



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Sixteenth Board Meeting
Kunming, China, 12 – 13 November 2007

GF/B16/8
Annex 1

Revised 11 November 2007

2008 BUDGET FOR OPERATING EXPENSES OF THE GLOBAL FUND

This Annex describes the 2008 budget in the amount of US\$ 177 million, which the FAC recommends for approval by the Board.

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Part 1: Factors influencing budgetary needs in 2008

1. In 2008 the Global Fund will enter a new growth phase as the reach of the fund is substantially scaled-up through 2010 in line with Board strategy, increased demand (including with regard to Health Systems Strengthening), and expanded donor support through the Second Voluntary Replenishment.

2. The implementation of other significant strategic decisions of the Board will have a major impact on Secretariat activity in 2008, in areas such as the Rolling Continuation Channel, Dual Track Financing, and Grant Consolidation.

3. The scope of Secretariat activities will also expand in response to stakeholder needs for deeper analysis of grant expenditures (such as by principal and sub-recipients) and greater involvement of the Global Fund in the broader health development architecture (such as regarding alignment and harmonization, and input to new initiatives). 2008 will also see the further roll-out of the harmonized data quality processes commenced in 2007.

4. The re-tendering of Local Fund Agent (LFA) services (for in-country oversight), as mandated by the Board, will result in revised unit costs for LFA services. This is likely to increase unit costs over the current level because of expanded scope requirements.

5. Towards ensuring the sustainability of Secretariat productivity and extending its effectiveness of the Global Fund, the incoming Executive Director has identified the following as priorities for 2008:

- i. Improved functioning of Secretariat and wellbeing of staff
- ii. Consolidating and building partnerships
- iii. Increased Global Fund role and responsibility in global health development architecture

6. The Organizational and Management Review as mandated by the Fourteenth Board and conducted by Booz Allen Hamilton recommends changes to the structure and size of the Secretariat. As outlined in the Report of the Executive Director (GF/B16/3), the new structure addresses the need for greater scalability to accommodate further growth in Global Fund activity. As an initial step towards implementing the new structure, the 2008 budget provides for the appointment of five senior directors to lead the top-level clusters (departments) that will report to the Executive Director.

Part 2: Budgetary Process

1. The recommendations of the Organizational and Management Review, supplemented by a further analysis of workload implications, will form the basis for the Budgetary Framework that the Board has asked the Secretariat and the FAC to develop. As flagged to the Board in April 2007, the delayed appointment of the Executive Director and subsequent commissioning of the Review prevented the framework from being in place for the 2008 budget. The framework will now be developed and will provide parameters to guide the size of future budgets.

2. The 2008 budget has been developed from detailed work plans for each of 34 teams that comprise the current organizational structure. The work plan for each team, details for each activity to be undertaken, the number of staff and the cost by expense category, and the deliverables to be achieved for the activity. These team work plans are summarised for each functional unit of the Secretariat and consolidated to form the budget for Operating Expenses.

3. The Secretariat presented preliminary budget ranges to the FAC for consideration at its meeting on 1-3 October 2007. Based on guidance provided by the FAC, the Secretariat further developed the budget and provided additional information and analysis that was considered by the FAC in a conference call on 8 November and a meeting on 11 November.

4. This iterative process enabled the FAC to reach consensus on recommending that the Board approve a 2008 budget of US\$176,610,000 that includes 451 staff, as summarised below:

US\$ millions	2006	2007	2008	Increase	% Increase on 2007 Budget
	Actual	Budget	Budget		
Secretariat	50.9	97.8	126.7	28.8	29%
Office of the Inspector General	1.1	3.1	3.1		-1%
	52.0	101.0	129.8	28.8	29%
In-country Oversight	23.9	32.5	49.8	17.3	53%
Total Operating Expenses	75.9	133.5	179.6	46.1	35%
less: Efficiency Target	0.0	(3.0)	(3.0)		0%
Net of Efficiency Target	75.9	130.5	176.6	46.1	35%

Increase over prior year: 72% 35%

Staff Numbers

in Positions	251	341	451	110	32%
in Full-Time Equivalents		312	426	114	37%

Increase over prior year (positions): 36% 32%

5. The representative of the Developed Country NGO delegation expressed concern that the originally proposed increase in the number of staff positions in the External Relations unit had been reduced from 14 to 10 in the version finally proposed by the Secretariat and recommended by the FAC for approval by the Board. The FAC noted that the Executive Director had flexibility to allocate the overall number of positions approved as he considered appropriate.

6. The budgetary implications in 2008 of other decisions that are approved at the Sixteenth Board Meeting are separate from the foregoing. The budgetary implications of all decisions as currently proposed are summarised in Attachment 2, Part 5.

Part 3: Overview of the Budget

Composition of the Budget

1. The composition of the budget is summarised in the table below. The Unit Summaries in Attachment 2, Part 1 outline the factors necessitating the increase for each functional Unit of the Secretariat.

<i>By Function</i>	In US\$m	2006	2007	2008	Increase	% Increase on 2007 Budget
	Actual	Budget	Budget	Budget		
Secretariat Expenses	US\$m	US\$m	US\$m	US\$m		
Operations	15.9	27.0	39.7	12.6	47%	
Performance Evaluation & Policy	4.9	6.4	11.6	5.2	82%	
Five-year evaluation		12.5	4.5	(7.9)	-64%	
External Relations	8.9	17.6	21.9	4.3	24%	
Office of the Executive Director	2.1	4.9	6.2	1.3	26%	
Business Services	14.1	21.8	34.0	12.2	56%	
Finance	3.4	4.1	4.6	0.5	12%	
Legal	1.5	2.1	2.6	0.6	27%	
Office of the Chair of the Board	0.2	0.5	0.5	0.1	10%	
Contingency		1.0	1.0	0.0	0%	
Secretariat	50.9	97.8	126.7	28.8	29%	
Office of the Inspector General	1.1	3.1	3.1	(0.0)	-1%	
In-country Oversight	23.9	32.5	49.8	17.3	53%	
Total Operating Expenses	75.9	133.5	179.6	46.1	35%	
Efficiency Target		(3.0)	(3.0)	0.0	0%	
Net of Efficiency Target	75.9	130.5	176.6	46.1	35%	

Increase over prior year: 72% 35%

<i>By Expense Type</i>	In US\$m	2006	2007	2008	Increase	% Increase on 2007 Budget
	Actual	Budget	Budget	Budget		
Staff	30.6	44.0	65.1	21.1	48%	
Professional fees	7.8	31.4	26.1	(5.3)	-17%	
Travel & meetings	8.0	14.8	21.5	6.7	45%	
Communication materials & services	1.2	3.1	3.4	0.4	13%	
Office infrastructure	5.2	7.9	13.1	5.2	65%	
External co-funding	(0.8)	(1.2)	(0.4)	0.8		
Contingency		1.0	1.0	0.0	0%	
In-country Oversight	23.9	32.5	49.8	17.3	53%	
Total Operating Expenses	75.9	133.5	179.6	46.1	35%	
Efficiency Target		(3.0)	(3.0)	0.0	0%	
Net of Efficiency Target	75.9	130.5	176.6	46.1	35%	

Changes from 2007 to 2008

2. The budgetary increase of US\$ 46.1 million from 2007 to 2008 is comprised as follows:

<i>By Expense Type</i>	In US\$m	Distribution of increase	
Staff	21.1	46%	
Professional fees	(5.3)	-12%	
Travel & meetings	6.7	14%	
Communication materials & services	0.4	1%	
Office infrastructure	5.2	11%	
External co-funding	0.8	2%	
Contingency	0.0	0%	
In-country Oversight	17.3	38%	
Total Operating Expenses	46.1	100%	
Efficiency Target	0.0	0%	
Net of Efficiency Target	46.1	100%	

See Attachment 2, Part 4 for analysis of increase by Unit

3. Staff costs: The largest element (46%) of the budgetary increase relates to staff costs. The increase provides for 110 additional positions to address the following needs:

- i. Correction of workload underestimates for current volume of activity, including alleviation of the burden on staff (23 positions)
- ii. Correction of workload underestimates for current scope of activity and increased external demands (16 positions)
- iii. The expected growth in 2008 workload from known factors (e.g. Round 8¹, Rolling Continuation Channel, Dual Track Financing, and implementation of the WHO GMS).(50 positions)
- iv. The expected growth in 2008 workload from greater fundraising need and enhanced GF engagement in partnerships (16 positions)
- v. Structural changes to the Secretariat following the Organizational and Management Review (5 positions)

Further details of the staff costs increase are provided in Attachment 2, Parts 1 and 2

¹ The costs associated with Round 8 are provided for within the 2008 Budget because the launch of Round 8 has already been approved by the Board.

4. In-country Oversight: Services of Local Fund Agents account for 38% of the budgetary increase. As further outlined in Attachment 2, Part 3, this reflects an increase in grant volumes, an expansion of work scope and associated training, and one-time handover costs associated with the re-tendering of LFA services.

5. Increases in other expenses account for the remaining 16% of the increase. These are detailed within Attachment 2, Part 1.

Operating Expense Ratios

6. The ratios based on projected grant activity for 2008 are as follows:

Key Ratios	2006	2007	2008	
	Actual	Budget	Budget	
Operating Expenses as:				
As % of Expenditure ^(a)	4.0%	4.4%	6.2%	(KPI:<10%)
As % of Disbursements ^(b)	5.8%	7.4%	7.3%	
As % of Value of Active Grants ^(c)	1.4%	1.6%	1.7%	(KPI:<3%)
Operating Expenses per Active Grant ^(d)	\$222k	\$311k	\$351k	
(a) New grant commitments (on signing agreements) plus Operating Expenses (b) Grant disbursements in the year (c) Cumulative funds committed to active grants ('grants under management') (d) Grants (with signed agreements) that have not yet reached completion				

7. Of the four operating expense ratios, two show minor changes compared to 2007, while two show an increase (reflecting increased scope and complexity of grant activity). All ratios remain well within the relevant Key Performance Indicators set by the Board.

**PRINCIPLES, PROCESSES AND TIMELINES FOR THE TRANSITION
FROM THE ADMINISTRATIVE SERVICES ARRANGEMENT WITH THE WHO**

PART 1: PRINCIPLES OF THE GLOBAL FUND AS AN EMPLOYER

1. In consideration of the Board's decision to discontinue the Administrative Services Agreement (ASA) with the World Health Organization (WHO), this Appendix provides the principles, costs and timeline to effect the transition by **December 31, 2008**. Also provided is a note on selecting a pension scheme for the Global Fund (Appendix 2). A crucial step for the Board in establishing independent administrative processes will be the development of human resource policies which: (i) are attractive for talented professionals seeking to work with a premier agency in global health as part of their career; and, (ii) ensure parity of benefits for existing staff under any new administrative arrangements. Long-term principles that the Global Fund should adopt as an employer in the design of its compensation and benefits package and other terms and conditions of employment and termination are summarized under four principles: performance based, career enhancement entity, safeguarding the interests of staff, and promoting teamwork,

Performance based

2. The Global Fund is built on the principle that the availability of funding is determined by results. Stakeholders have a right to expect a similar level of performance evaluation of staff within the Secretariat. The approach currently being developed for performance assessment of staff emphasizes: (i) the cascading of organizational Key Performance Indicators (KPI) to unit, team and individual level; and (ii) adherence to a set of core competencies linked to Global Fund values which all staff members will be expected to demonstrate in their everyday interaction. These two components of staff performance assessment will align with the Global Fund's objectives of requiring proven effectiveness and impact and rewarding performance with a merit-based approach to staff review.

Career enhancing

3. The organizational and employment-related characteristics that will drive a results-oriented approach include a challenging environment with clear objectives and success measures evidenced by: creating and maintaining opportunities for fast professional growth in an organization that forms one element of a career that may involve several employers; high levels of personal initiative; low hierarchical complexity; grading and remuneration systems that facilitate hiring the best and which promote effort and achievement; administrative systems that promote flexibility and facilitate rapid growth; few, but important rules that are universally respected; and consistent competencies and behavioral norms in the workforce.

4. The organization should attract people that combine technical skills with diversity of previous employment and national and personal backgrounds that will serve the organization well operationally. The characteristics of those the Global Fund seeks to hire can be summarized as: (i) talented career-oriented professionals; (ii) adding to both a professional and personal diversity in the workplace; and, (iii) people seeking a

significant professional development step in a multi-organizational career. The Global Fund will hire talent into a relatively flat organizational structure. Therefore, in view of the more restricted formal career progression options, the opportunity for skills development through work with the Global Fund, including lateral movement within the Secretariat and training will assume greater importance. These areas are being further considered in the context of the performance management project to be launched in the Global Fund in January 2008 and the Human Resources framework to be developed as a priority.

Safeguarding the interests of staff

5. The implementation of new administrative systems and policies for the Global Fund will not require breaking new ground in terms of best practices. The solutions may feel “new and radical” from the perspective of the Global Fund today, but they are practices regarded as “mainstream” in many organizations. For example, benefits like pensions and healthcare need to be easily portable from one organization or country to another. Advertising and recruitment processes need to focus on identification of the best people available in a fair and transparent manner. Replacing the WHO administrative system should result in well thought-through principles and requirements that are consistently implemented, with a clear understanding that staff interests are safeguarded.

6. This principle has guided the decision points already put forth in the Transition Plan. For example, a cash balance pension scheme, with survivor benefits and other safeguards, is being proposed (see Attachment 1); health and other insurances will maintain or improve the coverage currently provided and will simplify the insurance structure to allow clearer understanding of benefits, processes and limitations. The Secretariat is further charged with developing policies and implementing strategies that would mitigate the effects of losing the privileges and immunities that the Global Fund and its staff currently enjoy outside Switzerland through the WHO relationship. The Secretariat will pay particular attention to the safeguard of its staff’s security and facilitation of movement in new travel arrangements incurred by the discontinuation of the ASA with WHO.

Promoting teamwork

7. To be successful the organization needs a clearly articulated culture and set of values that drive the organization’s required behaviors and strive to create a consistent and mutually supportive working environment. If the talented individuals that the Global Fund seeks to attract are to work together as quality teams, strong and consistent behavioral norms need to be established and reinforced, requirements have to be explicit, and appropriate behaviors rewarded and negative behaviors discouraged. These norms will be stressed and strengthened through the leadership and management program that will commence in January 2008.

8. In the context of these principles, a full review of human resource policies and a fine tuning of administrative and financial policies will be conducted before the March 2008 FAC Meeting. These policies will also form the basis for the design of information systems in the Global Fund, which will facilitate data-warehousing and analytical reporting. The FAC and the Secretariat do not anticipate significant adjustments to the costs of the Transition Plan for approval at the Sixteenth Board Meeting. The FAC will

advise the Board of any cost increases or decreases through each phase of implementation.

PART 2: COSTS AND TIMELINE

Set-up Costs

9. In the first year (2008), apart from the costs of one year of the ASA with WHO, costs will be incurred in establishing the pension plan, developing HR, financial and administrative policies, and completing Phase I (HR, Contracts, Travel, Finance). The preparation of new compensation, recruitment, and travel policies and procedures, under the umbrella of a long-term HR strategy; the design and implementation of new information systems; staff training and consideration of issues relating to the privileges and immunities enjoyed by the Global Fund and its staff; are estimated at a one-off cost of US\$ 6.4 million (see Table 1). The potential cost of transferring to the Global Fund pension fund could be up to US\$ 12 million (see section below).

- i. **Pension.** Consultants and the Secretariat reviewed both the list of current staff and their pensionable salaries and recommended that the Global Fund create its own pension fund as well as the different types of pension plans available and concluded that a cash balance plan is optimal. There is a general trend in both the private and public sectors to move from **defined benefit** towards **defined contribution** or **cash balance plans**.
- ii. A **defined contribution** plan, comparable to the 401(k) plan in the United States, is not an attractive option under the principle that staff interests will be safeguarded in this transition. Absent a guaranteed rate, staff assume 100% of the risk.
- iii. Given that the Global Fund has a young population (76% of total is less than 45 years old) **cash balance** plans are considered to be more appropriate in these circumstances, as they provide a great degree of transparency with respect to termination benefits.
- iv. The UNJSPF, a **defined benefits** fund, was established by the UN General Assembly in 1949 to provide statutory benefits (e.g., retirement, death, disability and survivors benefits) for staff of the UN and the other organizations admitted to membership in the Fund. Under a defined benefit plan the employer assumes all risk related to the pension benefits of its employees. The consultants concluded that there is no pension fund completely comparable to UNJSPF because of various characteristics which are no longer offered. Most organizations now offer defined contribution or cash balance schemes rather than defined benefit schemes. It is also clear that the Global Fund cannot begin discussions for the transfer of funds from the UNJSPF until it has established a suitable pension fund for its staff.
- v. A cash balance option using an autonomous foundation, created by the Global Fund, is an appropriate financing vehicle because it allows the flexibility to design a plan that retains many of the benefits of the UNJSPF.

To safeguard the interests of the staff, it is proposed that the new pension scheme combine a cash balance option with benefits normally offered under a defined benefits scheme (for instance in the case of disability or survivors benefits). The current 23.7% overall contribution rate to the pension scheme, (7.9% for employee and 15.8% for employer) should in principle be maintained, subject to actuarial evaluation of the various options to be selected for the pension scheme under cash balance. A complete plan, based on actuarial calculations will be submitted for FAC approval in March 2008.

- vi. The recommendation of the type of pension fund (cash balance) requires a decision from the Board in November 2007. This recommendation will require a further decision regarding the extent to which the pension fund's accumulation rate will be guaranteed. **The estimated annual costs are estimated at US\$ 0.2 million for administration and a one-off cost of US\$ 0.2 million to set up and design the new pension scheme. The establishment time is eight months.**
- vii. **Estimate of the Pension Transfer Gap.** Based on the individual accounts reserve for the Global Fund staff as of December 31, 2006, the total contribution (employer and employee) was estimated at about US\$ 17 million. This amount also includes the statutory interest of 3.25% a year. This amount will increase in 2008 as new hires, with WHO contracts, would have to join the UNJSPF.
- viii. Under the present UNJSPF regulations, no transfer agreement is foreseen between the UNJSPF and a newly created pension fund for the Global Fund staff. Staff would only be entitled to receive benefits either in the form of pension or a benefit under the withdrawal provisions. Given the fact that the majority of the Global Fund staff have a very limited number of contributory service (90% of the staff has less than 5 years), they would be entitled only to the individual contribution plus interest. This was estimated at slightly above one-third of the total contribution or about US\$ 6 million. A special transfer agreement will be sought to benefit the Staff. **The negotiations required to complete this process will take a year and could require up to US\$ 12 million by end of 2008 to ensure that staff retain the value of contributions already made.**

Recurring Costs

10. Annual running costs will amount to US\$ 5 million per annum (see Table 1). This will be partly offset by the ASA costs that would otherwise have been incurred which are projected to grow to US\$ 4.5 million per year by 2012. Below are detailed cost estimates based on replies to the Secretariat's Requests for Proposals.

- i. **Insurance:** The objectives are to maintain or improve the coverage provided by WHO; minimize the organization's financial exposure; optimize the level of premiums for the employee and employer; simplify the insurance structure, and reduce the administrative burden. The provision of group health and

other insurances would take six to nine months to set-up. A one-off cost fee of US\$ 0.1 million is provided for setting up this scheme.

- ii. **Travel Security:** The nature of the Global Fund's work requires its staff to visit and work in moderate and high security risk countries. In managing its own travel risks, the Global Fund should adopt procedures comparable to other humanitarian and development organizations. Accordingly, the Global Fund has explored private provision of a package similar to that provided by WHO. The estimated annual costs are about US\$ 0.4 million with six to eight weeks required to establish the service and develop the on-line tools.
- iii. **Travel Program:** Upon separation from the WHO, the Global Fund would need to establish its own travel management program, define new travel and expense policies, negotiate route deals for the most frequent destinations, and maintain flexibility in terms of ticket changes and cancellations. The Global Fund would sub-contract all its travel arrangements, including all visa requests. The total annual costs based on actual and projected activity is estimated at US\$ 0.4 million, including all visa processing costs.
- iv. **Tax Equalization.** The termination of the ASA and the transfer of all employees' contracts from WHO to the Global Fund, as a Swiss legal entity, will mean that staff will no longer be exempt from paying tax and social benefit payments in countries that have ratified the Convention on the Privileges and Immunities of the Specialized Agencies or that have concluded Basic Agreements with WHO. Consultants have reviewed the existing situation and suggested the implementation of a solution that would not be detrimental to employees' existing terms of engagement. The Headquarters Agreement (concluded on December 13, 2004 between the Swiss Federal Council and the Global Fund) provides for: (i) a Swiss tax exemption on all remuneration paid by the Global Fund to its non-Swiss employees residing in Switzerland; and (ii) an exemption from Swiss social security contributions for all employees, whatever their nationality. In view of the foregoing, there would be tax implications for employees who are: (i) Swiss nationals who live in Switzerland (Swiss tax residents); (ii) cross-border employees, who live in France, and work in Geneva; and, (iii) and US citizens and green card holders subject to worldwide taxation.
- v. In the absence of any further tax dispensations by the Swiss government, and as discussed by the FAC prior to the Fifteenth Board Meeting, it is anticipated that all staff in categories (i) and (iii) will be fully compensated for income taxes payable. With respect to staff in category (ii), the FAC and the Secretariat recommended treating this category of staff in the same fashion as categories (i) and (iii) above (i.e. they will be fully compensated for income taxes paid). This policy only applies to current staff of the Global Fund. The FAC recommends a grandfathering agreement for current staff which will phase out with the turnover of current Global Fund Staff, with a maximum total cost of US\$ 2 million per annum. Tax equalization will not be available to new staff hired as they will be fully able to make living decisions based on the new paradigm.

Timelines

11. There are two timelines: (i) pension, administrative, and employment arrangements; and (ii) information systems.

12. The development of HR policies and processes and the establishment of a travel program, travel security and provision of health and other insurances will be completed by March 2008, for review at the FAC Meeting (see Table 2, Timeline I).

13. To withdraw from the UNJSPF, the Global Fund staff must do so through the WHO. Specific steps are as follows (see Table 2, Timeline I):

i. Between now and June 2008

- (a) Notify the UNJSPF through the WHO, that the GF wishes to withdraw from participation in the UNJSPF;
- (b) Create Pension Board (on a parity basis between staff and management);
- (c) Establish Pension fund, after FAC March 2008 meeting;
- (d) Prepare communications to the staff and advise staff on pension options to be offered by the Global Fund following withdrawal from the UNJSPF; and,
- (e) Obtain consent for the transfer of funds into the new pension scheme from each individual staff member.

ii. Between July and December 2008

- (a) Credit pension scheme with staff's entitlements.
- (b) Upon successful completion of points included in (i) above, submit to UNJSPF Board.
- (c) UNJSPF Board meets in July 2008 and makes its recommendation to the UN General Assembly.
- (d) UN General Assembly meets in December 2008.

14. The move to the WHO GSM (Global Management System) and the design of the Information Systems will be carried out as follows (see Table 2, Timeline II).

i. Between now and June 2008

- (a) RFP for HR/IT design consultants issued November 2007;
- (b) Consultants appointed January 2008;
- (c) Enterprise Resource Planning (ERP) requirements gathered March 2008
- (d) GSM starts March 2008.

ii. Between July and December 2008

- (a) ERP system designed July 2008.
- (b) ERP built November 2008.
- (c) ERP systems tested November/December 2008.

Table 1: Cost Estimates (through 2012)

**Transition Costs (Estimate)
2008-2012
US\$**

	Notes	Set-up Costs		Staff	Running Costs					Staff
		2008	\$m		2009	2010	2011	2012	Total	
Set-Up Costs (one-time)										
Pension	1	Up to	12.0							
Development of policies and processes	2		1.6							
IT system (ERP)	3		4.8	7						
			6.4							
Total Set-Up Costs		Up to	18.4	7						
					<i>For set-up only</i>					
Recurring costs:										
Tax equalisation including annual running costs	4				2.0	1.9	1.8	1.7	7.4	
Outsourced Services:										
				\$2.1	2.1	2.1	2.1	2.1	8.4	
Payroll processing				\$0.1						
Pension administration				\$0.2						
Insurance				\$0.1						
Travel services				\$0.4						
Staff security				\$0.4						
Ombudsman				\$0.2						
ERP Hosting				\$0.2						
Software and training updates				\$0.2						
IT helpdesk for ERP				\$0.3						
Internally resourced:										
Own staff for ERP support, HR & Payments and management of outsourced tasks				\$0.9	0.9	0.9	0.9	0.9	3.6	5
Total Running Costs					5.0	4.9	4.8	4.7	19.4	5
less: Projected ASA fee	5				-2.8	-3.2	-3.8	-4.5	-14.3	
Incremental Running Costs					2.2	1.7	1.0	0.2	5.1	5

Assumptions:

For the purposes of this estimation, it is assumed that total employer contributions to health insurance and pensions remain materially unchanged post transition.

Note 1

The amount of the pension one-off charge will be determined by the element of the money already paid into the UNJSPF over the years preceding departure from that fund that The Global Fund will succeed in recovering for transfer to the new Global Fund Pension Fund. On the basis of consultant's opinion and a \$17m contribution as of 31 December 2006, it is estimated that at least \$6 million will be recovered, leaving an \$11m transfer gap. This gap is estimated to increase to \$12m by 2008.

Note 2

Development of Policies and Procedures for HR, purchasing travel, accounts payable, bank & cash, general ledger	<u>\$m</u>
Setting up Pension fund	\$0.4
Setting up Health Insurance scheme	\$0.2
Project Management costs	\$0.1
	<u>\$0.9</u>
	<u>\$1.6</u>

Note 3

ERP licenses	<u>\$m</u>
Hosting during development	\$0.5
External resources for configuration	\$0.4
Own staff engaged in ERP definition, configuration & testing	\$2.6
	<u>\$1.3</u>
	<u>\$4.8</u>

Note 4

Tax equalization charge reduces over time, reflecting staff leaving (8% per year) who were taken up in the original grandfathering arrangement.

Note 5

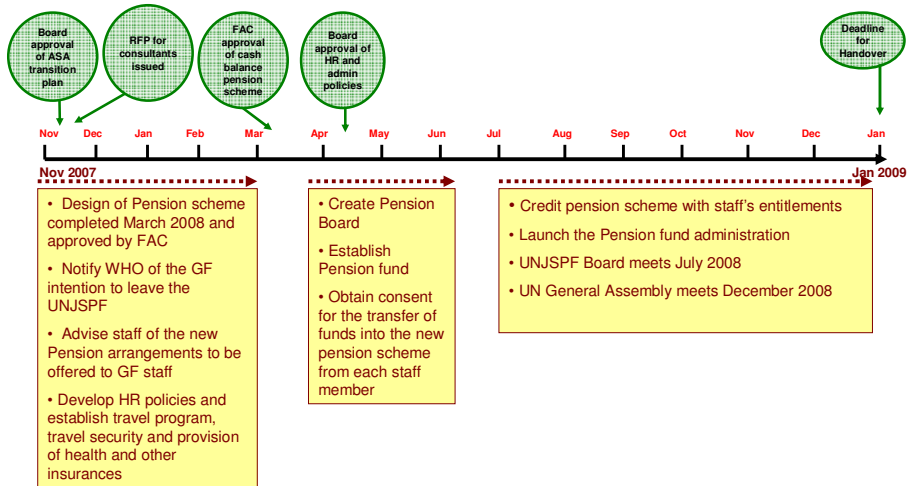
Projected ASA fee increases annually based on 5% increase of WHO fixed costs, plus variable elements driven by TGF staff numbers. ASA fee for 2008 is estimated to be \$2.5m.

Table 2: Timelines

Timelines for:

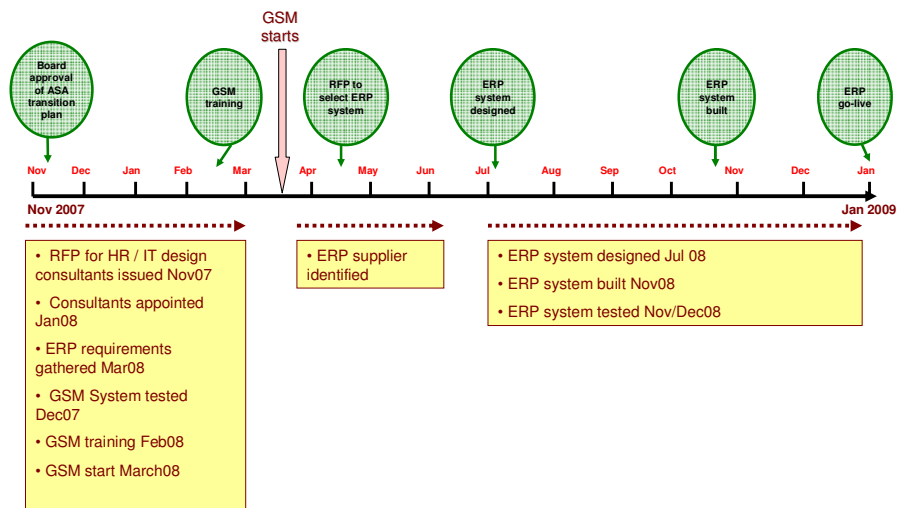
I. Pension, Administrative and Employment Arrangements

Transition completed by 31 December 2008



II. Information Systems

Transition completed by 31 December 2008



POLICY FOR DISCLOSURE OF REPORTS ISSUED BY THE INSPECTOR GENERAL

Introduction

1. The Global Fund's policy is to operate in a transparent and accountable manner, as outlined in the Global Fund's Framework Document and its Documents Policy². Consistent with this policy, the Global Fund has determined that, to the maximum extent possible, all final reports of the Office of the Inspector General ("OIG") should be made publicly available. However, as stated in the Global Fund's Documents Policy, the Global Fund also recognizes that there may be exceptional circumstances where legal or practical constraints limit the Global Fund's ability to achieve full transparency if it is to protect the interests of the Global Fund and its stakeholders or legitimate interests of those who deal with the Global Fund.

2. This policy governs disclosure of all final reports of the OIG, and supersedes the Documents Policy as regards such final OIG reports. However, the Documents Policy will continue to apply to all other OIG work products and other records and all OIG staff will be considered "Fund staff" for the purposes of the Documents Policy.

General Principles

3. Subject to Paragraph 4 and the further provisions below, the OIG will make all final reports issued by the OIG available publicly in full, including:

- Periodic reports prepared by the OIG for the Board and its Committees as specified in the OIG's Charter and Terms of Reference which summarise (on at least an annual basis) the work done, the findings and the assurance provided and progress against plans for the preceding reporting period ("Board Reports");
- Reports that arise from internal audits, inspections, functional reviews and other assurance work at the Secretariat or grant portfolio level ("Assurance Reports"); and
- Reports of investigations carried out by the OIG in response to specific incidents or allegations ("Investigation Reports").

4. In limited circumstances, and for Assurance and Investigation Reports only, the Inspector General has the discretion to make exceptions to full public disclosure when, in the opinion of the Inspector General, in consultation with the Global Fund's legal counsel, full disclosure would:

- a. Cause undue harm to the interest of the Global Fund, its stakeholders, or the legitimate interests of those who deal with the Global Fund;

² First approved by the Board at the Third Board Meeting, and subsequently amended at the Fifteenth Board Meeting.

- b. Expose the Global Fund to the risk of legal action by persons named in the report, or others whose identity may be inferred from it, or by government agencies for alleged violation of a criminal or civil statute;
- c. Impede, jeopardize or interfere with other investigations in progress or pending by the OIG, law enforcement or other investigatory authorities;
- d. Be potentially helpful to anyone perpetrating or contemplating unlawful activities against the Global Fund;
- e. Risk alerting anyone involved with serious crimes, such as money laundering or terrorism, that their activities may be known to investigating authorities or under investigation; or
- f. Put the safety or welfare of anyone who is working for, on behalf of, or with the Global Fund at increased risk.

5. This discretion by the Inspector General, which the Board expects him or her to exercise rarely, is subject to additional checks and safeguards (including final authority over determinations on disclosure by the Board) as described in Paragraphs 8-13 below. The Inspector General will advise Board Members, Alternates and relevant Committee Members of the reason(s) for any decision not to provide full disclosure of a report.

6. The OIG will give Board Members, Alternates and relevant Committee Members the opportunity to read each full report that the Inspector General has not publicly released, as described in Paragraph 12 below. The OIG will provide such access on the basis of signed confidentiality undertakings. The confidentiality obligations will prevent public disclosure, but allow the Board Member, Alternate or relevant Committee Member to discuss the general conclusions set forth in the reports with his/her constituency on an "as needed" basis, provided that (i) no information concerning any person referred to in the reports is disclosed, and (ii) recipients of any information are made aware of the reason for the Inspector General's decision not to release the report, and the potential harm from further disclosure.

Response to public inquiries about investigations

7. The Global Fund Board and Secretariat and those persons who have received information pursuant to paragraph 6 above will not provide any information, confirm or deny or engage in any discussions in response to enquiries by persons external to the Global Fund related to the detail, nature, scope or substance of any investigations contemplated or in progress by the OIG, other than to make a statement in substantially the following form: "The Global Fund will pass on any information received from employees, agents, partners, contractors or others pertinent to or containing information or allegations about fraud or wrongdoing to the Office of the Inspector General for appropriate investigations, the results of which are reported fully to the Board and made public, as appropriate, in due course".

Disclosure Process

8. The OIG will post all final reports, including Board, Assurance and Investigation Reports, on its public Internet site within three working days after they are made available to the full Board, except when the Inspector General proposes to restrict full public disclosure for a specific report in accordance with this policy (“Restricted Reports”).

9. The OIG will send Restricted Reports to the Global Fund’s legal counsel within three working days after finalization, together with a written submission from the Inspector General that states his/her reasons for wishing to restrict disclosure by reference to the criteria outlined in this disclosure policy and his/her opinion as to whether the report should be made public in an altered form and, if so, the nature of the proposed alterations.

10. The legal counsel will prepare a written response to give his/her opinion on the issue, including whether the report should be made public in an altered form. If this is the case, the legal counsel will also propose appropriate alterations to the report.

11. The Inspector General will consult with the Global Fund’s legal counsel and may modify his/her proposed restrictions based on the legal counsel’s advice. The Inspector General will then submit the Restricted Report, his/her submission, legal counsel’s opinion and (if applicable) the proposed alterations to the report to the Finance and Audit Committee (FAC) for consideration.

12. If the FAC, after full consideration and consultation with the Director-General of the World Health Organization (WHO) as long as the Global Fund is operating under an Administrative Services Agreement (ASA) with WHO, determines that the Restricted Report should not be made available to the public (or should only be made available in altered form), the OIG will make appropriate arrangements for the Board Members, Alternates and relevant Committee Members to read the full report, as specified in this policy. The FAC will also prepare an appropriate decision point on the proposed handling of the Restricted Report for consideration by the Board in executive session. If the Board approves the proposal for the report, the Inspector General will not post the full report on the OIG’s Internet site. (If the Board approves a recommendation to disclose an altered form of the report, the Inspector General will post the altered report on the OIG’s Internet site). The OIG will determine if a virtual version of this process will be followed when referral to scheduled FAC and Board meetings would not result in timely consideration of a report that the OIG recommends should be restricted.

13. If the FAC, after full consideration and consultation with the WHO Director-General as long as the Global Fund is operating under an ASA with WHO, determines that the OIG should make the Restricted Report available to the public in full, it will refer the matter to the Board Chair and Vice Chair for consideration. If the Board Chair and Vice Chair agree with the FAC’s determination that the Restricted Report should be made available to the public in full, the Board Chair and Vice Chair will instruct the Inspector General to disclose the full report on the OIG’s Internet site. If the Board Chair and Vice Chair disagree with the FAC’s determination or determine that the disclosure of the Restricted Report warrants further consideration by the Board, the matter will be presented to the Board for decision in accordance with the procedure outlined in paragraph 12 above.