



# The Global Fund to Fight AIDS, Tuberculosis and Malaria Monitoring, Evaluation, Finance and Audit Committee Meeting

Geneva, 4 June 2003

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## UPDATING OF THE TRUSTEE AGREEMENT

**Background:** At its April 2003 meeting, MEFA asked the Secretariat to 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 time period 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.

**Outline:** This report reviews the Trustee Fee and reports progress towards updating the Trustee Agreement.

Part 1: Updating the Trustee Agreement

Part 2: Review of Trustee fee for 2003

## **Part 1: Updating the Trustee Agreement**

### **Background**

The Trustee Agreement entered into between the Global Fund and the World Bank on 23 May 2002 foresaw the need to agree a new fee schedule in the event that the Agreement continued for more than a year. The Bank and the Secretariat have collaborated to draft an agreed proposed amendment to the Agreement that caters for the need to revise the fee schedule from year to year.

### **Proposed amendment of the Agreement**

The proposed amendment provides for an annual consultation between the parties to agree on the services to be provided by and the fixed fee to be paid to the World Bank as Trustee for the upcoming year.

Provision is made for an adjustment to the fee if there has been a substantial change in the scope of services from that established at the time the fee was agreed, or in the event of the agreement being terminated. The proposed amendment also sets dates for payment of the fee by the Fund, in two equal instalments on 30 June and 31 December. Annex A sets out the draft letter by which the Agreement would be amended.

The annual consultation process would result in an exchange of letters outlining the services to be provided and the fee to be paid in the upcoming year. Annex B sets out the draft letter by which the Trustee Fee for 2003 would be agreed.

For information, Annex C contains the elements of the Trustee Agreement that would be deleted as a consequence of the proposed amendment.

### **Process**

The proposed amendment to the Trustee Agreement may be executed for the Global Fund by the Executive Director.

**For decision:** MEFA is asked to approve the proposed amendment to the Trustee Agreement as set out in Annex A.

## Part 2: Review of Trustee Fee for 2003

### Overview of Trustee Fee

The following table summarises the Trustee Fees to date:

<b>Trustee Fees</b>	<b>per Agreement</b> (12 months) USD'000	<b>Actual 2002</b> (7 months) USD'000	<b>Projected 2003</b> (12 months) USD'000
Trust fund oversight	2,450	1,430	1,770
Start-up costs and systems development	<u>550</u>	<u>890</u>	<u>100</u>
<b>Total fee</b>	<b>3,000</b>	<b>2,320</b>	<b>1,870</b>
Funds Managed (projected average balance on Trust Fund)			1,000,000
Fee as % of Funds Managed			<b>0.2%</b>

The Trustee Fee projected for 2003 is USD 1,870,000. Assuming that the average balance of funds held on the Trust Fund and managed by the Trustee is one billion dollars (which is consistent with projections), the fee would equate to 0.2% of funds managed.

### Comparison with benchmarks

Enquiries were made regarding fees charged by financial institutions in Switzerland to manage a fund of one billion dollars invested in government bonds and cash deposits. Responses suggested the fees would most likely be in the range of 0.1% to 0.2% of funds managed, plus brokerage costs of probably a further 0.1% depending on the volume of investing activity. Some respondents indicated a fee of up to 0.4%.

A survey by Swissmoney Research of fees charged by 14 leading banks in 1999 found that the average annual cost of a private bank account in Switzerland ranged from 0.4% to 1.6% of client assets. A one billion dollar account would most likely attract fees at the lower end of that range, or perhaps less, depending on the nature of services required.

Against this background, a fee of 0.2% for managing the investment of the Trust Fund assets would not seem unreasonable. However, investment management is only one element of the services provided by the Trustee. The Trustee services also include interaction with donors and the execution of donor agreements, committing and disbursing funds for grant agreements, etc., as outlined in Annex B, Attachment II.

A further factor to be taken into account when considering the 'value for money' offered by the Trustee Agreement is the standing of the World Bank amongst the donor community and the influence of that on the contributors to the Global Fund.

## **Annex A (Draft) Letter of Amendment to Trustee Agreement**

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Professor Richard G. A. Feachem  
Executive Director  
Global Fund to Fight AIDS, Tuberculosis and Malaria  
Center Casai  
Ave Louis Casai, No. 53  
1216 Contrain  
Geneva, Switzerland

Dear Professor Feachem,

We refer to the Agreement for the Trust Fund for the Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Trust Fund") by and between The Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Global Fund") and the International Bank for Reconstruction and Development (the "World Bank"), as Trustee of the Trust Fund, dated May 31, 2002 (the "Agreement").

Pursuant to Section 12 of the Agreement, the World Bank proposes that Section 7 (Compensation) of the Agreement be amended to read as follows:

### "7. Compensation

The Global Fund will pay to the World Bank a fixed annual fee for the services provided under this Agreement. Not later than two months prior to the end of each calendar year, and following discussions between the Global Fund and the World Bank on the scope of services to be provided by the World Bank for the next calendar year, the World Bank will submit to the Global Fund the proposed fee for the services to be provided by the World Bank under this Agreement for the next calendar year. The Global Fund will review the submission and discuss it with the World Bank as needed. Following this review and prior to the beginning of the calendar year, the parties will agree in writing on the services to be provided and the fixed fee to be paid to the World Bank for the upcoming year. For calendar year 2003, the above process will be completed promptly following the signing of this amendment.

The Global Fund shall pay the World Bank fifty percent of the agreed fee for a calendar year on or before June 30 of that calendar year; provided that the Global Fund shall pay the World Bank fifty percent of the agreed fee for calendar year 2003 within 30 days of the agreement between the parties of the fee for such calendar year. The Global Fund shall pay the World Bank the balance of the agreed fee for a calendar year, as modified for any adjustment provided for below, on or before December 31 of that calendar year.

If, during the course of the calendar year, either party is of the opinion that there has been a substantial change in the scope of services from that established at the time the

fee was agreed to by the parties, the parties will consult to reach mutual agreement on whether there has been a substantial change and, if there has been, on an appropriate adjustment to the fee. Should the Agreement be terminated prior to the end of a calendar year, the fee for that calendar year would be subject to a pro-rata adjustment on a time basis.”

Please signify your agreement to this amendment by signing and returning to us the enclosed copy of this letter. The amendment would take effect as of the date of your acceptance of the amendment.

**International Bank for Reconstruction and Development,**  
as Trustee of the Trust Fund for the Global Fund to Fight AIDS, Tuberculosis & Malaria

By \_\_\_\_\_ Date \_\_\_\_\_.

Geoffrey Lamb  
Vice President  
Resource Mobilization and Cofinancing

**The Global Fund to Fight AIDS, Tuberculosis & Malaria**

By \_\_\_\_\_ Date \_\_\_\_\_

Prof. Richard G. A. Feachem  
Executive Director

## **Annex B (Draft) Letter Setting Trustee Fee for 2003**

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Professor Richard G. A. Feachem  
Executive Director  
Global Fund to Fight AIDS, Tuberculosis and Malaria  
Center Casai, Ave Louis Casai, No. 53  
1216 Contrain  
Geneva, Switzerland

Dear Professor Feachem,

We refer to the recent discussions between the International Bank for Reconstruction and Development (the “World Bank”) and the Global Fund to Fight AIDS, Tuberculosis and Malaria (the “Global Fund”) regarding the services that the World Bank will provide in the year commencing 1 January 2003 (calendar year 2003) and the fee payable to the World Bank pursuant to Article 7 (Compensation) of the Agreement between the Global Fund and the World Bank, as Trustee of the Trust Fund for the Global Fund, dated May 31, 2002 (the “Agreement”), as amended.

As we have discussed, the fee payable for calendar year 2003 shall be a fixed sum of **US\$1,870,000**.

The fee reflects the nature of the services anticipated to be provided by the Trustee during calendar year 2003 (an illustrative list of the types of basic services expected to be provided by the Trustee is attached in Attachment II) and takes account of the anticipated scope of services for calendar year 2003 that have been estimated by the Global Fund, (Attachment I provides the estimate by the Global Fund of the possible volume of activity that would involve the Global Fund Trust Fund). The World Bank, however, shall not be responsible for accounting to the Global Fund for the actual costs incurred by the World Bank in providing the services during calendar year 2003.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT,  
as Trustee of the Trust Fund for the Global Fund to Fight AIDS, Tuberculosis and  
Malaria

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Geoffrey Lamb  
Vice President  
Resource Mobilization and Cofinancing

AGREED AND ACCEPTED

GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS AND MALARIA

Date: \_\_\_\_\_

\_\_\_\_\_  
Prof. Richard G. A. Feachem  
Executive Director

**Attachment I**

**Global Fund estimate of volume of activities for 2003**

Dear Keith,

Further to our recent discussions, below is our current estimate of the possible volume of activity during calendar year 2003 that would involve the Global Fund Trust Fund:

- Donor contributions: \$1 billion to \$1.3 billion
- Contribution agreements: 30 to 50
- Grant commitments: \$1.5 billion to \$2 billion, in 160 to 200 transactions
- Grant disbursements: \$300 million to \$400 million, in 350 to 400 transactions

As we have discussed, given the range of uncertainties involved, these estimates should be seen as representing only approximate orders of magnitude.

Regards,  
Barry Greene  
Manager - Finance & Administration  
The Global Fund to fight AIDS, Tuberculosis and Malaria

## **Attachment II**

### **Illustrative List of the Types of Basic Services Expected to be Provided by the Trustee in its Administration of the Trust Fund for The Global Fund to Fight AIDS, Tuberculosis and Malaria**

#### **A. Management of the Donor Contribution Process**

Formulation and negotiation of legal agreements with donors and management of donor contribution process:

- Address interactively donor questions and possible constraints (e.g., budget requirements, information, legal restrictions)
- Provide documents and prepare draft contribution agreements
- Facilitate final documentation and any logistical arrangements for payments
- Track and call receivables and collect payments
- Manage day-to-day donor relations/enquiries
- Provide standard reporting to donors

#### **B. Sound Investment of Global Fund Resources**

Investment management of cash contributions into Trust Fund and currency conversions:

- Convert currencies, if necessary
- Invest in a benchmarked co-mingled fund
- Periodic review of risk profile and asset composition of benchmark
- Allocate investment income monthly

#### **C. Committing and Disbursing Global Fund Resources**

Execution of commitments and disbursements in compliance with policies:

- Track on-going basis balance of available funds for commitment
- Commit funds upon instructions – establishes separate notional account for each Principal Recipient
- Disburse funds upon instructions from GFATM
- Handle cancellation and reflows - if any



#### **D. Infrastructure and Systems**

Provide infrastructure to fulfill Trustee role:

- Maintain details of all transactions
- Account for flow of funds at all stages

Utilizes same systems and organizational infrastructure as the World Bank. Trustee is in the process of developing a sub-application within the World Bank's enterprise-wide system to manage Global Fund<sup>1</sup>

#### **E. Accounting and Reporting**

Maintain accounting records of Global Fund transactions and provide appropriate reports,

- (a) Weekly Report
  1. Disbursements made during the week
  2. Commitments made during the week
  3. Contribution receipts during the week
- (b) Monthly Reports
  1. Schedule of contribution receipts and disbursements
  2. Details of Donor contributions
    - Table 2a – “Contributions applied to the Global Fund Trust Fund”
    - Table 2b – “Receivables from signed contribution agreements”
    - Table 2c – “Payments in suspense pending receipt of signed contribution agreements”
    - Table 2d – “Pending contribution agreements and payments”
    - Table 2e – “Contributions to holding trust funds”
  3. Commitments and disbursements
    - Table 3a – “Commitments and disbursements for signed grant agreements”
    - Table 3b – “Commitments and disbursements for approved operating budget”
  4. Global Fund Trust Fund funding status report
    - a. Annual audited Financial Statement
    - b. Trustee Report and other ad hoc reporting as needed

#### **F. Manage Day-to-Day Interactions Between the Global Fund and the Trustee**

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<sup>1</sup> The volume of Global Fund transactions is anticipated to be large. This requires a robust system. The system being developed will manages most core functions and also provide a single source of data and ledger.

## Annex C Elements of the Trustee Agreement to be Deleted (on implementation of the proposed amendment)

### 7. Compensation

The Global Fund will pay to the World Bank compensation for services provided under this Agreement in accordance with Attachment II to this Agreement. The World Bank may deduct such amounts from the Trust Fund, at such times as are specified in Attachment II. In the event the amounts in the Trust Fund are insufficient to pay fully the compensation due to the World Bank in accordance with Attachment II, the Global Fund shall pay the World Bank the balance of the compensation payable to the World Bank promptly following demand from the World Bank.

#### ATTACHMENT II

##### Compensation to World Bank

###### World Bank Trustee Role - services provided to GFATM under Phase I Legal Agreement (In thousands of US\$)

<b>GFATM oversight</b>	<b>450</b>
Manage day to day interactions b/w GFATM and Trustee	450
<b>Setting up the GF Trust Fund*</b>	<b>550</b>
Develop accounting system to account for receipts, disbursements, and income earned on donor contributions	400
Set up reporting and auditing systems	150
<b>Donor Relations</b>	<b>500</b>
Formulating and negotiating legal agreements with donors	300
Managing day-to-day donor relations/inquiries	200
<b>Investing and managing resources</b>	<b>400</b>
Investment management of cash contributions into Trust Fund and currency conversions	400
<b>Disbursing resources</b>	<b>500</b>
Receive instructions from GFATM on disbursement, maintain accounts	150
Establish and manage disbursement sub-accounts where necessary	100
Wire funds to recipients as authorized by GFATM and record transactions	250
<b>Accounting and Reporting</b>	<b>600</b>
Prepare reports on contributions to GFATM Trust Fund	50
Maintain business record on transactions (Access) and accounting (SAP General Ledger) on approved projects	150
Provide quarterly and annual reports on transactions of GFATM Trust Fund and manage annual external audits	300
Annual external audit fee	100
<b>Total</b>	<b>3000</b>

\* Would include setting up manual system for phase I, plus partial costs for developing an automated system; cost of the automated system cannot be determined until the exact processes for phase II are established.