

THE GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS, AND MALARIA
FIDUCIARY FRAMEWORK AND ARRANGEMENTS
DECISIONS ADOPTED
TWG MEETING 14 December 2001

PRINCIPLES

1. Generally, financial accountability and program accountability will be handled separately, recognizing that they will be linked at certain key points in the process. The GFATM's system of accountability needs to be based on the following principles:
 - The funds were used for the intended purposes;
 - They were used cost-effectively for these purposes;
 - They produced the expected result/impact.
 - All fiduciary arrangements, including audits should be fully transparent to stakeholders and others interested in the activities of the GFATM.
 - The system should be designed to minimize transaction costs for all parties, especially the recipients.

TRUSTEE

2. The TWG will request the World Bank to be the Trustee for the GFATM. The Chairperson of the TWG will write to the President of the World Bank, requesting the World Bank to be Trustee for the GFATM.

TRUSTEE RESPONSIBILITIES

3. The Trustee would have primary responsibility for financial accountability, including the following:
 - **Collection, investment, and management of funds¹:**
 - The Trustee would be responsible for receiving contributions from *public sector donors*; the investment of such contributions; and disbursement of funds in accordance with the terms of the instrument.
 - Regarding *private sector donors*, modalities would have to be determined to allow for tax-deductibility. Arrangements may have to vary according to the laws of different countries.
 - The private donations would be channeled to the Trustee, commingled with the public sector donations, and the Trustee would invest all the funds together².

¹ The Board of the Fund would be responsible for resource mobilization.

² The WB's Investment Management Department currently manages the WB's assets, working with a variety of financial institutions, and achieves a rate of return that compares favorably with that achieved on similar types of funds managed by other financial institutions (last year the WB's yield on trust funds was 8%).

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➤ **Disbursement of funds to national-level entities, on the instruction of the Board (see below for details)³:**

At the instruction of the Board, the Trustee would disburse GFATM funds to Board-approved country-level entities (both Government and non-government).

➤ **Financial reporting to stakeholders:**

Through the Board, the Trustee would report to the GFATM stakeholders as a group⁴ on the financial management of the Fund, and the allocation of Fund resources. Standardized formats for financial reporting would be required by all parties in the system, based on internationally accepted standards.

INDEPENDENT AUDITS

4. The Trustee, in co-ordination with the Board, would set the standards and requirements for the independent financial audits that need to be carried out on any of the implementing and financial agencies involved in handling the resources of the GFATM. Any party handling GFATM funds would need to agree to be subject to independent audits, and to accept serious consequences, should the audits reveal financial malfeasance. Audits would be both regular and random: for example, all programs/grants over a certain value would be subject to regular audits, and all programs/grants below that threshold would be subject to random audits. Resources should be specifically set aside upfront to cover the costs the auditing program.

5. Each Coordinated Country Proposal (CCP) should include plans for independent financial and program audits (of inputs and outputs), as well as independent evaluations of outcomes, starting with an assessment of the financial accountability of the recipients. The financial and program audits should be separate, parallel and linked at critical points in the system. The costs of these independent audits could be included in the cost of the CCP.

³ In its capacity as Trustee for other multi-donor Trust Funds, the WB already has on-going relationships with commercial banks world-wide. In particular, the WB holds bank accounts in many commercial banks, which are accountable for the proper maintenance of the accounts and the security of all transactions within the accounts.

⁴ Reporting on the commingled Fund finances would be done for the donors as a group, and therefore funds from any particular donor would not be tracked and reported on separately.

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DISBURSEMENTS

6. The main different methods of disbursement that are most often used are:
- Disbursements to finance expenditures for approved goods and services that have already been incurred, usually done on the basis of statements of expenditures. In this and the case below, common WB practice is to provide implementing agencies with sufficient funding to last 3-4 months, keeping the remaining resources invested to earn a return;
 - Direct payments to suppliers, based on pro-forma invoices: this reduces the amount of cash needed to be held in a Special Account (see point below) and ensures that the agreed procurement procedures are followed;
 - Advances to cover anticipated expenditures on the goods and services needed to carry out the approved activities over a specified period (often managed through a Special Account). These are usually provided to entities/countries that are particularly short of their own resources (where making an advance, and having to wait for reimbursement, would cause particular difficulties).

In addition, the Board may consider two further approaches:

- An outcomes-based approach which provides incentives for the implementing agencies to achieve results in fighting the three diseases;
- General budget support, which is not tied to the purchase of specific goods and services, but made on the basis of commitments to achieve change or make progress in certain areas.

PRINCIPLES FOR ENSURING FINANCIAL AND PROGRAM
ACCOUNTABILITY AND OPTIONS FOR CHANNELING FUNDS

8. The Board, through the Trustee will enter into grant agreements with the recipients of funds: each grant agreement will set forth the terms and conditions on which the funds will be made available, including how and when the funds will be disbursed, the procurement requirements that will be applicable, and the program and financial reporting that the grantee will need to fulfill.
9. All grantees will provide regular *financial reports* through the CCM to the Trustee or sub-trustee. The grantees will also provide regular *program reports* as required by the Board.

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10. In order to clarify the responsibility for the preparation, assessment, implementation and monitoring of programs and the use of funds made available by the GFATM, the Board will base its decisions regarding funding procedures and disbursement channels on an independent assessment of the expenditure and financial management capacity of recipient partners involved. The Board will consult with appropriate parties, including the Trustee, for this purpose. These assessments, taking into account internationally agreed standards, will guide decisions on the involvement of “lead support agencies” and on options for channeling the funds.
11. The Trustee may advise the Board on potentially suitable sub-trustees in specific countries or regions.
12. Costs are an important consideration. Different options for channeling funds and maintaining accountability have different implications for costs, effectiveness and accountability.
13. While many different combinations are possible, three main options are presented here. The Board will have the final decision on which option is most appropriate for each circumstance⁵:

The *one-check option*: On the basis of an approved CCP, the Trustee disburses one check to the Government of the recipient country. The Government then passes the funds on to the various entities identified in the CCP, and is held accountable for both financial and program performance.

The *two-checks option*⁶: the Trustee (either directly, or through a “sub-trustee”) makes out two checks, on the basis of an approved CCP. The first check goes to the Government, to pass on to all the public sector entities identified in the CCP. The second check goes to a credible entity in the non-government sector, which then passes the funds on to all the non-government entities identified in the CCP.

The *multi-checks option*: The CCM proposes a sub-trustee, who would be responsible for both the financial and the program accountability, subject to approval by the Board and the Trustee. The sub-trustee could be a private bank, or some other appropriate entity. On the basis of an approved CCP, the Trustee would pass to the sub-trustee the full allocation for the country’s CCP. The sub-trustee would periodically make out checks for each of the

⁵ This would inevitably increase the workload of the Secretariat.

⁶ This is the approach followed under the MAP (Multi-Sectoral AIDS Program in Africa), supported by the World Bank and other donors.

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different entities identified in the CCP. The sub-trustee would be responsible to provide both financial and program reporting.

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ANNEX

Further questions to be resolved/issues to be noted

A number of further questions would need to be addressed during the next stage of elaborating the fiduciary arrangements. Some of these questions are:

- a) The fiduciary arrangements would need to be integrated with whatever system of procurement is decided upon.
- b) How to ensure that the CCP is fully integrated with all other donor supported programs for the 3 diseases, so that there is only one system of reporting, auditing etc. that the country needs to follow for each disease (donors need to “walk the talk” on harmonization of donor practices)?
- c) How to manage and account for the flow of in-kind contributions (which are unlikely to be managed by the WB as Trustee)? Since WHO handles such contributions in certain programs (e.g. a Leprosy Eradication Programme in India), that experience could be examined; and lessons learned from it.
- d) What would be an appropriate process to be followed, in the case of regional-level proposals, and which bodies would fulfill accountability functions at regional level (e.g. Regional Development Banks)?
- e) Administrative versus program costs: how should the question of funding the administrative costs of GFATM be handled, given that certain sources of funding are restricted to funding program costs?
- f) Proposals need to be developed for a process and criteria to be followed to identify a partner to mobilize and collect private sector contributions.