Report of the Finance and Audit Committee
Report of the FAC

Overview of topics

For decision:
• Mid-term Review of the Voluntary Replenishment
• Product and Service Donations
• Budget 2009

For information:
• Administrative transition
• Resource mobilization
• OIG matters
• Optimizing investment returns
Report of the FAC
Mid-term Review of Voluntary Replenishment

• As foreseen by donors at Berlin meeting
• To occur prior to Nineteenth Board Meeting
• Encouraging scale-up of demand; timely to consider the most effective use of funds
• In current climate, existing donors cannot be assumed to further increase pledges
Report of the FAC

Mid-term Review of Voluntary Replenishment

**Decision Point 2: Mid-Term Review of the Second Voluntary Replenishment of the Global Fund**

The Board adopts the recommendation for a Mid-term Review of the Second Voluntary Replenishment of the Global Fund.

The Board decides that the Mid-term Review of the Second Voluntary Replenishment shall take place in advance of the Nineteenth Board meeting scheduled for May 2009.

*The budgetary implications of this decision are US$200,000 (already provided in 2009 budget).*
Report of the FAC

Mid-term Review of Voluntary Replenishment

Decision Point
1 The Joint Steering Group on Product and Service Contributions, drawn from members of FAC and PSC and chaired by the Vice-Chair of FAC, has conducted research and analysis as well as extensive consultations supported by a working group of international experts. Its recommendations are outlined in GF/FAC11/20.

2 JSG recommended that the Secretariat should develop a policy for the acceptance of donations of services and seek adequate information for the development of a policy regarding non-health products.
Without making any a priori judgments of donation programs as positive or negative, the Joint Steering Group concluded that under current conditions the Global Fund should not accept in-kind donations of health products. However, this policy may be open for re-consideration after two years’ experience of the Voluntary Pooled Procurement mechanism, and changes in other factors such as recipients’ views, and market impact conditions.

Whilst the US government expressed its appreciation for the progress made on this issue, it nevertheless wished to record its dissenting view that in-kind donations, including medical products would be an important mechanism to increase the cost-effectiveness of Global Fund grants.
Report of the FAC

Product and Service Donations

Decision Point
Report of the FAC – 2009 Budget

Key factors influencing budgetary needs

- Scale-up of demand, plus dual-track financing
- Implementation of key initiatives
  - NSA, grant consolidation, grant architecture, EFR
- Completion of administrative transition
- Growing partnership role, in-country & global
- Resource mobilization
- Expanding evaluation activities that analyze aid impact and effectiveness
Report of the FAC – 2009 Budget

Budget size

• Influenced by volume of grant approvals
• Dependent on decisions for Rounds 8 & 9
• Pending decisions, budget assumes 146 new grants to be negotiated and signed in 2009
• Based on initial estimates of 2009 grant activity, FAC recommended budget: $240m; 570 staff
• Budget will be revised to take account of actual grants approval decisions of 18th BM
Report of the FAC – 2009 Budget

Related to volume of grant commitments

<table>
<thead>
<tr>
<th>Volume of Grant Commitments</th>
<th>Budget</th>
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<tbody>
<tr>
<td>Rounds 8&amp;9</td>
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Difference between Version 2a and Version 1: **17.5**

Version 2a provides for 146 new grants in 2009, including dual-track
Report of the FAC – 2009 Budget

Key ratios

If budget is $240 m plus 10% contingency, and 570 staff

• 26% increase in $; 21% increase in staff
• Operating expenses are 5.5% of Total Expenditure (guideline is <6%)
• New grant commitments per employee are $8.4m (guideline is <$8.8m)
Linking budget to KPIs

- Need to have KPIs established earlier, prior to budget process
- FAC to explore process with PSC – ideally jointly set KPIs and review performance
Report of the FAC – 2009 Budget

Composition of budget increase

Increase of $30m over 2008 (excl. contingency)

• 82% for staff costs
• 31% for LFA services
• 27% for travel
• 16% on other
• -56% reduction on professional services
### Budgetary Implications in 2009 of Board Decisions (other than approval of the annual budget)

<table>
<thead>
<tr>
<th>Source</th>
<th>Decision Point</th>
<th>Number of Staff</th>
<th>Included in the proposed budget</th>
<th>To be covered by the budget contingency</th>
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<td>Replenishment Mid-term Review</td>
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<td>FAC DP 3</td>
<td>Product and Service Donations</td>
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<td><strong>Total:</strong></td>
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<td><strong>27</strong></td>
<td><strong>457</strong></td>
<td><strong>17,503</strong></td>
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Next steps

- Once grant numbers to be signed in 2009 have been determined, the Secretariat will present adjusted budget to the FAC.
- The Secretariat will further seek economies (such as in travel)
- Proposed that the Board authorizes the FAC to approve the revised budget within an upper limit of US$ 540 million and 570 staff
Report of the FAC
2009 Budget

Decision Point
Report of the FAC

Administrative Transition

• Human Resources policies approved by the Board in October
• Other administrative policies approved by FAC
• Individual offers of employment made to Secretariat staff
• Provident Fund being established
• IT system – now being tested, no customization initially
• Will transition fully on 1 January 2009 (no ‘interim period’)
Report of the FAC

OIG Matters

• FAC reviewed the progress report of the Inspector General
  – IG will present to the Board this afternoon
Report of the FAC

Optimizing investment returns

FAC working group’s interim recommendations:

1) Primary investment objective should be capital preservation, and the secondary objective should be to maximize returns.

2) The Global Fund’s tolerance for risk and volatility of returns should not change from its current level (probability of cumulative negative returns over three years of approximately 1%).

3) The investment horizon should not exceed three years.

4) The Global Fund should continue to make agreements conditional on availability of funds (rather than setting up contingency reserves or requesting additional funds to cover potential investment losses).