financial audit by an independent auditor will also be required, which could be part of another qualified audit of the PR.

A review will be done before the 2-year mark for a grant to inform a recommendation for future funding. Questions were raised on the logistics of the **2-year review**: scope of review, timing and whether the review should be internal or external.

The Secretariat responded that the review would be performed by the Secretariat around the 20th month of the grant period. The TRP will not play a role in the 2-year evaluation.

The reliability and **quality of data** is a key factor at all levels, where M&E is performed. To assure this at the country level, CCMs can play an important role in assuring quality grant management and results given their on-the-ground experience.

The importance on using existing data was emphasized balanced with a caution on relying on others for data that may not be accurate and may not address key Global Fund evaluative needs.

The importance of ensuring that performance based disbursement processes does not become too burdensome for countries was stressed. In the short term, the indicators to be reported are expected to be related to processes, moving towards coverage in the medium term and – eventually – to impact.

Concerns were raised about how to deal with grantees proposals in Rounds 1 and 2 to make sure their monitoring and evaluation plans were robust.

A specific discussion occurred on how to appropriately measure **attribution or additionality**. The inherent difficulties in collecting baseline data and knowing which outcomes could be attributed to a specific donor were acknowledged. The committee guided the Secretariat to assign proportions of impact based on the donor's level of funding for that particular component and time period as a rough proxy for attribution.

A brief inventory of **external studies** was provided to inform a discussion on Global Fund commissioned evaluative studies versus those initiated by external interests. The following studies are currently being implemented or explored:

- i) Country Tracking Study to report on stakeholder perceptions of the Fund and assess whether the Fund's fiduciary mechanism fits with SWAPS and PRSPs. Being done by the London School. Not commissioned by the Global Fund but the Fund is working with the reviewers to influence the quality and relevance of the results.
- ii) Health ReformPlus to study the system-wide impact of the Global Fund resources on health systems.
- iii) Rockefeller or London School to study the impact of Global Fund resources on improving healthcare access to vulnerable groups.

While certain studies can be very helpful when focused on Global Fund priorities and guided by Fund experts, many can be premature, disruptive, labor intensive and misleading when not guided by Global Fund strategies and needs.

Finally, the committee discussed the management of M&E and the pros and cons of having Fund M&E performed by an **independent unit** from the Secretariat: the pros being objectivity (checks and balances), the cons being a loss of internal accountability for results, quality improvement and developing a culture of self-correction and learning.

Decisions

- ***The Secretariat will revise the draft M&E strategy and develop an M&E workplan which will be shared with MEFA for comments and submitted to the Board for approval.***
- ***The Secretariat will provide additional information on performance-based funding and reporting requirements in specific guidelines. These guidelines will include an overview of the information required for the 2 year grant performance review and should be communicated to countries.***
- ***The Secretariat will check with previous Board approvals on the issue of whether Category 1 proposals are allowed to scale up funding once approved or if a new proposal must be made. A paper will be drafted by the Secretariat for MEFA to present to the Board in June.***
- ***Regarding quality control of data at country level, it was recommended that the Secretariat find methods to assure that reports sent from the PR to the LFA also go to the CCM members, to assure that the PR is representing and managing the grant well.***

- **Regarding, external studies, unsolicited proposals for study requiring funding should generally not be accepted. Unsolicited studies not requiring funding should be critically reviewed by the M&E Unit as to their value to the Fund.**
- **The Secretariat will bring to MEFA via email or at its next meeting a description of existing or proposed external studies. And the Secretariat was asked to list priority topics for external reviews and draft a policy and process on external study due diligence to be approved at the next committee meeting.**
- **The Secretariat was also asked to update the information in the M&E Strategy paper to define critical Global Fund processes to be routinely monitored internally and those processes that should be scheduled for an external evaluation.**
- **The Secretariat is asked to bring terms of reference to the MEFA Committee that would define the scope of work for an external reviewer to be commissioned to evaluate the “Proposal submission to Approval” process.**
- **Regarding an independent unit from the Secretariat to perform Fund performance monitoring, the committee recommends that monitoring and the commissioning of external studies be managed by the Secretariat and be overseen by MEFA. The Secretariat was asked to elaborate on the pros and cons regarding the management of M&E as part of the M&E Strategy.**

4. Global Fund Annual Report

A progress report on the Fund (from its inception to June 2003) will be presented to the Board in June. After approval by the Board, the report should be published and disseminated to key audiences as quickly as possible (ideally, in time for the Paris donor conference in July).

The report will resemble an annual report; however, in its first publication will not cover a full calendar year. Subsequent reports will be completed annually by quarter 2 of the following year. Because this is the first report and results are still forming, its content will focus more on key process results (e.g. grants signed, components, monies contributed and disbursed), stories on observed impact and lessons learned.

The report is intended for key audiences such as donors, recipients and partners and ultimately the general public. The communications team is drafting, using data and information provided by M&E, portfolio management and general operations.

Decision

- ***The committee recommended an Executive Summary be included in the Annual Report and the intended audience be clearly identified to assure the content is relevant. The Secretariat will share the final draft of the report to MEFA prior to the next Board meeting.***

5. Rounds 1 and 2 Update

The Secretariat reported on the results of Rounds 1 and 2, including information on grants approved and signed, LFAs selected and funds disbursed. 45 grant agreements have been signed in 27 countries. Round 1 proposal clarifications have been completed and 50% of Round 2 clarifications are completed as well. The composition of PRs to date is 60% government, 20% NGOs, 7 countries have UNDP and 2 countries are using private sector. 8 countries have chosen multiple PRs.

Questions were raised on why only \$10-13 million had been disbursed to date. It was shared that Round 1 grants took longer to disburse against due to both parties (PR and the Fund) degree of readiness. Round 2 readiness has improved and thus disbursements are expected to be quicker. A request was reinforced to provide information on expected disbursements: amounts and timing.

Questions were raised about PRs: whether PRs that are NGOs were legitimate NGOs and the use of UNDP. The NGO PRs are well-known and credible NGOs. UNDP is used as a PR in exceptional cases such as Argentina, where there is a breakdown in financial systems, in Haiti, where financial capacity is severely limited and in the Ukraine, where there are limitations due to the population covered by the grant.

PR financial assessments are completed for most of Round 1 grants and will begin for Round 2 in the next few weeks. The Secretariat expects several Round 2 assessments to be done before the next Board meeting.

Procurement assessments are beginning for Round 1. Assessment results are categorized as: a) OK, b) needs strengthening (with gaps included as conditions precedent and c) major needs (unable to proceed). Most assessment results fall into the “needs strengthening” category with only 2 cases (to date) falling into the “major needs” category (being addressed).

Decisions

- ***The Secretariat was asked to look into expanding the Portfolio Reporting matrices providing the following additional information:***
 - ***Integrating Rounds 1 and 2***
 - ***Adding a column that gives a status report for each grant (e.g. financial assessment, procurement assessment, grant signed, number of disbursements, etc.) that rolls up into the summary matrix defined above.***
 - ***Adding a column that allows comment on issues and reasons for delays***
- ***It was recommended that a draft of this new format be shared with MEFA members prior to the next June meeting and that the information be updated. It should also be included in the Annual Report as an annex.***

6. Fiduciary Arrangement Update

The committee commented on important roles within the Global Fund fiduciary arrangement.

The committee emphasized the importance of strengthening the **role of the CCM**, viewing the CCM as the local partnership group with critical design and oversight responsibilities of the PR and the grant. CCMs should be accountable for proposal submission, monitoring of the PR, reviewing progress and performance reports, alerting the LFA of concerns and approving restructuring of projects.

A clarification was also made regarding the **LFA's role**: before a grant is signed, the LFA assesses the capacity of the PR (using all available information, including its own observations). Progress reports received from the PR are verified by the LFA, who validates information and reports findings and recommends to the Secretariat.

There was a discussion of the credibility and capacity of the LFAs to judge M&E plans and resulting monitoring and evaluation data.

Questions regarding **PRs and PR assessments** were addressed. Financial requirements for PRs are stipulated in the grant agreements and include, as a minimum, that they have acceptable audit arrangements (based on OECD/DAC) and that there be a financial audit annually. If a PR has been previously assessed, only new items will be assessed.

Procurement assessment was discussed with the following recommendations: that procurement assessments be completed before procurement occurs and as part of the annual evaluation. The Secretariat and WHO are looking for qualified procurement agents that could be used in countries where no adequate system is in place.

A report on **LFA composition and pricing** was provided:

- i) The composition of LFAs to date is Crown Agents: 2 countries (1 country discontinued, KPMG: 7 countries, PWC: 22 countries, UNOPs: 3 countries and World Bank: 1 country (an expansion project in India).
- ii) Pricing ranges were shared for PR assessments and implementation monitoring, the averages falling within the budgeted amounts approved in the 2003 work plan.

Decisions

- ***It was recommended that the Secretariat send feedback to CCMs when TRP clarifications are received and in review. CCMs should also receive reports on PR and grant performance as well as information should be shared by the Secretariat with the CCM on LFA findings.***
- ***Regarding PRs, more information was requested on the results of PR assessments, specifically, how PRs are being measured and what are the key aggregate findings are.***

7. LFA Competitive Tender

The Terms of Reference for LFA bidders and tender process were presented by the Secretariat

The committee provided the following feedback: that the Secretariat considers a name change for the LFA as Local Fund Agent is misleading in country. A name was suggested: Local Agent of the Global Fund. The Scope of Work should define what the LFA does versus the PR and the CCM. The Qualifications need to include a provision for speaking the national language.

Regarding selection criteria, it was agreed that the criteria would be shared with the committee with their relative weights, with competence and quality and credible experience in country receiving the highest credit, followed by coverage and price. It was emphasized that cost is not the primary consideration when selecting a LFA vendor.

The following questions were raised regarding the level of CCM involvement in the process of selecting LFAs: who in the CCM will be involved; at what points will they be involved; will they be consulted or given approval rights? Several options were explored with the request that the Secretariat present an analysis of the options to the committee.

Concerns were also raised about organizing the tender around sub-regions. Such a methodology would exclude national vendors and might force bidders into arbitrary bidding arrangements. It was agreed that sub-regions would not be pre-defined bidding requirements but rather that bidders would specify the countries they could cover and be judged based on coverage as a criteria for selection. Vendor coalitions would be encouraged to maximize country coverage.

The tender will be advertised in international print media, on the Web and via Board members.

It was agreed that LFAs should not be contracted outside of the competitive process unless there are no other viable options. For example, a potential LFA such as the World Bank (who will not participate in the competitive tender) can be considered for special circumstances. Clarification is needed on whether UN agencies will bid.

Decisions

- ***The Secretariat was asked to revise the TOR based on the committee's recommendations and to clearly describe the process of selection, including how short lists will be derived and how CCMs will be involved.***
- ***The Secretariat will present options to the committee for CCM involvement in the LFA selection process.***
- ***Being that time was limited, the proposed LFA Conflict of Interest Policy will be re-circulated with these revised documents for approval by MEFA at the June meeting.***

8. External Financial Audit

The Secretariat reported on the last and most significant issue needing resolution prior to issuing a competitive bid for an external auditor of the Fund's financial statements: access to Global Fund financial information from the World Bank and WHO. Feedback from the World Bank indicated no material problem with using existing reports and statements from the Bank as necessary data for the external auditor.

The use of WHO data, however, is more complex. Ms. Hilary Wild, Controller at WHO and invited guest, pointed out that in accordance with the 'single audit' policy observed by WHO, WHO documents cannot be made available to any external auditor other than the external auditor of WHO. All documents (including invoices, purchase orders, payment requests, personnel forms, etc.) pertaining to transactions undertaken by WHO pursuant to the Administrative Services Agreement with the Global Fund are the property of WHO and, consequently, would not be available to the external auditor of the Global Fund.

Financial reports and statements provided by WHO to the Global Fund can, however, be furnished to the Global Fund auditor. The proposal from the Secretariat described in the attached annex for enabling an annual external audit of the Fund is acceptable to WHO, as represented by Ms. Wild.

Interested and qualified audit firms will need to consult with WHO auditors to ensure they can get the necessary information to complete an audit of the Global Fund's financial statements. If the external auditors of WHO are required to do additional work, there may be a fee.

Regarding appropriate candidates, various options were explored, including the use of a country auditor such as the Auditor General of the Republic of South Africa, currently the external auditor of WHO. A conflict of interest concern was raised regarding allowing Deloitte and Touche on the bidder list, as they are the World Bank's auditor.

A selection process was discussed with the conclusion that a sub-group of MEFA would join the Secretariat in evaluating the bidders and recommend the most qualified vendor. That recommendation can be shared with the general Board through email for approval.

The Swiss authorities have agreed to an extension to our filing date for 2002 financial statements, the audit of which will be completed by the Board meeting in October 2003.

Decisions

- ***The Secretariat will circulate a final copy of the external auditor terms of reference to MEFA, WHO and the WB prior to sending out a Request for Proposal (RFP).***
- ***Deloitte and Touche will not be considered as a candidate due to their potential conflict of interest as the external auditor of the World Bank.***
- ***The MEFA committee thanked the following members for volunteering to be on the external auditor selection panel: Jérôme Baconin, Paul Ehmer, Milly Katana.***
- ***Audit findings will not be presented to the Board in June due to the extended tender period. However, un-audited financial statements will be presented at the June Board meeting for review. Audit findings will be presented through MEFA at a later date to the Board for their approval.***

9. 2003 Work Plan Target Dates and Quarter 1 Financial Performance

The key Secretariat priorities, their end products and target dates were shared with the committee members. Due to its preliminary nature, further review or discussion of the Q1 Financial Performance forecast was waived. Feedback on the preferred format of these reports was provided.

Decisions

- *For the next MEFA Committee meeting, the Secretariat will provide a matrix comparing the budget with actual period performance, sorted by departments and expense categories. Included will be an explanatory column for variance reporting.*
- *In a separate matrix, the Secretariat will provide a progress report on the achievement of Secretariat priorities, including progress towards end products and target dates. Variance reporting will also be included.*
- *Both matrices will be updated and reviewed by MEFA at its June meeting, its findings summarized and reported at the next Board meeting as part of the MEFA report.*

10. Revised Procurement Policy (Annex 4)

The procurement policy has been revised following some modifications required by WHO and is now presented for approval by the Board.

Decision

- *This policy is recommended for approval by the Board.*

11. Trustee Agreement

The Committee was joined by invited World Bank guests: Ms. Kyung Hee Kim and Mr. Keith Jay. The World Bank re-requested to join the MEFA committee. The Chair clarified that he had invited the World Bank to send a representative to Day 1 of the meeting on the topic of M&E, but had not received a response from the Bank.

The World Bank guests then presented the current mix of services provided by the Bank, emphasizing the breadth of services to mitigate risk, provide investment return and provide a well controlled system to receive, hold and disburse Global Fund contributions. The point was made that the World Bank must recover full costs.

Some processing and reporting difficulties were acknowledged at start up, however, it was agreed that reporting processes had improved and were serving the needs of the Fund. It was reported that the investment return for the Trust Fund was 4.2% per annum in 2002 (31 May to 31 December), through a conservative portfolio of cash and bonds.

Committee questions centered on the method of computation of the Trustee Fee and the appropriateness of the fees stated at \$2,320k for 2002 and \$1,870k for 2003. The Committee sought information that would facilitate justification of these costs. Questions were raised about the average unit costs for services, the higher than foreseen costs billed for infrastructure in 2002 (\$890k compared to \$500k per the budget for Phase I), and the seemingly high costs for start-up and systems development in 2002 and 2003 when much of the processing is manual and future modifications will be done to an existing system which is already designed to handle large funds such as those of the Global Fund.

The World Bank responded to the questions on costs with the following information:

- i) They could not provide information on unit costs and service volumes, due to the mix of variable costs and allocated fixed costs. They shared their average staff cost of \$150k to \$200k per year. They offered the cost measure used for other large funds of 1% of contributions to justify the lower level of charges for the Global Fund (equivalent to 0.33% of contributions in 2002).
- ii) Regarding infrastructure costs, they reported that work had begun on designing system modifications and that there was little that could be used from other fund modules, due to the customized nature of each Fund. Further work would be needed to integrate the Global Fund modules with the Bank's larger SAP system.

A question was raised regarding an expanded scope of work that was earlier described between parties in Phase II discussions. The World Bank responded that the discussions in Phase II had been replaced by general partnership discussions in 2003, including a recently arranged LFA arrangement in India. It was emphasized that the World Bank would not enter into any competitive bids for their services.

After the guests departed, the committee agreed that the Trustee Agreement should be updated to better reflect the ongoing nature of the services provided by the Trustee and to provide a mechanism for annual review and agreement of the Trustee fee. It was felt that some comparison with commercial bank charges would give an insight on the reasonableness of the fees and the Secretariat should explore this. The Agreement should provide for an adjustment of the fee if the nature or volume of services actually provided were substantially different from that envisaged at the time of setting the fee.

It was noted that for many donors it was an important fiduciary factor that the World Bank was Trustee, because of its unique institutional status and its established relationships with the donor community.

Finally, the question was raised on why the Bank was not a member of a Board committee. The response was that they could be a member of any committee if decided by the Board; however, they would certainly be invited to meetings in the future if agenda topics warranted it.

Decision

- ***The Secretariat will develop and report back to MEFA at its next meeting information and recommendations on updating of the Trustee Agreement in a manner that takes account of the ongoing nature of the agreement, the scope of work and the fee, together with a review of and recommendations on the projected Trustee fee for 2003, compared to benchmarks if available.***

Part 2 Continued Proceedings over e-mail, post 3 April

12. Consultants' Fees

The Secretariat's paper on Consultants' Fees was circulated at the meeting and subsequently commented on by email. The paper reviewed the policies of other organizations and market rates and proposed that:

- Where commercially feasible, the WHO consultancy fee policy should be followed
- In other cases, the most advantageous terms for the Global fund should be negotiated, having regard to the guidelines specified in the paper
- Rates that are above guidelines should require the approval of the Executive Director.

It was agreed to adopt the policy as proposed and to review its application at a future date.

13. Fiduciary Arrangements

Several comments were received from MEFA members on the draft Fiduciary Arrangements for Grant Recipients. Where suggestions were in conflict, compromise solutions were found. These comments are reflected in the revised draft which has submitted to the June Board meeting for endorsement.

14. LFA Tender

There was general consensus on the proposed LFA tender process, following questions and requests for clarifications from MEFA members. Suggestions made regarding the Terms of Reference were incorporated in the RFP. The revised Request for Proposals was released on 2 May 2003.

15. LFA Conflict Of Interest Policy

Various clarifications were sought regarding LFA conflict of interest policy but these did not necessitate revision of the text.

16. External Audit Tender

The final version of the Request for Proposals for external audit services was circulated by email and agreed; the RFP was released on 30 April.

17. Reporting Format for Secretariat Financial Performance

A draft format for periodic reporting of Secretariat performance with comparison to budget and work plan was agreed was circulated by email and accepted. The first such report, covering the first quarter of 2003, will be reviewed by MEFA at its June meeting.

18. Procurement Policy

The revised procurement policy was circulated to MEFA on 7 May. The revision includes modifications proposed by WHO.

19. Monitoring and Evaluation Strategy

A revised draft of M&E strategy was circulated to MEFA on 15 May 2003, following the comments made by MEFA. The Chair recommends discussion of the M&S strategy at the June Board meeting, rather than final approval. The strategy would be further revised in the light of the Board discussions and then sent for final approval to the October Board meeting.

Attendance

Committee Members:

Mr Jérôme Baconin
Dr Massimo Barra
Mr Paul Ehmer
Dr Paul de Lay
Mr Shri Deepak Gupta
Ms Milly Katana (Vice Chair)

Prof. Adetokunbo Lucas
Dr Anders Nordström (Chair)
Ms Natalia Quintavalle
Dr Wim Van Damme
Dr Wenjie Wang
Dr Ken Grant

Secretariat

Professor Richard Feachem
Mr. Barry Greene
Mr. Brad Herbert
Ms. Patricia Kehoe
Ms. Dee Jay Mailer
Dr. Vinand Nantulya
Ms. Marie Rosencrantz

Special Invitations

Dr. David Evans (WHO)
Ms. Kyung Hee Kim (World Bank)
Mr. Keith Jay (World Bank)
Ms. Hilary Wild (WHO)

List of Reference Documents

1. MEFA Meeting Report from January 2003
2. GF/B5/6 Draft Monitoring and Evaluation Strategy
3. Monitoring and Evaluation Work Plan (pending)
4. List of external studies (pending)
5. GF/B5/12 Annual Report
6. Round 1 and 2 up-date – revised matrix (pending)
7. GF/B5/13 Fiduciary Arrangements for Grant Recipients
8. LFA Competitive bidding process
9. LFA Terms of Reference
10. LFA, Conflict of Interest Policy
11. Guidelines on Performance-based disbursements and reporting (pending)
12. External Audit, Terms of Reference
13. GF/B5/14, External Audit of 2002 Financial Statements, Progress report
14. 2003 Work Plan and Financial Performance forecast matrix
15. Procurement Policy (see Annex 4)
16. Document on re-negotiated Trustee Agreement (pending)

Annex 3

(World Bank Statement on reasons for joining MEFA committee removed from public disclosure for individual confidentiality purposes)

(REVISED PROPOSAL)

GLOBAL FUND POLICY

ON SECRETARIAT PROCUREMENT OF GOODS AND SERVICES

Guiding Principles

1. In carrying out procurement of goods and services, the Global Fund seeks to:
 - a) enter into mutually beneficial contracts that ensure maximal contractual performance;
 - b) carry out its functions and programs within international law and agreements;
 - c) make use of existing international mechanisms wherever possible;
 - d) obtain the best value in terms of quality and cost, using competitive procedures, including competitive negotiation, to the maximum extent practical;
 - e) promote public/private partnerships at all levels in the Global Fund; and
 - f) focus on greatest needs, streamlined processes, innovation, accountability, results and transparency.

General Requirements

2. In consideration of the Global Fund's agreement with WHO to provide certain administrative services, including assistance with procurement, it is the policy of the Global Fund to follow the applicable rules of the World Health Organization, unless otherwise agreed to.

Code of Conduct

3. The following standards of conduct shall govern the performance of personnel working at the Global Fund engaged in the award and administration of contracts:
 - a) No employee, officer, Board member, or agent (including the Technical Review Panel) shall participate in the selection, award, or administration of a contract or grant awarded by or on behalf of the Global Fund if a real or apparent conflict of interest would be involved. Such conflict would arise when the employee, officer, Board members or agent, or such person's spouse, domestic partner, minor children, business partner or associate, or an organization which employs or is about to employ and of the parties

indicated herein, has a financial or other interest in the firm considered for an award.

- b) The officers, employees, Board members and agent of the Global Fund shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or grantees of the Global Fund, provided, however, this prohibition shall not apply to a gift that is an unsolicited item of nominal value.
- c) Global Fund personnel shall be alert to organizational conflicts of interest as well as non-competitive practices among vendors that may restrict competition. Global Fund personnel shall comply with the organization's general conflict of interest policy covering individual and institutional conflicts, whereby personnel who may potentially receive a financial benefit from the selection of a particular vendor may not participate in any part of the procurement process, from independently defining the scope of work to defining the proposed list of bidders or evaluating those who responded.
- d) Disciplinary action may be applied for violations of such standards by staff. Violation for such standards by members of the Board will be addressed by the Chair or Vice Chair in the Chair's absence. Violations by agents may result in contract terminations or legal action.

Purchase Authorization

- 4. The individual requiring a purchase authorization for goods or services shall submit a written request with the following minimum information to the Fund's contract specialist.
 - a) What goods or services are to be obtained, including specific requirements;
 - b) The dates by which such goods or services are required;
 - c) Possible sources for the goods or services;
 - d) Confirmation that the funds are available for the procurement.

Competitive Contracting

- 5. All procurement is on a competitive basis to the maximum practical extent, including solicitation of written quotations from all such qualified sources as are deemed necessary to ensure full and free competition consistent with the types of goods and services necessary to meet the requirements of the Fund. Whenever a single purchase of goods or services is likely to exceed \$ 25,000 or the equivalent, tenders from at least three vendors are sought by formal invitation to bid,¹ unless:

¹ As used in this document, "invitation to bid" and "bids" includes those that may be subject to further negotiation with the selected bidder, as provided in the applicable tender documents.

- a) small quantities of similar or broadly similar items of low monetary value are required, the total value of which does not exceed \$30,000 and the value of any individual item does not exceed \$3,000; or
 - b) there are valid price lists or quotations confirmed with the supplier within the previous twelve months as being applicable until further notice and the market has not in the meantime receded; such price lists and quotations may be considered the equivalent of bids; or
 - c) standardization of equipment, inter-changeability of parts or maintenance services must be ensured; or
 - d) the Contract Review Committee, where particular circumstances exist, determines otherwise.
6. Invitations to bid must be issued simultaneously to vendors by letter, fax or e-mail. In special circumstances they may be issued by newspaper advertisements. They may not be issued by telephone except in an emergency, when the supplier should be requested to confirm its bid in writing.
7. For purchases estimated to cost less than \$ 120,000 but more than \$25,000:
- a) suppliers or service providers are sent a request for proposal (RFP) which includes a description of the material required by the Fund and an invitation to make a bid to provide all or part of it, including the possibility of proposing a substitute(s). They are asked to return their bids not later than a specified date in an envelope marked for the attention of the Contract Specialist;
 - b) bids are opened at the closing date, evaluated and attached to the work assignment;
 - c) the responsible Contract Specialist prepares an adjudication report, if required [see Sections 12-13], and a contract in favor of the bidder recommended by him/her. Both documents are sent to the official authorized to approve purchases;
 - d) any supplier who has submitted a valid bid for certain items may, at its request, be given an explanation why no order was awarded or why it was unsuccessful.

Sealed Bids

8. For purchases estimated to exceed \$ 120,000 in value for which it is practical to issue a general specification to bidders, the following conditions apply for inviting bids unless the Contract Review Committee exceptionally decides otherwise:

- a. the supplier must be informed that bids will be opened at a time and place specified in the invitation. Envelopes containing bids are kept unopened and are opened only at the time and place specified in the invitation. The supplier must be asked to send, not later than a specified date and time, a sealed bid in an envelope addressed for the attention of the contract specialist, and on which it is clearly indicated that the envelope contains a bid which must not be opened until the date set for the public opening;
 - b. In order to ensure objective vendor performance and eliminate unfair competitive advantage, vendors that develop or draft specifications, requirements, statements of work, invitations for bids, or requests for proposals shall be excluded from competing for such procurements, unless the Global Fund determines otherwise.
9. When it is not practicable to issue a general specification to bidders, even though the cost of the purchases exceeds \$ 120,000 in value, bids are invited as described in paragraph 7.
10. At least one member of the Contract Review Committee or a staff member designated by a contract specialist, not connected with the project, attends the opening of sealed bids. At the opening all bids are initialed, dated and the names of suppliers listed. The list is signed by the responsible officer or his/her alternate and by the representative(s) of the Contract Review Committee. Neither discussion of bids nor award of contract takes place at that time. As soon as possible after the opening, the bids are evaluated, tabulated and submitted with an adjudication report and recommendation to the Contract Review Committee [see Section 19]. Any supplier who has submitted a valid bid may, at its request, be given an explanation why no order was awarded or why it was unsuccessful.
11. Open competition is the preferred method for practices at the Global Fund. However the Global Fund may award a contract to an entity on the basis of other than a bidding process under the following circumstances:
 - a) A contract is awarded under the circumstances of a compelling urgency;
 - b) The expertise and skills needed for the scope of work can only be fulfilled by one vendor or is proprietary;
 - c) A recent competitive process has yielded an acceptable short list of vendors to select from;
 - d) The contract is awarded to a qualified United Nations organization, public international organization or governmental entity that is competitive in skills and costs;
 - e) A qualified vendor is willing to fully perform a scope of work on a pro bono or in kind basis.
12. An adjudication report will fully document the reasons and rationale for the exception.

Award of Order or Contract

13. Should any of the conditions stated in paragraph 11 apply, the Global Fund contract specialist shall prepare a memorandum (aka. adjudication report) setting forth the specific rationale for the recommendation for a non-competitive contract award. The memorandum shall be submitted to the individual executing the contract in accordance with Section 20 below for approval in writing.
14. Adjudication reports are prepared on a memorandum by the contract specialist (or other official proposing the purchase of goods or services from a specific supplier at a specific price) for all purchases exceeding \$ 25,000 unless:
 - a. at least three offers have been requested or solicited and the order is being placed with the supplier making the lowest bid; or
 - b. it is a repeat order to a supplier for the same or similar items for which an adjudication report is on file and the circumstances of the market have not changed since the previous adjudication; or
 - c. it is a purchase of a proprietary item not exceeding \$ 120,000 in value for which adequate justification has been received and which is to be obtained from the manufacturer or a distributor known to offer the best prices; or
 - d. the type of solicitation of offers applied was in conformity with paragraph 5.
15. The adjudication report containing the recommendations of the contract specialist is reviewed and approved by the person authorized to execute the contract, in accordance with paragraph 21 below. It is, however, at the discretion of the authorizing person to refer any recommendation or selection to the Contract Review Committee.

Documentation and Administration

16. A system for contract administration shall be maintained to ensure contractor conformance with terms, conditions, and specifications of the contract and to ensure accurate and timely follow up of all purchases or services rendered. The Fund staff shall evaluate contractor performance, document and take the appropriate action when contractors have not met the terms, conditions, and specifications of the contract, including contract termination.

Contract Review Committee

17. The Contract Review Committee is comprised of designated WHO officials from legal, the controller's office, procurement and key operational areas who review proposed contract awards whenever the contract value exceeds \$120,000.

18. The Contract Review Committee may accept a bid other than the lowest when, in its opinion, service, delivery or other conditions or circumstances make it desirable. The Contract Review Committee may reject any or all bids when it considers this to be in the interests of the Fund.
19. Since the choice of the vendor to whom the contract is to be awarded may be predetermined by the specification of the item prepared by the requisitioner, the Contract Review Committee may request additional justification for purchasing from a particular vendor or a change in the specification in order not to preclude the possibility of obtaining competitive bids if, in its opinion, the interests of the Fund so require.
20. All decisions are recorded and filed. The files are retained for at least three years.

Authority to Execute Contracts

21. The Chief Operating Officer or a designated alternate in his/her absence will approve the recommendations of the Contract Review Committee or those of the Global Fund contract specialist as the case may be. The Chief Operating Officer or a designated alternate in his/her absence will sign the related contracts awarded by the Global Fund.