

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Fourth Replenishment (2014-2016)

Implementation of the Global Fund's Transformation Plan | September 2011 – October 2013



Executive Summary

Between 2011 and 2013, the Global Fund implemented a fundamental change in its business model, in order to make strategic investment decisions that reach more people and achieve increased impact. Following suggestions by the Board of the Global Fund in 2010 on needed reforms, and with detailed recommendations by the High-Level Panel in 2011 on how to shift from emergency to sustainability, the Global Fund Secretariat undertook a significant transformation of its structure and how it manages grants. This transformation report outlines the results of those efforts. The Global Fund has a new funding model that is more agile and responsive, while adhering to its partnership mandate with a refreshed culture and adjusted mechanisms. The Global Fund consistently embraces its role as an innovative institution at the forefront of health responses and financing. It expects to continue to constantly evolve. Here are the main findings of this report:

Transforming Resource Allocation, Investment, Results Measurement and Evaluation

A new funding model, devised to better support countries in their fight against AIDS, tuberculosis and malaria, is now underway. The transition to the new funding model began in 2013 with a select number of early and interim applicants, and is on track for full implementation in 2014. Robust country dialogue is leading to a higher quality of proposals, more deliberate consideration of the highest-impact interventions for each country's epidemiological and programmatic context, and greater involvement of civil society and technical partners. Global Fund staff are interacting with partners in a more responsive and constructive way. The combination of allocation and of iterative systems points toward a far higher success rate for funding requests. Improvements are being made in measuring results and impact. The Global Fund is also working to leverage its significant spending on commodities. The procurement and supply chain management of commodities accounts for about two-thirds of grant expenditures. By partnering with organizations such as the United Nations Children's Fund (UNICEF), the President's Malaria Initiative and the UK's Department for International Development (DFID) to harmonize purchases and negotiate long-term supply agreements, and through other efforts, the Global Fund expects to achieve 8 percent per year in savings for commodity purchases. Savings of more than US\$82 million have already been achieved during March-October 2013.

Transforming Risk Management

The Global Fund is building on risk management reforms that are establishing a consistent and strong approach to risk. The Global Fund factors risk management into the implementation process for each grant. Risk profiles and a new operational risk management approach pairs stronger financial oversight with heightened risk mitigation. The new approach assesses risks that could affect outcomes of Global Fund investments in 19 areas, informed by 180 risk factors, providing a "heat map" for each grant.

It recognizes the need to go beyond fiduciary controls and oversight into programmatic, epidemiological and data-quality risks. A stronger relationship between the Secretariat and the Office of the Inspector General also strengthens deterrence and reduces the chances of misuse of funds. An initiative to strengthen financial control mechanisms at the Global Fund, due to go live in the first quarter of 2014, will streamline and automate the Global Fund's financial information workflows, procedures, processes and systems, providing reliable information for corporate reporting, management decisions and external stakeholders.

Transforming Grant Management and Secretariat Culture

A significant organizational restructuring moved a substantial portion of Global Fund staff into grant management, expanding capacity for a more effective way of managing grants and strengthening the implementation of performance-based funding. The proportion of Global Fund Secretariat staff working in grant management-oriented functions has increased 38 percent since 2011, enabling the Global Fund to devote much more capacity to the core business of managing grants, clearing backlogs of issues and focusing more on strategic priorities.

The Secretariat also established three executive-level committees to ensure systematic and focused senior management oversight on matters of strategic and operational importance. A newly created Treasury department has initiated a dynamic forecasting approach to provide funding visibility. A new people strategy for staff is improving the day-to-day work culture in the Secretariat.

Transforming Board Governance

Significant changes to the governance structure of the Board in 2011 and 2012 have increased its focus on core roles of strategy, policy setting, evaluating management, risk management, and improved financial control and fiduciary oversight.

Transforming Resource Mobilization

To enable predictability and sustainability, the Global Fund modified its replenishment strategy for the 2014-2016 period, establishing four pillars of resource mobilization: traditional donors, implementing countries, emerging powers and the private sector. Significant efforts are being made to increase domestic contributions by implementing countries, in order to finance their health systems and programs, and demonstrate shared commitment, responsibility and accountability.

The annex to this report provides a list of the High-Level Panel's recommendations and outlines the progress made for each of them.

Background

1. In April 2011, the Global Fund Board appointed a High-Level Panel to conduct an independent assessment of the organization's fiduciary controls and oversight mechanisms. The panel was led by former president of Botswana Festus Mogae and former U.S. Secretary for Health and Human Services Michael O. Leavitt. Its task was to:

- Give the Board insight into and knowledge of the character and dimension of fiduciary problems with the organization's grant portfolio;
- Offer concrete suggestions to solve systematic problems in grant selection and oversight, including any flaws in the Global Fund's business model;
- Provide advice on how to mitigate risk without being risk averse; and
- Contribute to the concurrent strategy-development and reform processes led by the Global Fund's Board and Secretariat.

2. Over the six-month period of the panel's assessment, members of the High-Level Panel undertook an extensive review of published and unpublished documentation and conducted hundreds of interviews with personnel from the Global Fund Secretariat, Principal Recipients, sub-recipients, Country Coordinating Mechanisms, Local Fund Agents, national auditors, external auditors and ministers. They examined a representative sample of grants in 40 countries in different risk categories, visiting 12 of those countries.

3. The High-Level Panel presented its findings and recommendations in a report to the Board in September 2011.¹ The Board adopted the report of the High-Level Panel and requested the Board Chair and Vice Chair, together with the Secretariat and the Office of the Inspector General, to develop a Consolidated Transformation Plan, integrating the recommendations of the High-Level Panel with other reform activities already underway at that time, including:²

- The Global Fund's Plan for Comprehensive Reform developed by the Comprehensive Reform Working Group and endorsed by the Board in May 2011;
- Changes to the funding model under the Global Fund's 2012-2016 strategy;
- Findings of the organization-wide review of the Secretariat (Q1 Review) in 2011; and
- Specific recommendations made in progress reports by the Office of the Inspector General.

¹ *Turning the Page from Emergency to Sustainability*. The Final Report of the High-Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms of the Global Fund to Fight AIDS, Tuberculosis and Malaria. September 19, 2011, <http://www.theglobalfund.org/en/highlevelpanel/report/>

² Decision Point GF/B24/DP3

4. The Consolidated Transformation Plan was presented and approved at the Twenty-Fifth Board Meeting (Accra, 21-22 November 2011).³ It set objectives, deliverables and timelines for the Global Fund's transformation around six thematic areas,⁴ with the following intended outcomes:

- Improved investment of Global Fund resources towards the highest-impact countries, interventions and populations;
- Increased efficiency and value for money in the use of Global Fund resources;
- More effective identification and management of risks;
- More efficient and flexible management of grants in a consistent, quality assured manner;
- Enhanced structure and management of the Secretariat and the Board for optimal performance;
- Enhanced engagement of partners at global, regional and country levels, to support grant performance; and
- Increased predictability and sustainability of funding.

5. The plan is described more fully in the Board document *Consolidated Transformation Plan*.⁵ Attachment 1 to that document provides a matrix to describe how each of the High-Level Panel's detailed recommendations has been incorporated into the Consolidated Transformation Plan.

6. The purpose of this report is to provide an update on the progress towards the Global Fund's transformation.

Progress on the Implementation of the Transformation Plan

7. In his final report to the Board,⁶ former Global Fund General Manager Gabriel Jaramillo provided a status update on the implementation of the Consolidated Transformation Plan. At the time of that report's submission, 89 percent of the Consolidated Transformation Plan's deliverables had been completed, with a further 8 percent on track to be completed by the Secretariat in 2013.⁷ The remaining 3 percent consisted of pending Board deliverables.

³ Decision Point GF/B25/DP6

⁴ 1) Resource allocation, investment, results measurement and evaluation; 2) Risk management; 3) Grant management, including working with partners; 4) Secretariat organization, management and culture; 5) Board governance and 6) Resource mobilization.

⁵ GF/B25/4, <http://www.theglobalfund.org/en/board/meetings/twentyfifth/documents/>

⁶ GF/B29/5, *Report and Recommendations by the Outgoing General Manager*, http://www.theglobalfund.org/documents/board/29/BM29_05-GeneralManager_Report_en/

⁷ The 89 percent completion figure includes 37 deliverables that have been superseded or replaced by new Board decisions or activities, or which have been made irrelevant through changes to the Global Fund's business model.

8. This section further elaborates on the General Manager’s reports, discussing implementation in the six areas of the Consolidated Transformation Plan and its impact on the issues originally raised by the High-Level Panel. It also covers further areas, in which the Secretariat is working with implementers and partners to evolve its business model and operations beyond the original transformation plan. This report is not intended to be a detailed update on the Consolidated Transformation Plan’s 193 deliverables. Rather, it is used as an opportunity to focus on the highlights of the Global Fund’s ongoing transformation, note outcomes and indications of impact observed, and contemplate areas where further work and evolution may still be required.

1. Transforming Resource Allocation, Investment, Results Measurement and Evaluation

9. **High-Level Panel Findings:** In its report, the High-Level Panel described the Global Fund’s grant application process as lengthy and complicated, and not optimizing resources based on need, predictable risks and/or implementation capacity and past performance. The system had inadvertently created incentives for countries to repeatedly secure new funding and therefore focus on grant proposals, rather than on improving the performance of existing grants. The Global Fund was furthermore not achieving its full value for money potential: the linkage of investments to results was insufficiently emphasized, both in the review of new proposals and in the management of grants. Reprogramming processes were complex and not put to good use.

“The experience was pure ecstasy, when compared with the previous application process. Instead of sitting on the opposite side of the table and acting like umpires, the Global Fund actually joined us in developing the concept note, and worked with us until it was approved.”

Henry Madzorera,
Minister of Health, Zimbabwe

10. **Consolidated Transformation Plan Implementation:** Perhaps the most significant response to these identified weaknesses has been the Global Fund’s implementation of the **new funding model**, which had already been a key element in the 2012-2016 strategy adopted by the Board⁸ and was further elaborated upon in the High-Level Panel’s recommendations. The new funding model approved by the Board⁹ represents the most fundamental and far-reaching change in the Global Fund’s business model to date and is the vehicle for implementing a number of important reforms contained in the Consolidated Transformation Plan. The full implementation of the new funding model is well underway and on track, and will remain the Global Fund’s highest operational priority over the coming year.

⁸ http://www.theglobalfund.org/documents/core/strategies/Core_GlobalFund_Strategy_en/

⁹ Decision Points GF/B27/DP7 and GF/B28/DP4

11. **Country dialogues** – a key component of the new funding model – are enabling earlier risk identification and management, higher proposal quality, and a more deliberate consideration and conversation about the highest-impact interventions for a country’s given epidemiological and programmatic context. Early feedback and observations show a significant improvement over the previous “rounds-based” proposal system, with greater involvement of civil society and technical partners, and a more proactive and constructive discussion about how to address the deficiencies of previous grants, in terms of both programmatic content and implementation performance.

12. Under the new funding model’s **allocation and iterative systems**, the initial “success rate” of funding requests for early applicants during the transition has been 100 percent, and is expected to remain at or close to this level. This is a dramatic improvement over the approximately 50 percent success rate for funding requests under the rounds-based system. The new funding model is also expected to cut delays in accessing new funding. The first three countries to access funds through the new funding model¹⁰ recently required only 3.5 months from the announcement of funding allocations to Board approval, and only three weeks for grant signing. The fast pace set by these accelerated early applicants is a result of existing robust national strategies, strong Principal Recipient capacity, the political leadership of Country Coordinating Mechanisms and excellent partner support. It remains to be seen whether that pace becomes the norm with the large influx of funding requests in the coming year. It is nevertheless a dramatic improvement compared with – and beyond the scope of possibility under – the rounds-based process, which typically required well over a year from proposal submission to Board approval, and almost a year for grant signings. The new funding model is therefore bringing about a significant reduction in lost effort and time by implementing countries and, more importantly, it is shifting the question from whether countries will have the funds they need to support their disease programs to *how to optimally utilize* the funds allocated.

100 percent success rate of funding requests for new funding model early applicants

13. The Secretariat has also made significant progress in improving the Global Fund’s ability to achieve and measure results and impact for its investments. This begins with re-orienting the Global Fund’s **monitoring and evaluation tools** in strong collaboration with partners, shifting focus away from process indicators in Global Fund grants and increasingly focusing on impact, outcomes and coverage for key interventions. Together with key partners, including the World Health Organization (WHO), the Joint United Nations Programme on HIV/AIDS (UNAIDS), the World Bank and the President’s Emergency Plan for AIDS Relief (PEPFAR), the Global Fund has been developing a one-page set of indicators each on HIV, TB, malaria and cross-cutting areas. This will result in more consistent reporting among different agencies, with a focus on coverage and outcomes. It will also improve the ability of partners to jointly review respective areas of support for a country’s program and more easily

31 percent reduction in the number of indicators in Global Fund’s guidelines

¹⁰ Myanmar, El Salvador and Zimbabwe

identify gaps and overlaps. This streamlined and harmonized approach is resulting in a 31 percent reduction in the number of indicators in the Global Fund's guidelines, representing a significant alleviation of the reporting burden for countries. This initiative is currently in its final stages, with ongoing efforts to harmonize tools and guidelines with partners. This will include, for example, common monitoring and evaluation guidance jointly released by PEPFAR and the Global Fund for HIV and AIDS programs, which will be further adapted upon WHO's release of its new HIV/AIDS monitoring and evaluation guidelines (Q1 2014).

14. For all countries undergoing the grant renewals process or accessing additional funds through the new funding model, the Secretariat is developing **impact profiles**, which bring together strategic information on a country's disease burden, coverage, progress on impact and outcome measures, Global Fund grant performance, resource gaps and health and disease financing and spending. These profiles are enabling the **Grant Approvals Committee** – the mechanism for reviewing and recommending grants under the new funding model – to assess and respond in a results- and strategically-oriented manner to the gaps, opportunities and risks in the programs the Global Fund is supporting.¹¹ As part of the efforts to improve the quality and availability of impact-related information, the Global Fund is collaborating with UNAIDS and the World Bank to support sub-national analyses to strengthen HIV country reviews, and with the Department for International Development (UK) (DFID) on a similar exercise for malaria.

15. One further area of work to invest more strategically and with greater allocative efficiency, which goes beyond the Consolidated Transformation Plan and the High-Level Panel's recommendations, has been the **leveraging of epidemiological intelligence**. Recent advances in the use of geographic and epidemiological data are generating richer, more strategic information about the epidemics and enabling countries to identify epidemiological "hot zones," where a small portion of the population accounts for a disproportionately high number of new infections. This epidemiological intelligence serves as a powerful tool, which the Global Fund has begun to leverage in country dialogues and in Grant Approvals Committee reviews to ensure that Global Fund resources are strategically focused on the investments that will achieve maximum impact for a country's disease program.

16. In order to enable full strategic use of the epidemiological intelligence described above, further work is being undertaken to strengthen countries' underlying data systems. Collaboration has begun with partners to carry **out data system assessments** to evaluate the availability and quality of the information collected, and to identify areas where systems need strengthening. These assessments are being carried out initially with the Global Fund's "high-impact" countries, in addition to several others based on guidance from the Technical Evaluation Reference Group. To address the identified gaps in countries' data systems, the Global Fund has begun to provide targeted funding to strengthen national data systems in 20 priority countries. This is being implemented based on a WHO framework of key underlying

¹¹ See *Report of the Executive Director, Twenty-Ninth Board Meeting* for concrete examples: http://www.theglobalfund.org/documents/board/29/BM29_03ExecutiveDirector_Report_en/

data systems for HIV, TB, malaria and maternal and child health. It leverages partner and country investments to strengthen cross-cutting data systems. These data system investments have been added to existing grants, and for example in Zimbabwe are building electronic reporting from national- to district health facility levels for the first time. It is also used to strengthen the analytical components of existing country program reviews to evaluate impact with partners.

17. This will be complemented by the implementation of new internal information systems in the Global Fund, such as the finance step-up project (discussed in greater detail in the following section). These new financial systems will enable the Secretariat and the Board to have access to consolidated information and reports as to the level, nature, timing and granular geography of investment. Complementing the finance step-up project is the development of a grant management portal with full programmatic information. Together, these information systems will help ensure that Global Fund investments are optimally directed towards the interventions, populations and geographies with the greatest potential for impact against the three diseases.

18. The Secretariat has revisited its policies, procedures and discussions with countries around **reprogramming**, increasing the dialogue and ensuring that countries are aware of the flexibilities available. It is also more proactively initiating the conversation and encouraging implementers to reprogram based on key triggers, such as the revision of national strategies, changes in the trajectory of the diseases, new normative guidance on disease control, findings from program reviews, changes in the funding landscape, and identified capacity gaps or risks. Partners and the Secretariat's internal technical advisors are also being engaged more heavily and systematically to ensure that changes are in line with the needs, normative guidance and coherence of the broader program. To encourage reprogramming when appropriate, Fund Portfolio Managers are more routinely working with countries to identify opportunities to reinvest savings resulting from reprogramming, rather than automatically deducting them from the grant.

19. The Consolidated Transformation Plan section on *transforming resource allocation, investment, results measurement and evaluation* includes several other deliverables that have since been revised, made obsolete or incorporated into other initiatives due to further business model changes or unforeseen circumstances. These include prominently, for example, deliverables specifically tied to the roll-out of a "Round 11" funding opportunity, which was later cancelled. Many of those deliverables have been incorporated into the transition to the new funding model. A further small number of deliverables are still in progress under this area of the Consolidated Transformation Plan, most of which are a part of broader ongoing strategic initiatives (e.g. implementation of the market-shaping strategy) or internal systems implementation (e.g. financial and information management systems).

20. A further area of work beyond the Consolidated Transformation Plan that is significantly improving the Global Fund's value for money has been its work to **leverage its purchasing power and partnerships**. The procurement and supply chain management of commodities represents approximately two-thirds of Global Fund grant expenditures. And

ye, the Global Fund has struggled in the past to leverage its significant spending on these commodities to bring down prices for high-quality products. Under the guidance of the Market Dynamics Advisory Group and as part of the implementation of a new Market-Shaping Strategy adopted by the Board,¹² the Global Fund is introducing a more strategic and proactive approach from sourcing to procurement, and ultimately to the way it interacts with the entire supply chain.

21. For example, the Global Fund is partnering with the United Nations Childrens Fund (UNICEF), the President’s Malaria Initiative (PMI) and DFID to harmonize purchases and negotiate long-term supply agreements on global tenders of insecticide-treated nets. Collectively, these institutions currently represent an estimated 87 percent of the global purchasing share of insecticide-treated nets.¹³ With this purchasing power, the collaboration is expected to significantly reduce insecticide-treated net prices and provide greater predictability on net orders for manufacturers. The Global Fund is currently in similar negotiations with PEPFAR and the South African government – all major purchasers of antiretrovirals – and antiretroviral manufacturers, and has initiated similar processes for diagnostics and male circumcision devices.

22. Through efforts such as these, the Global Fund expects to achieve:

- 8 percent per year in savings for commodity purchases (with savings of over US\$82 million already achieved during the March-October 2013 period), thus directly increasing the volume of the support the Global Fund will be able to provide to countries’ disease programs; and
- 10 percent improvement in the “on-time and in-full” service delivery to recipient countries.

US\$82 million saved on commodity purchases through leveraging purchasing power and strategic partnerships

2. Transforming Risk Management

23. **High-Level Panel Findings:** Risk management was a key focus area for the High-Level Panel, and in many ways, the convening of the panel was a direct response to concerns that arose following cases of fiduciary control deficiencies. In reflecting on those cases, the High-Level Panel made the following observations regarding the Global Fund’s limitations:

- The organization made very few strategic and operational decisions on the basis of risk;
- The Global Fund’s “layers of assurance” provided a false sense of security;
- The implementation and management capacity in a number of recipient countries was uneven;
- Oversight was inadequate to detect and prevent fraud; and

¹² http://www.theglobalfund.org/documents/board/23/BM23_09MDC_Report_en/

¹³ The Global Fund alone currently accounts for an estimated 52 percent of global insecticide-treated net purchasing share.

- An insufficiently rigorous scrutiny of budgets in proposals allowed for padding, easily exploited post-approval.

24. The High-Level Panel found a strong need for the Global Fund to better adapt its approaches effectively to variations in country context and implementer capacities. It also noted that the Global Fund's existing fiduciary control mechanisms were not consistently applied, and that standards for implementation of Global Fund grants were sometimes lowered in inappropriate application of the country ownership principle.

25. **Consolidated Transformation Plan Implementation:** Risk management represented the largest thematic focus area of the Consolidated Transformation Plan, with over one-third of the 193 deliverables designed to address the risk management issues raised by the High-Level Panel. These reforms span a far-reaching set of control areas and entry points, including codes of conduct, Office of Inspector General procedures, information management systems, models for segmentation and risk identification and dedicated Secretariat capacity for risk management.

26. Only three of these Consolidated Transformation Plan deliverables remain pending, all of which are well advanced in their implementation. Two deliverables have become parts of larger Global Fund information systems projects, including the implementation of the **Finance step-up** project and a new **customer relationship management** tool. The final deliverable, the **corporate risk management framework**, has been revised and is already in preliminary operation by the Secretariat. Following a constructive discussion at the Twenty-Ninth Board Meeting¹⁴ on the Global Fund's risk philosophy and tolerance, the Board Chair and Vice Chair have asked Board Members to provide further input into the risk management framework, which will continue to feed into the framework in the coming year.

27. On a number of initiatives, the Global Fund – in collaboration with the Inspector General, and under the oversight of the Finance and Operational Performance Committee and the Audit and Ethics Committee– is building on the risk management reforms contained in the Consolidated Transformation Plan with further elements that, together, are establishing a more robust, deliberate, calibrated and consistent approach to risk in the Global Fund's business model and operations.¹⁵

28. One of the main outputs described in the overall Risk Management Framework is the **Corporate Risk Register**, which documents the organization's main risks by analyzing the likelihood of their occurrence, the likely impact should they occur, the speed at which action would be required to respond, relevant internal and external developments, mitigation actions being undertaken, ongoing changes in the level of risk, and the level of residual risk after mitigating actions are taken into account. The register serves as the repository of the most significant risks to the achievement of the organization's objectives.

¹⁴ Colombo, Sri Lanka, 18-19 June 2013

¹⁵ For a more comprehensive discussion on the risk management reforms being implemented at the Global Fund, see the Board paper GF/B29/06, *Update on Risk Management*, http://www.theglobalfund.org/documents/board/29/BM29_06-UpdateOnRiskManagement_Report_en/

29. Significant work to improve the Global Fund’s risk management continues to be undertaken beyond the deliverables in the Consolidated Transformation Plan, much of which builds upon and leverages a significantly stronger relationship between the Secretariat and the Office of the Inspector General. One concrete area of collaboration has been in **addressing counterfeit drugs**. An Office of the Inspector General-Secretariat joint working group has been established to combat artemisinin-based combination therapy (ACT) counterfeiting, which includes the Inspector General’s investigation team, and several procurement, grant management and risk management colleagues from the Secretariat. Through timely information sharing and proactive collaboration, the Inspector General and the Secretariat are jointly identifying and responding to this important risk.

30. The Global Fund is engaged in further efforts against counterfeiting, theft and diversion of drugs through joint work with Interpol, the U.S. Food and Drug Administration (FDA), health ministries, the Inspector General and WHO. Focusing on the top 50 drugs in the Global Fund’s high-risk environments, the Global Fund is implementing approaches to prevent, detect and respond, using measures (e.g. barcodes) based on their cost effectiveness, scalability and ease of implementation. With the support of the Inspector General, the Secretariat is developing contract terms to encourage data collection at both country and manufacturer level, and it is building communication plans for Principal Recipients and governments to provide better information on prevention and enforcement. The Global Fund is seeking to further promote the work through local champions, such as the African Union (AU) and the Southern African Development Community (SADC).

31. Much discussion of risk management has been focused on fiduciary controls and oversight, which are essential functions of any financing institution. As a global health financing institution, however, the risks to the Global Fund’s investment “returns” must extend much broader into programmatic, epidemiological and data quality risks. This recognition is embodied in the Global Fund’s new **operational risk management** approach and **risk profiles**, which assess the risks that could affect the outcomes of Global Fund investments in 19 different areas, informed by 180 risk factors. The profile provides a “**heat map**” for each grant, showing where the risks are, based on bottom-up generated information. These heat maps are providing country teams with a structured and consistent framework to meaningfully discuss with implementers and partners the risks and possible responses related to treatment disruptions, data quality or sub-recipient oversight, for example. They also enable the Secretariat to better target resources and efforts, including Local Fund Agent services and technical assistance, according to the specific risks in each grant. These risk profiles are being used to inform grant management decisions and identify areas requiring attention on a grant and program level.

32. This initiative is also contributing to a more systematic portfolio-wide approach to risk management at a **corporate oversight and governance** level. The risk profiles provide a useful framework for presenting an assessment of risk areas across the portfolio to senior management and the Board and help identify risk management strategies and facilitate informed discussions to clarify tolerance and containment of certain risks. This was evident

during the recent Board Meeting's rich discussion of the top-five identified risks and mitigation strategies in the Global Fund's "High Impact Portfolio."¹⁶

33. Country team work in response to identified risks has significantly expanded in the last two years. Country teams now use an array of tools and approaches to the mitigation of risk, including the tailoring of Local Fund Agent work, better segregation of duties at the implementer level (and in particular, appointment of fiduciary and procurement agents where required), and safeguard measures in relation to the use of funds, among others (see next section).

34. The **Finance Step-up Project** will also help to strengthen the financial control mechanisms at the Global Fund. With this initiative, the Secretariat is overhauling its financial systems and processes in order to complement and support the new funding model, and to better manage and report financial and operational information on grants, contributions and operating expenses. The Finance Step-up Project will streamline, accelerate and automate the Global Fund's financial information workflows, procedures, processes and systems; and it will provide reliable, real-time and accurate financial information for corporate reporting, management decisions and for sharing with external stakeholders. The new system is expected to go live by Q1 2014.

35. The work described above – which is only a selection of the initiatives underway to further improve risk management at the Global Fund – will continue to be rolled out and built upon over the coming year. Approaches and tools will continue to be refined through Secretariat evaluations, as well as through the ongoing recommendations and feedback from the Inspector General.

3. Transforming Grant Management, Including Working with Partners

36. **High-Level Panel Findings:** The High-Level Panel noted that Global Fund grant management had been process- and information-heavy, while standard procedures and best practices were incomplete and applied inconsistently. Fund Portfolio Managers were overburdened, and, despite their central role, had not been sufficiently empowered to proactively solve grant management problems. The Country Team Approach, while an important innovation, required better clarification of team roles, definitions of skill sets required and more efficient operation. Local Fund Agents were not optimally used as key partners at the country level, and oversight and accountability from the Country Coordinating Mechanisms required strengthening. The panel also identified weaknesses among implementers, mostly relating to their capacities for fiduciary control, pharmaceutical management and quality reporting. This complemented an earlier analysis carried out by the Comprehensive Reform Working Group on the Global Fund's partnership approach, which strongly highlighted the need to better leverage the technical capacities of partners present at the country level.

¹⁶ *Ibid*

37. **Consolidated Transformation Plan Implementation:** Through implementation of the reforms noted below, the Global Fund has already been able to show concrete indications of improved grant management, whilst preserving and strengthening its implementation of performance-based funding. For example:

- Collectively, the Secretariat, implementers and partners have achieved a significant progressive reduction in the number of “stuck grants,”¹⁷ from an estimated 73 stuck grants in 2011, to 51 in 2012, down to 22 in 2013;¹⁸
- The performance trajectory of previously struggling grants has also improved: 50 percent of the grants that were performing poorly at the beginning of 2012 improved to a B1 rating or better by the end of the year. This is despite an overall shift towards stricter grant ratings, with a higher proportion of grants across the portfolio receiving B2/C ratings in 2012 compared with previous years, due to increased focus on risk mitigation, and a more stringent application of performance-rating guidelines; and
- Grant disbursements increased by 27 percent from US\$2.6 billion in 2011 to US\$3.3 billion in 2012. Disbursements are expected to reach even higher levels in 2013.

70 percent
reduction in the
number of stuck
grants from
2011 to 2013

38. As noted by the High-Level Panel, the Global Fund “model will not work if the only outcome of a reform process is simply strengthening the headquarters operations in Geneva.” The Consolidated Transformation Plan therefore included actions across all actors to increase the consistency of grant management through the development of **standard procedures** and the application of **quality assurance mechanisms**. These actors – including Secretariat staff, Local Fund Agents, Country Coordinating Mechanisms and Principal Recipients – have undergone training to assist with the consistent implementation of procedures, to improve the understanding of roles and expectations, and to facilitate the sharing of best practices.

39. Significant work has been completed to enhance the **decision-making authority of Fund Portfolio Managers** and clarify their accountabilities, as well as the respective accountabilities of other Country team members. The embedding of key Country team functions and areas of expertise – including monitoring, program finance, procurement and legal – within Country teams has enabled more effective and efficient ways of working within the Secretariat, and in its interactions with country implementers and partners.

40. A number of reforms have been implemented to **better leverage investments in Local Fund Agents** and to improve their performance. These include Local Fund Agent-specific communications protocols, Local Fund Agent tools and guidelines reflecting up-to-

¹⁷ “Stuck grants” is a term used to describe grants to which no money has flowed within the past six months, or within three months after grant signature.

¹⁸ Figures are as of September in each year cited.

date Global Fund requirements, minimum requirements for key Local Fund Agent experts, training of the Local Fund Agent experts, tailoring Local Fund Agent services based on the grant/country risks, and adoption of a more flexible approach to ordering Local Fund Agent services for low-value/low-risk grants and where implementers are UN organizations.

41. Implementation of the new funding model is a key vehicle for evolving the Global Fund as a partnership organization. **Country dialogues** are proving to be an excellent entry point for discussing **country-specific partner arrangements** and **technical assistance plans**. With its inclusion of technical and funding partners, the **Grant Approvals Committee** is able to consider high-quality technical advice and more strategically coordinate Global Fund support around other external investments in country programs. The recent addition of a civil society representative on the panel is helping to strengthen the Secretariat's ability to see the opportunities and deficiencies of programs with regards to reaching most-at-risk populations, ensuring equity in access and optimally leveraging civil society's implementation capacity.

42. As part of a larger set of initiatives to optimize the entire supply chain, the Global Fund is developing a **rapid supply mechanism** to improve the management of projected needs for essential drugs and reduce the risk of shortages, stock-outs and treatment disruptions. It is doing this through leveraging existing health product procurement arrangements (e.g. voluntary pooled procurement, Global Drug Facility) and existing stockpiles (U.S.-government purchased ARVs, UNITAID-funded multidrug-resistant TB treatment).

43. The one significant piece of work still ongoing in the area of grant management and partnerships is the **new model for managing Local Fund Agent services** to strengthen financial controls, which will allow for more efficient budgeting and subsequent management of Local Fund Agent services, and will provide necessary information for analysis and decision making. This is an ongoing project, with significant re-scoping and re-defining of Local Fund Agent services already completed in 2013. The new portal has been online since early August 2013 and working well.

4. Transforming Secretariat Organization, Management and Culture

44. **Q1 Review/High-Level Panel findings:** In 2011, an independent panel was established to review organizational and operational issues of the Global Fund Secretariat ("Q1 Review").¹⁹ Major findings of the review included an insufficient proportion of staff working directly on grant-making activities, and a need (reiterated by the High-Level Panel) for more effective and strategic decision-making by the Executive Management Team at the time. Weaknesses were also identified relating to lack of human resource development opportunities, sub-optimal performance management arrangements and a need for a more unified corporate culture. In the Information Technology unit, there was a need for improved alignment of operations with business needs.

¹⁹ External 'Light Touch' Review of the Global Fund Secretariat – Final Report of the Independent Panel, Keith Bezanson, Kathleen Cravero, Callisto Madavo & Jean-Paul Moatti, April 2011

45. **Consolidated Transformation Plan Implementation:** As a direct response to the Q1 Review's findings, the Secretariat undertook a significant **organizational restructuring** exercise, from which a key outcome was a major shift of capacity towards grant management functions. Today, the proportion of Secretariat staff members working in grant management-oriented functions has increased 38 percent from the time of the Q1 Review. This is enabling the Secretariat to devote much more capacity to its core business of grant management, clearing backlogs of issues and processes and focusing more on strategic-level priorities. Country teams have also had more capacity to make regular visits to countries, which has had a direct and positive impact on the relationship building with Principal Recipients, Country Coordinating Mechanisms, Local Fund Agents and partners.

46. In order to ensure systematic and focused senior management oversight on matters of strategic and operational importance, the Secretariat established three executive-level committees, whose purpose is to identify and solve issues in the following areas:

- Management Executive Committee: Guide strategy and oversee risk, and ensure efficient and effective management of the Secretariat and its people;
- Executive Grant Management Committee: Oversee grant management and development of Global Fund operational policies and strategies relevant to supporting country programs; and
- Funding and Finance Executive Committee: Monitor flow of financial resources to ensure financial sustainability and rigorous financial management and discipline.

47. The Global Fund has additionally established three **Disease Committees** – one each for HIV/AIDS, tuberculosis and malaria – with the strong involvement of technical and funding partners, which focus on maximizing the effectiveness of Global Fund investments in the disease programs it is supporting.

48. The Secretariat has created materials and designed workshops to help establish a more cohesive corporate identity, with workshops completed for over 400 staff members from across the institution, including the Office of the Inspector General.

49. The structure of the Secretariat's IT department – and its governance and delivery models – has been significantly redesigned, with a much more business-supportive approach being implemented today. The new structure and approach are currently supporting major systems building and integration exercises, including for example the Finance Step-up Project (see earlier section on Risk Management for more details).

50. The Secretariat's **human resources operating model** was reviewed in its entirety, and the Human Resources team is now fully operational. A new **people strategy** for 2013-2016 is in place, to provide the Secretariat with a roadmap for improving the employment relationship and ensuring that the Global Fund is maintaining an optimal environment for staff to be productive and engaged. The strategy is translated into a workplan with activities

underway in the areas of employee relations, talent management, performance management, human resources practices clarification and consistency, leadership development, basic management skill and core skill development and system implementation. A “Living the Values” workshop was recently launched with senior leaders, which will be cascaded throughout the organization in the coming months. In the 2012-2013 period,²⁰ there has been a 58 percent decline in cases brought to the Ombudsman compared with 2011-2012; the levels are also significantly lower than in 2010-2011. This has been accompanied by a 75 percent reduction in the number of “high risk,” or serious cases, from 2011-2012 to 2012-2013.

58 percent decline in Ombudsman cases, including a 75 percent reduction in number of “high risk” cases, from 2011-2012 to 2012-2013

51. The newly created **Treasury department** has initiated a dynamic forecasting approach to provide visibility on funding and to better assess the level of uncommitted assets, based on different scenarios and continuously updated assumptions on grant commitments and disbursements. This approach enabled, for example, the Finance and Operational Performance Committee to unlock US\$1.9 billion in uncommitted assets for the transition to the new funding model, and it provides greater visibility to the Board committees as to the available funding for further commitments and the level of commitments and disbursements every quarter. The Treasury department is also carrying out granular quarterly forecasts of grant disbursements, grant commitments and expected contributions in order to permanently monitor the level of assets and liabilities of the Global Fund and to ensure cautious liquidity risk management.

US\$1.9 billion in uncommitted assets unlocked for the new funding model through improved dynamic forecasting.

52. Finally, the Secretariat has undertaken a revision of the **Key Performance Indicators Corporate Framework** to streamline it with a limited number of key performance indicators (approximately 15) that are visible, measurable and are aligned with the 2012-2016 strategy and the Global Fund’s priorities for 2013-2014. This set of KPIs will enable the Board and its Committees to directly track the performance of the Secretariat.

5. Transforming Board Governance

53. **High-Level Panel Findings:** Board members largely agreed²¹ that the Board had not been operating at the “right altitude” and did not have the right committee structure to support its role. They also felt the tools and mechanisms were lacking to ensure that committee work facilitated rather than hampered the Board’s ability to focus on its core roles of policy setting, evaluating management, strategy and risk management, and improved financial control and fiduciary oversight.

²⁰ To date, the Ombudsman has reported on a September-August cycle. Thus, the “2012-2013 period” refers to September 2012 - August 2013.

²¹ Through a Board survey completed in June 2011, as well as extensive consultations, including during a governance workshop at the 2011 Partnership Forum and through the governance reform work stream of the Comprehensive Reform Working Group.

54. **Consolidated Transformation Plan Implementation:** At its Twenty-Fourth Meeting in September 2011, the Board introduced a number of significant changes to the governance structure of the Global Fund. The organization’s by-laws were amended to refocus the Board’s role in risk and financial oversight as well as performance management – both of the organization’s overall performance as well as that of its two direct reports, the Executive Director and the Inspector General. It further decided to completely overhaul its **committee structure**. Duplicative, large and ad hoc committees with unclear reporting lines were replaced with three focused committees.²² Also, in line with the High-Level Panel’s recommendations, the skills and technical expertise requirements of committee members were specified. These expertise criteria later formed the basis of committee leadership and membership appointments for 2012-2014 and continue as a key reference in selection criteria. Additionally, one of the most innovative elements of this governance reform was the introduction of a majority of independent members, including the Chair, selected competitively from outside Board constituencies, for the Audit and Ethics Committee. The Audit and Ethics Committee’s role is to advise the Board on the quality and rigor of the work of the Office of the Inspector General in line with industry standards, to review and recommend the external audit of the Global Fund’s accounts, to consider individual ethics referrals and to oversee the Global Fund’s conflict of interest policy. It also engages actively with the Chief Risk Officer.

55. The Board also formalized earlier ad hoc discussions between the Board and committee leadership into a standing **“Coordinating Group”**, to provide a platform for systematic coordination for managing cross-cutting issues that must span all committee mandates: risk and performance oversight. This group’s work minimizes gaps and overlaps in critical issues facing the organization.

56. To support these changes in the governance system and to professionalize its work, a comprehensive induction program was offered in February-April 2012 for all new committee members. Also, the Board’s own performance management has been strengthened with annual surveys and follow-up actions.

57. To build upon and continue on the trajectory of improved governance, the new Chair and Vice Chair of the Board recently laid out key principles that will underpin the work of the Board under their leadership:²³

- Focus the work of the Board at a strategic level;
- Stress adherence to the path created by previous Board decisions aimed toward achievement of better and greater impact;
- Full and comprehensive integration of ethical principles in the functioning of the Global Fund and Board; and

²² The Strategy, Investment and Impact Committee; Audit and Ethics Committee and Finance and Operational Performance Committee

²³ Letter to Board Members and Alternates, 1 August 2013

- Continuous improvement of the management of Secretariat human resources.

6. **Transforming resource mobilization**²⁴

58. **Key Issues:** Following the Third Replenishment in 2010, the growing financial crisis and related recession in some countries created mounting pressure on both private and public funding sources. Furthermore, the Global Fund's efforts to mobilize resources faced additional challenges due to negative media coverage of losses in Global Fund grants in 2011. An external review of the Global Fund's replenishment was conducted in 2012. It concluded that the Global Fund replenishment model has been very successful in mobilizing significant amounts of resources, but that there were challenges in terms of predictability because of the relatively informal nature of pledges received from most donors.

59. **Consolidated Transformation Plan Implementation:** Recommendations on addressing the predictability challenges have been presented to the Finance and Operational Performance Committee to find the best way to accommodate donor flexibility to enable contributions with more predictability, which is particularly important for the implementation of the new funding model.

60. The **replenishment strategy** has been modified for the 2014-2016 period, providing a framework for focused efforts on four pillar groups: traditional donors, implementing countries, emerging powers and the private sector. This is complemented by a revised replenishment model that improves the alignment of available Global Fund resources to implementing country needs, enabled by the new funding model.

61. Significant efforts are being made **to increase domestic contributions** by implementing countries, in order to finance their health systems and programs, and demonstrate shared commitment and responsibility. The Global Fund and its partners are working to **expand the pool of donors**, and on the role of **emerging powers** both as direct contributors but also as co-investment partners in areas of interest. This replenishment also features an enhanced focus on the **private sector**, including increasing direct contributions from individual companies, leveraging the collective effort of corporations and their marketing activities through PRODUCT(REDD) and engaging high-net-worth individuals.

²⁴ This was not an area significantly covered by the High-Level Panel, but it nevertheless featured prominently in the Consolidated Transformation Plan and the Global Fund Strategy 2012-2016.

Closing

62. The High-Level Panel and the Global Fund’s recent transformation process were precipitated primarily by events which eroded confidence in the Global Fund’s fiduciary control mechanisms, and it therefore began largely as an exercise to reform the Global Fund’s risk management model, and to improve its efficiency and operational soundness. And yet, it arrived at an auspicious time, with a recently approved five-year strategy and an accompanying set of bold changes to the Global Fund’s business model and organizational structure. This created an opportunity to go beyond discrete, modular improvements that address one issue or weakness, and to also consider fundamental, holistic changes of a much more far-reaching nature.

63. The Global Fund’s transformation process can therefore be viewed as representing two types of evolution for the organization:

64. **The maturation of the Global Fund:** it was founded twelve years ago with much optimism around a bold mandate and framing principles, but needing much experience and evolution to build the robust and sustainable systems, procedures and safeguards required of a multi-billion dollar financing institution. Inevitably, there will continue to be further refinements along the way, but the transformation – through its difficult lessons, and the in-depth analyses and insights of the High-Level Panel – has enabled the Global Fund to reach a point where it is now positioned to function as a mature and reliable mechanism for financing health programs.

65. **Evolution and Innovation:** Through the changes being implemented under the Consolidated Transformation Plan – and further strategic opportunities that have since emerged – the Global Fund is evolving for the future. It has equipped itself to be more responsive and make more strategic decisions. It is rebuilding the culture and mechanisms to fulfill its partnership mandate. And it is taking concrete steps to renew its identity as an innovative institution that remains at the forefront of health responses and development financing, with a focus on increasing the scale and scope of Global Fund investment impact – through better pricing, more precisely targeted programming, leveraging and building on partnership efforts and improving equity and human rights.

66. In this sense, the Global Fund’s transformation has contributed to and helped catalyze improvements well beyond the scope of the original plan. It is in that spirit that the Global Fund will continue to learn, evolve and adapt, in better service of its mandate, and in response to the challenges and opportunities that lie ahead.

“From the Technical Review Panel’s review of the first nine concept notes to go through the new funding model it is clear there is a sea change in the quality as compared to applications coming through the rounds-based system. We are strongly encouraged that the new funding model is addressing issues that the Technical Review Panel has raised repeatedly in rounds-based reviews. We are very optimistic that this new way of doing business is getting us all on course to make the investments that will have the greatest impacts on the three diseases.”

Shawn Baker,
Technical Review Panel Chair

Annex 1

Status of Implementation of Recommendations of the High-Level Panel				
As of February 2013				
(86 total)				
	Implemented as recommended by the High-Level Panel (27)	In Progress, as recommended by the High-Level Panel (19)	Implemented, but in a manner different than that recommended by the High-Level Panel (26)	Not implemented (14)
Turn the Page from Emergency to Sustainable Response	1.1 (i) 1.2(i) 1.2(iii) 1.2(iv: b) 1.2 (v: a, c, d, f) 1.2(vii) 1.2(viii)	1.2(ii)	1.2(v: e) 1.2(iv: a) 1.2(v: b) 1.2(ix: a, b, c)	1.1(ii) 1.2(iv: c) 1.2(vi) 1.2(x)
Declare a Doctrine of Risk and Manage to It	2.3(ii)	2.3(iv)	2.1(i) 2.1(ii) 2.2 2.3(i) 2.3(iii: a, b, c, d)	
Strengthen Internal Governance	3-3	3.1	3.2.1 3.2.2 3.2.3	
Streamline the Grant-Approval Process		4.1.1	4.1.2 4.1.3	
Empower Middle-Management's Decision-Making	5.1 5.2(i) 5.2(iii) 5.3(ii) 5.3(vi) 5.3(ix) 5.4(i) 5.4(iii) 5.5(i) 5.5(ii) 5.5(iii)	5.3(i) 5.3(v) 5.4(ii) 5.4(iv) 5.6(ii) 5.6(iii) 5.6(iv) 5.6(v) 5.6(vi) 5.6(vii) 5.6(viii)	5.2(ii) 5.3(iii) 5.3(iv) 5.6(i) 5.7(i)	5.3(vii) 5.3(viii) 5.4(v) 5.6(ix) 5.7(ii) 5.7(iii)
Get Serious About Results	6.1(iii) 6.2(i) 6.3(i) 6.3(iii)	6.1(v) 6.1(vi) 6.1(vii) 6.2(ii) 6.2(iii)	6.3(ii)	6.1(i) 6.1(ii) 6.1(iv) 6.3(iv)

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