The Global Fund
To Fight AIDS, Tuberculosis and Malaria

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GF/B27/02
Board Information

REPORT OF THE GENERAL MANAGER

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Introduction

Just before writing this report, I spent several days in Myanmar, where the difficult history of our grants reflects the tumultuous recent period through which that country has passed. I came away deeply inspired by the courage and dedication of the men and women who serve their fellow citizens there with the resources the Global Fund provides; I also returned to Geneva with refreshed determination to do so much more with new approaches to grant-making.

The people we serve in Myanmar and elsewhere invest enormous expectations in the Global Fund, and we are responding. The Secretariat is stronger today than before, with new managers and reinvigorated staff. We have additional resources in the bank that will allow us to make new financial commitments in the field. Our team is working hard to overhaul our policies and practices in grant management, so we can be better partners and stewards of your resources. Seeing patients in Myanmar being sent home from the hospital without treatment showed me again how critical it is for us to deliver on our promises. Leaving our transformation incomplete is not an option.

Every time I interact with implementers and beneficiaries of our funding – whether in Myanmar or Ethiopia, or at sessions during the World Health Assembly, at the Harmonization for Health in Africa Conference of Ministers of Health and Finance in Tunis, or at the International AIDS Conference in Washington, D.C. -- I see and hear the faith that our recipients place in the Global Fund. We are helping people transform their countries, wiping away the burden of disease and contributing significantly to their growing health.

It is easy to forget that, less than one year ago, many people had doubts about the Global Fund's prospects. There were serious concerns that the organization would no longer be able to help deliver the treatment and prevention, and the hope, that people depend on all over the world. With your support and guidance, we have restored the Global Fund to a more sure footing.

Hundreds of people have contributed to these changes at the Global Fund, and I could not be more proud of all of them. Yet I need to single out one person to thank for his wisdom and tireless drive to see us succeed. Beginning as the lead staffer for the High-Level, Independent Panel in 2011, and then as the first Chief Risk Officer and Chief Financial Officer of the Secretariat this year, Charlie Johnson has played an indispensable role in reforming the Global Fund. We will all miss Charlie's ability to clear through the clutter, his instinct for finding practical solutions, and his unflappable good humor.

As with my last report to you, I have organized this document around the three goals I have for my time at the Global Fund: strengthening our foundations, implementing our strategy and securing the resources for our future. I hope you will agree with me that we have made tremendous progress on all three fronts, and I look forward to working closely with you from now until the end of the year to deliver on our remaining agenda.

Part 1: Strengthening Our Foundations

A. Organizing to Deliver

Management and Human-Resource Reforms

1.1 Nothing is more critical to an organization than its leadership. I am confident that the most outstanding aspect of the Global Fund's transformation is its new management team, with the additions of Daniel Camus as Chief Financial Officer (CFO), Cees Klumper as Chief Risk Officer (CRO) and Seth Faison as Head of Communications. This upgrade of senior management should continue in the months ahead. I am also pleased to report that the great majority of managers promoted or confirmed in the re-organization have responded well, especially in the Grant Management and Strategy, Investment and Impact Divisions. I know that we have a strong, experienced team of leaders in these two critical areas, which represent 75 percent of our staff. For the remaining open positions in senior management, I will not hire to fill them now, but rather will deliver to my successor well-developed recruitment processes that will allow him or her to choose from a short list of highly qualified candidates. Of course, the most far-ranging personnel decision corresponds to you on the Board, with the selection of the new Executive Director in November.

1.2 A more collaborative, team-based organization has begun to replace the former, destructive culture of silos. The four Executive Committees we have created in the Secretariat have fostered transparent, goal-oriented, collegial corporate decision-making, thereby enhancing value-for-money and mitigating risk. The maintenance of these four Committees will be crucial to consolidating the gains we have made so far in changing the way the Secretariat works.

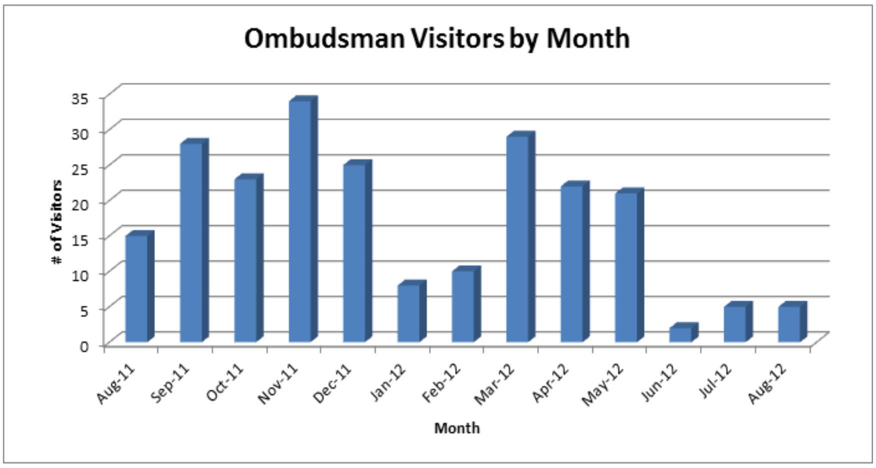
1.3 One of the most-notable achievements of the Executive Committee system has been the acceleration of reforms in how we deal with personnel matters. In the last seven months, we have already met most of the targets set out in the *Global Human-Resources (HR) Strategy* approved by the Board last year, including rapid progress since May.

1.4 Perhaps most important is the introduction and implementation of a new performance-management system, beginning on 1 July 2012. We have adopted an integrated approach to fostering talent, in which performance-management forms a sound foundation for rewards, recognition, and career-development. All employees now have clear position descriptions, objectives and competencies geared to their core responsibilities. All managers have received training on the new system, and in how to evaluate performance; we will be giving them a refresher course in October as we get close to the end of the evaluation cycle. The most-critical aspect of this new process is that it weights equally WHAT an employee achieves with HOW the employee achieves the objectives.

1.5 Along with the new performance-management system, we are enhancing the “soft” skills of our managers. This training includes role-modeling; the setting of expectations in terms of results and behaviors; and the recognition and rewarding of behavior consistent with our new, unified culture.

1.6 Finally, we have adopted a new *Employee Handbook*, which reduced more than 350 pages of bureaucratic and cumbersome rules and regulations to 39 pages. More than that, it reflects a paradigm shift in our approach to employee relations and HR administration. Instead of attempting to anticipate every possible scenario, and to regulate behavior with a long list of rules, the new approach embodied in the *Employee Handbook* is based on the belief that employees and their managers will act responsibly and do the right thing for the organization. Engendering proper principles and a culture of responsibility will best guide the staff in the Secretariat over the long run. We will also be expanding the staff-induction program by including mandatory, unit-specific training for all new employees.

1.7 In all of this, we have worked with the members of the Staff Council in a collaborative manner. I am grateful for their contributions and understanding of the transformation. The Council has struggled with the pace of change, and, while we have not agreed on everything, we have benefited from their points of view. Their major concern, rightly so, has been to defend the acquired rights of our staff. We are confident we have preserved those rights, and we have external legal opinion that concurs. I have a feeling that we are entering a period of normalcy and stability, as evidenced by the number of visitors to the Ombudsman in the past three months. In my report to you in May, I mentioned that we could be subject to legal actions related to the re-organization. At this point, the 60-day period for filing grievances under our rules has expired; we have three employee grievances outstanding, one currently under consideration by the Global Fund's Appeal Board. There are no cases related to our re-organization pending before the Administrative Tribunal of the International Labour Organization.



Establishment of the Finance Division

1.8 In the last four months, the Finance Department has expanded from a Department to a Division, by combining the previous Finance Department with the Information-Technology, Administration and Purchasing Departments. This new Division is now second in size within the Global Fund Secretariat, after Grant Management.

1.9 After an international search, Daniel Camus was selected as the new Chief Financial Officer (CFO) for the Global Fund, and he has assumed command of the Finance Division. Daniel is a world-class financial executive with an outstanding background and deep expertise. He will make a significant mark as the Fund moves to our next phase of long-term sustainability. Recruitment of a new Treasurer is underway.

Resolving Our Information Technology (IT) Problems

1.10 Over the last few years, the IT costs at the Global Fund Secretariat have increased steadily (rising to US$ 30 million in 2011), but value and delivery have been inconsistent. Several reviews highlighted deficiencies in our IT organization, sourcing, governance and delivery on projects. We have run IT with operational risks, spent significant effort and amounts on short-term needs or fixes, and yet have not been capturing full business value. This situation has stemmed from a lack of governance and strategic vision, weak capacity to decide priorities, inefficient business processes, a lack of data ownership, an internal IT cost structure characterized by fragmented/on-site sourcing with 35 different partners, and a fragmented architecture. As a major consequence, our Grant Finance System, which is a critical platform, reached a crisis point in the fourth quarter of 2011.

1.11 We are now fixing these problems, and my opinion is that we are well on our way to resolution. First, to bring order and discipline, we have halted all IT projects (except for compliance-related pieces of work), and have given priority to stability, control and the integrity of what we have in place already. We have overhauled the governance of the IT system by establishing a Senior IT Committee, formed by three members of the Management Executive Committee, as well an Operational IT Committee to deal with day-to-day issues. The Finance Division has also launched a complete re-organization of the IT Department, and we have unlocked talent, put in place new management, and formed a new collaborative team. Based on a review conducted by McKinsey & Company, we have developed a new IT strategy: retaining a smaller group of IT professionals in the Global Fund Secretariat while outsourcing most functions. We have instituted rigor and discipline in mapping and simplifying business processes before getting them automated. We adopted this new approach in July of this year, with the disbursement process, and we mapped and simplified most finance-related processes by the end of August. We are recuperating the Grant Finance System I mentioned above, and we expect it to be fully operational by 31 October, to provide proper support and certainty to our operations. Finally, we intend to announce the selection of our IT outsourcing partner in September. As a result of these changes, we expect our IT costs to go down to US$ 24 million in 2012, and they are positioned to decline in the years to come.

1.12 Our vision going forward is to be innovative in providing the best possible software and hardware solutions to our business, and to enhance communication and collaboration. We will move away from expensive (but inflexible), tailor-made, in-house solutions to standard Web-based collaboration tools (Google, Microsoft, SalesForce, etc.) We plan to leverage the "brand" and the unique mission of the Global Fund to involve partners in creative solutions. I am convinced the Global Fund will not only achieve stability, data-integrity and cost-savings from this re-organization, but also significantly reduce the operational risks that existed. The fundamental reform of our IT systems will last for at least four more quarters, but I can assure you we have capped the risks effectively in this first phase.

The 2012 Budget

1.13 The Finance Division has revised our budget for 2012, and presented it to the Finance and Operational Performance Committee (FOPC) of the Board. As promised, we have been able to absorb the US$ 25.8 million cost of the transformation, as well as a one-time injection of financing into the Provident Fund, within the current approved budget. For 2013, we expect the Secretariat will have more normal operations, but we should continue to show a reduction in operating expenses for the Fund as a whole. The new CFO will present the proposed 2013 budget to the FOPC first, and then to you at your November meeting.

Update on the Global Fund's 2012 Budget
(Including the Office of the Inspector General and the Board)

			2012- Actual vs. Budget			
			Actual	Budget	Variance	Var %
	Secretariat (incl Board and OIG)		YTD	YTD	YTD	YTD
			Jul-12	Jul-12	Jul-12	Jul-12
	LFA Fees		37,984	41,480	3,496	8%
	CCM		2,476	2,548	72	3%
	Total Ring-Fenced		40,460	44,028	3,568	8%
	Staff		59,365	61,185	1,820	3%
	Professional Fees		16,851	19,739	2,888	15%
	Information Technology		8,002	8,054	52	1%
	Travel		6,822	7,568	746	10%
	Meetings		1,039	1,991	952	48%
	Communications		272	314	42	13%
	Office Infrastructure		8,457	8,116	- 341	-4%
	Board Constituency		342	418	76	18%
	OIG Contingency Fund		-	500	500	100%
	External Co-Funding		- 810	- 710	100	0%
	Total Operating Expenses for on-going costs		**100,340**	**107,175**	**6,835**	**6%**
	One-time costs:					
		Restructure costs - Staffing	23,109	23,109	-	
		Restructure costs - Non-staffing	2,657	2,657	-	
		Provident Fund one-time cost	4,933	4,933	-	
	Total one-time costs		30,699	30,699	-	
	Total operating expenditures including one-time costs		**171,499**	**181,902**	**10,403**	**6%**
Note:	**(-) actual results are due to accrual write-off for prior periods.**					

B. Risk Management

The Office of the Inspector General (OIG)

1.14 We continue to work in a collaborative manner with the OIG. Since May, we have received from the OIG six audit reports, four diagnostic reviews and one report of an investigation. The backlog of old, unfinished audits is reaching an end. We are responding vigorously to address the over 1,000 recommendations from the OIG's work over the past few years, under the supervision of the newly formed Audit and Ethics Committee of the Board. We are endeavoring to reduce the number of recommendations so we can focus on areas that represent the most risk to the institution and our grants. The continuing presence of the Inspector General in the meetings of the Management Executive Committee is essential for the maintenance of this positive collaboration.

Risk Management

1.15 In May, I reported to you on various initiatives we launched that aim to strengthen risk-management in our operations. These efforts are ongoing, and are beginning to show results. The Operational Risk Management process initiated last year by the Grant Management Division, which looks in a structured way at the 20 most-important risk areas in each individual grant, is now expanding to all "High-Impact" countries. We are refining our approach based on the experiences in the first countries, and we will eventually be applying it to the whole portfolio. The result of the process is that the Operational Risk Committee within the Secretariat receives the outcomes of the risk assessments, considers mitigation options and takes relevant decisions.

1.16 The Better Grants for Improved Impact project, as described more fully below, has also produced a number of concrete measures to further strengthen risk-management and assurance at the Global Fund, both in the grant-making phase and in the on-going monitoring of grants in implementation. A dedicated, cross-Secretariat team, with input from the OIG, has designed these improvements, and we are incorporating them into the organization's ways of working.

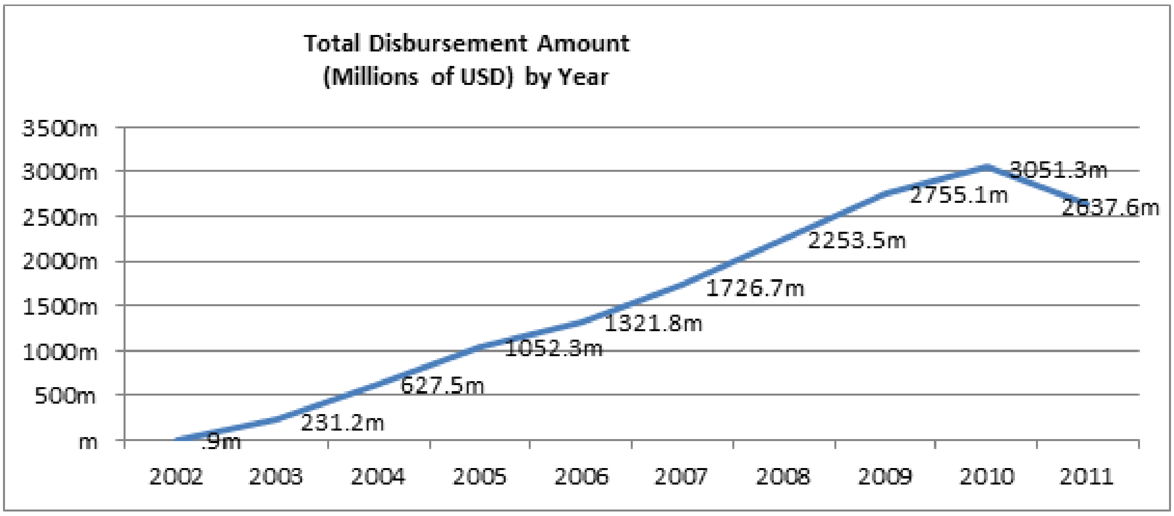
1.17 We are also implementing more systematic approaches to capture, monitor and report on, including to the relevant Board Committees, the implementation of recommendations from OIG reports and on cases of the misuse of funds. In parallel, the CRO is developing a plan for a formal risk-management framework, and has made presentations on this framework to the Management Executive Committee at the Secretariat and to the FOPC.

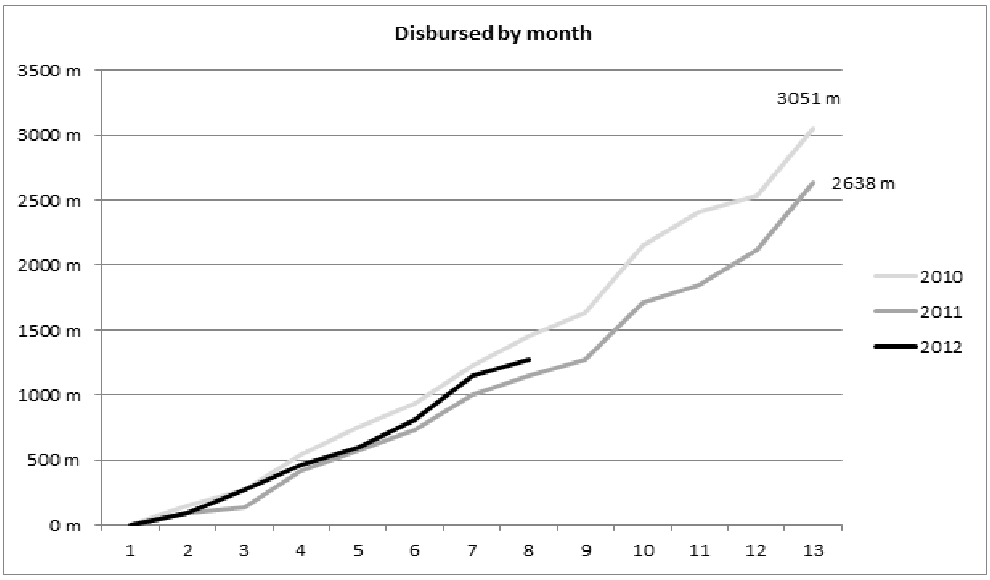
Part 2: Implementing Our Strategy

A. Grant Activity in 2012

Update on Progress

2.1 Up to July, we have disbursed close to US$ 1.3 billion during 2012. Our rate of disbursement during the first semester of the year slowed down because of the re-organization; April and May were the weakest months. The pace has accelerated recently, and we expect to close the year having reached our planned target of a total disbursed amount of slightly more than US$ 3 billion, which is approximately 15 percent over the level of 2011, and similar to that in 2010. The major cause of delays is grants in a small group of countries that faced freezes in disbursements because of investigations, poor performance, or delays in the submission of key documentation. (Please see below for a more detailed discussion of these grants.)

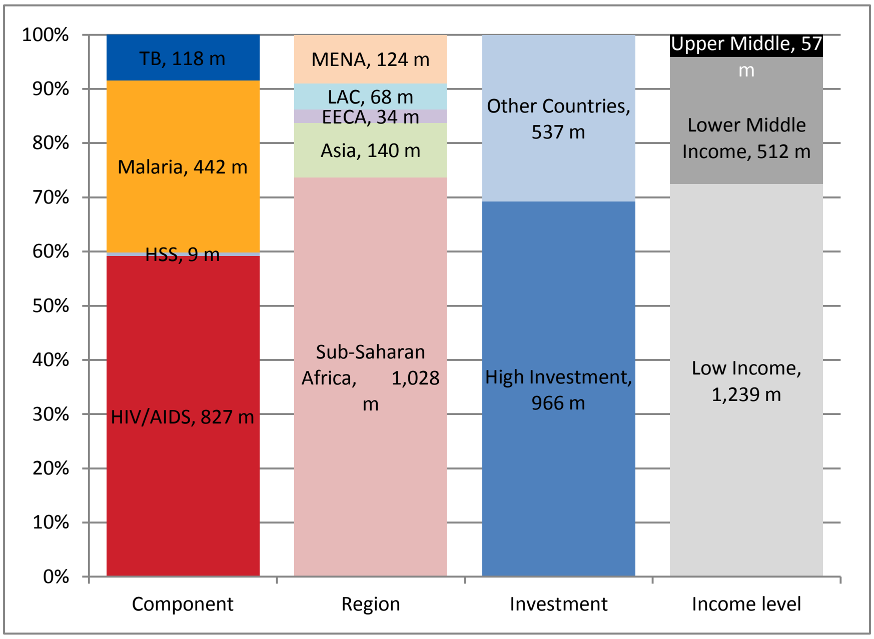




2.2 During the course of 2012, the share of our portfolio that goes to upper-middle-income countries has increased from 11 percent to 15 percent since the November meeting of the Board, because two countries with large grants moved up one category in the World Bank income classification (the People's Republic of China – which is no longer eligible for future funding - and Thailand are now upper-middle-income). Similarly, the percentage invested in low-income countries decreased from 51 percent in November to 47 percent currently, as Ghana and Zambia are now categorized as lower-middle-income.

Investments in Grant Renewals During 2012

2.3 In 2012, the Board has to date approved 81 grants with a total incremental value of US$ 1.4 billion. (This refers to grants that have undergone review between December 2011, or 2011 Wave 12, and grants reviewed from January to July 2012, or 2012 Waves 1 to 7, part 1.) We have invested over 72 percent of our approved funding in 2012 in lower-income countries, and 70 percent in the countries we have designated as "high-impact." Among the three diseases, we have devoted 59 percent of our total approved funding this year in HIV/AIDS, 32 percent in Malaria, and nine percent in tuberculosis (TB).



2.4 Consistent with the Board's direction, within the grant renewals processed in 2012 we have achieved efficiencies of 28.5 percent from the original budget ceilings approved by the Technical Review Panel (TRP). Grants in "High-Impact" countries received smaller reductions than others (a median 25-percent cut), as did our investments in low-income countries (a median 24-percent decrease).

2.5 Funding has followed performance in grant renewals this year, with greater savings in grants rated B2/C. Of the 81 grants approved in 2012, those rated B2/C received larger reductions, with (a median 67-percent decrease), compared to better-performing grants. We also review impact at renewals, and use this information to invest in ways that will improve that impact going forward. Over the past three months, the Grant Renewals Panel at the Secretariat returned two requests for funding from Country Coordinating Mechanisms (CCMs) in two countries, with the combined amount of US$ 140 million (100 percent of the TRP-approved amount for Phase Two), for re-submission because of low impact.

Pipeline for 2012

2.6 For the remainder of 2012, 130 grants (August, or 2012 Wave 7 - part 2, to December, or 2012 Wave 12) remain to be reviewed and approved. These proposals account for a total original Phase-Two value (adjusted to include Board-mandated reductions) of US$ 3.6 billion. In the 2012 pipeline of renewals requested by CCMs, we expect 45 percent of the funding requests to come from lower-income countries, and 64 percent from "High-Impact" countries. The distribution of funding by disease in the 2012 renewals pipeline is as follows: 60 percent of funding expected for HIV/AIDS, 22 percent for malaria, 17 percent for TB and one percent for strengthening health systems.

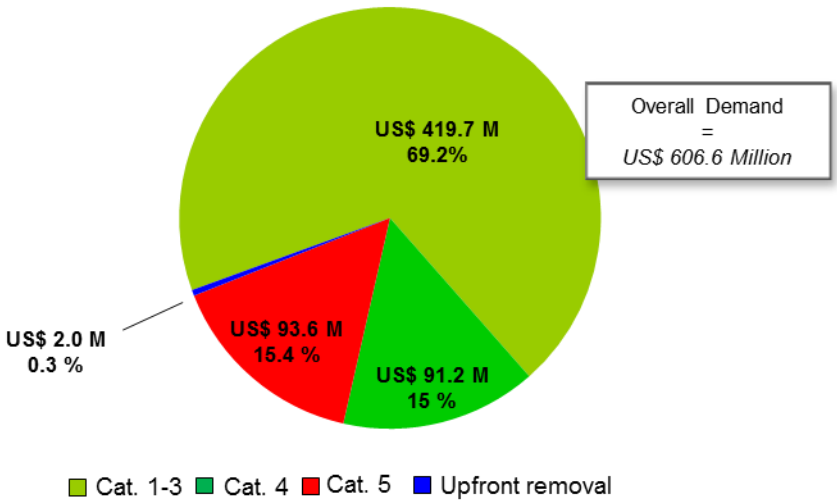
Transitional Funding Mechanism (TFM)

2.7 The TRP met from 9-21 June 2012 to review the 61 proposals from 48 applicants submitted under the TFM. The total funding request was US$ 606.6 million.[1]

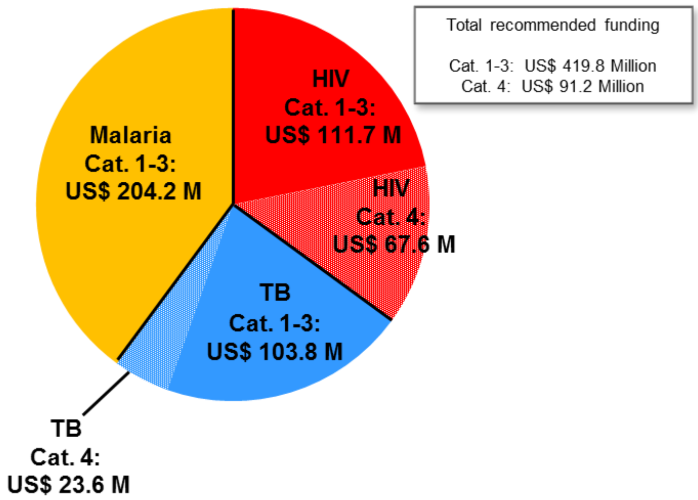
2.8 On 24 August, the Board approved the TRP's recommendation to fund 45 proposals, with a total two-year upper ceiling of US$ 419.8 million. The Board also requested 11 other applicants, whose proposals represent a potential total two-year upper ceiling of US$ 91.2 million, to resubmit their documentation for a second review by the TRP (GF/B26/EDP 11). Details on the TFM decisions are available under separate cover in the "Report of the Technical Review Panel and the Secretariat on the Transitional Funding Mechanism" (GF/B26/ER07).

[1] Figures as of 1 July 2012. As some proposals requested funds in Euros, this document uses the OANDA interbank exchange rate of 1.26596 to translate Euro funding requests into U.S. dollars.

TRP Funding Recommendations for the TFM, by Category,[2] and as a Percentage of the Total Funding Request



TRP Funding Recommendations for the TFM, by Disease[3]



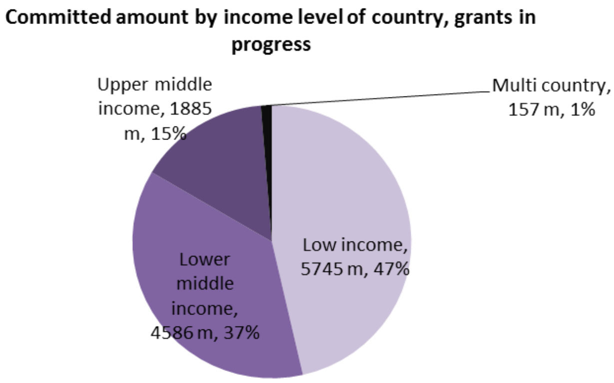
[2] Category 1: Recommended for funding, with no issues for clarification; Category 2: Recommended with issues as conditions or matters the Secretariat will clear only; Category 3: Recommended with issues as conditions or matters to for the Secretariat and the TRP to clear together; Category 4: Revised proposal, for which a second TRP review and approval is required prior to funding; and Category 5: Not recommended for funding.

[3] Category 1: Recommended for funding, with no issues for clarification; Category 2: Recommended with issues as conditions or matters to be cleared by the Secretariat only; Category 3: Recommended with issues as conditions or matters to be cleared by the Secretariat and the TRP; Category 4: Revised proposal, for which a second TRP review and approval would be required prior to funding; and Category 5: Not recommended for funding.

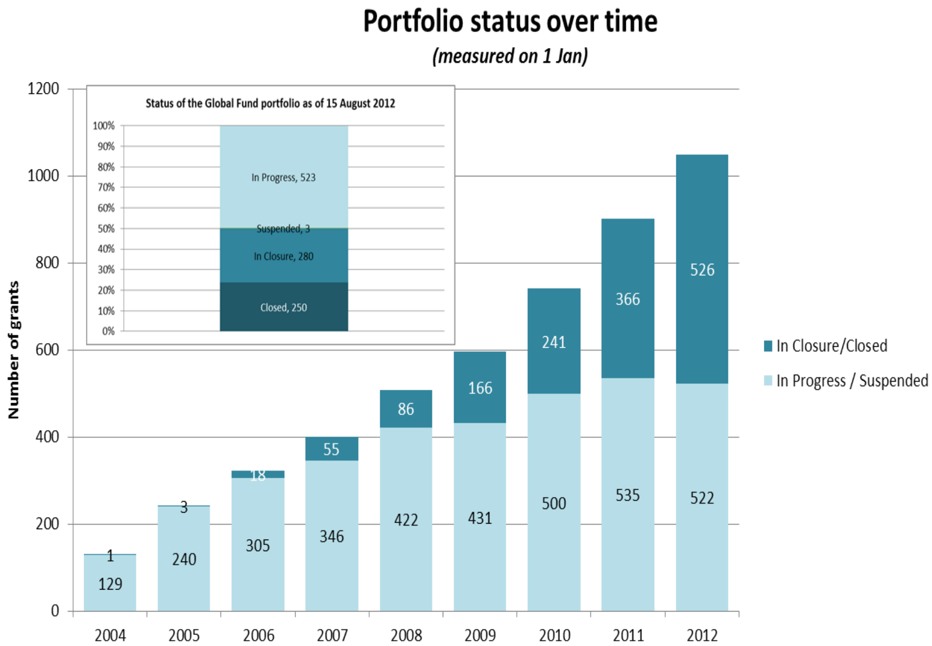
B. Overview of the Portfolio

Composition

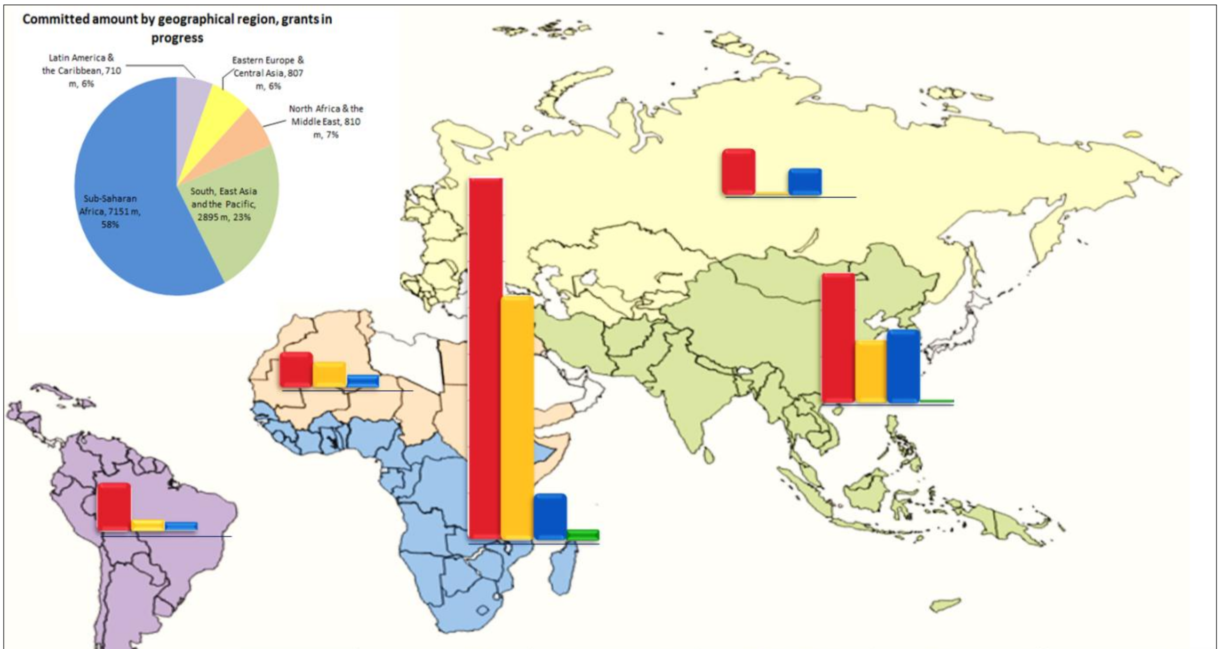
2.9 As of mid-August 2012, the Global Fund had disbursed a cumulative total of US$ 17.1 billion, through 1050 grants in 150 countries and territories. We are now managing 519 active grants, the same number I reported to you in May; we have formally closed 67 grants since the November 2011 Board meeting.



2.10 We have invested 55 percent of our funding in HIV/AIDS programs, 30 percent in malaria programs and 15 percent in TB programs. With that distribution, our grants account for 21 percent of the total international funding for HIV, 82 percent for TB, and 50 percent for malaria. Based on the analysis of grants in progress as of the end of June 2012, 89 percent of our funding for malaria, 92 percent for TB and 91 percent for HIV go to countries designated by our Board as having extreme, severe and high disease burdens. As of the end of 2011, the life-time approved amount of the portfolio devoted to the cross-cutting strengthening of health systems is US$ 2.04 billion, in 69 countries. About US$ 7 billion of HIV, TB and malaria grants include activities that contribute to disease-specific health-system improvements.



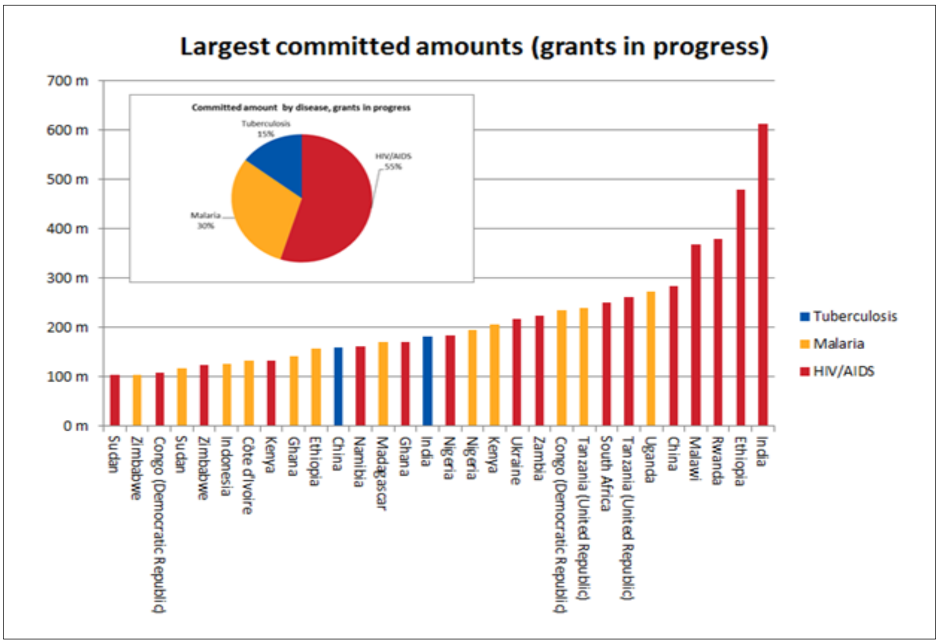
2.11 We continue to invest nearly 60 percent of our portfolio in sub-Saharan Africa, which reflects its burden level. However, while most of the funding against HIV/AIDS and (especially) malaria goes to Africa, we are devoting a substantial share of our TB commitments to Asia and Eastern Europe/Central Asia.



	Latin America & the Caribbean	Eastern Europe & Central Asia	North Africa & the Middle East	South, East Asia and the Pacific	Sub-Saharan Africa
HIV/AIDS	518 m	496 m	383 m	1401 m	3902 m
Malaria	107 m	21 m	292 m	675 m	2634 m
Other	0 m	0 m	0 m	24 m	117 m
Tuberculosis	85 m	290 m	135 m	796 m	498 m

2.12 In reference to the "55-Percent Rule" approved by the Board in November 2011 (but suspended by the Chair), the share of the portfolio devoted to least-developed countries is 51 percent.[4] We are exceeding that benchmark in renewals this year, as 71 percent of the grants approved by the Board to date in 2012 have gone to lower-income countries. When viewed from a wider perspective, we invest nearly 85 percent of our portfolio in the combination of low-income and lower-middle-income countries. For malaria and HIV/AIDS, most investments go to low-income countries, while the majority of TB investments go to lower-middle-income countries (although 20 percent of TB grants are to recipients in upper-middle-income countries, given the high burden that persists in nations in this category).

[4] Analyzing the portfolio with a different metric, 56 percent of our disbursements have gone to grants in countries in the lowest quartile of the Human Development Index.

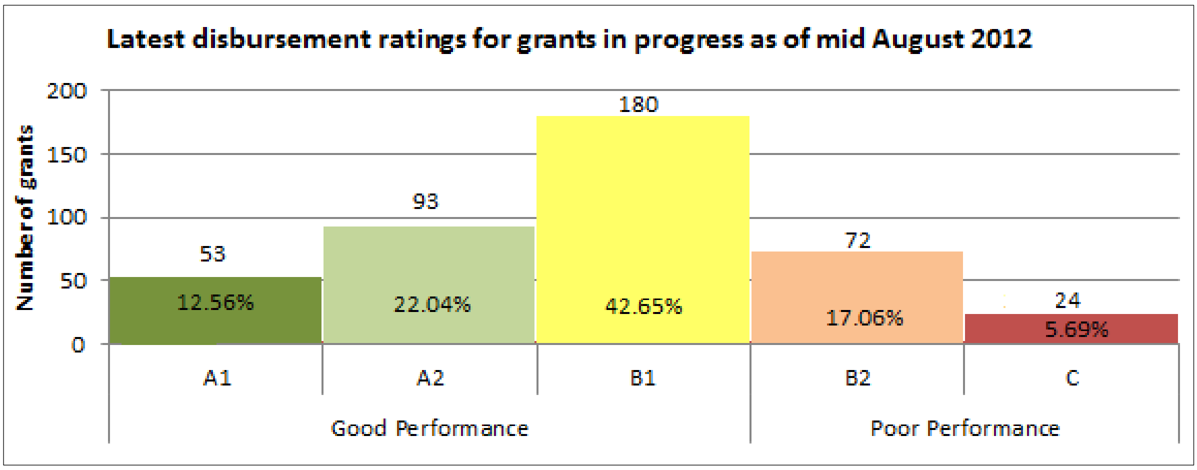


Grant Performance

2.13 Of the 81 grants (Phase Two, Rolling Continuation Channel or Periodic Review) approved for renewals by the Board in 2012 so far, 73 percent performed well or adequately, and received a rating of A or B1. This percentage is consistent with the general trend for renewals, which is 77 percent for all grants reviewed so far in this process.

2.14 Of the 74 Phase-Two decisions in 2012, 62 percent received a "Go" decision to continue funding; 29 percent a "Conditional Go" to receive financing, after making specific adjustments to the proposals; five percent a "Revised Go"; and four percent (three grants from three distinct countries) a "No Go." Overall, since 2005, the Global Fund has given 53 percent of reviewed grants a "Go" and one percent a "Revised Go," continued 44 percent with a "Conditional Go" and discontinued the remaining two percent.

2.15 Since March 2012, Periodic Reviews for grants consolidated under the new single-stream-of-funding architecture have taken place for four grants from three countries and components. Three had good or adequate performance (ratings of B1 and A1), and received a "Go" decision. One had good performance (a rating of A1), and received a "Conditional Go" decision.



2.16 As a measure of our success, the cumulative results of our portfolio by mid-2012 represent a 50-percent increase from the end of 2010 for several interventions – including the treatment of malaria and multi-drug-resistant TB, and the prevention of mother-to-child transmission – as well as an increase of more than 100 percent for TB/HIV co-infection services. In addition, by the end of 2011, our recipients were meeting or exceeding targets for anti-retroviral therapy (ART), services for orphans and vulnerable children, treatment for TB, and training. Despite rapid expansion in coverage, the Global Fund's malaria grants continue to underperform relative to their agreed targets– largely attributable to the challenges faced by some of the largest malaria grants in the portfolio, and to the setting of ambitious goals.[5]

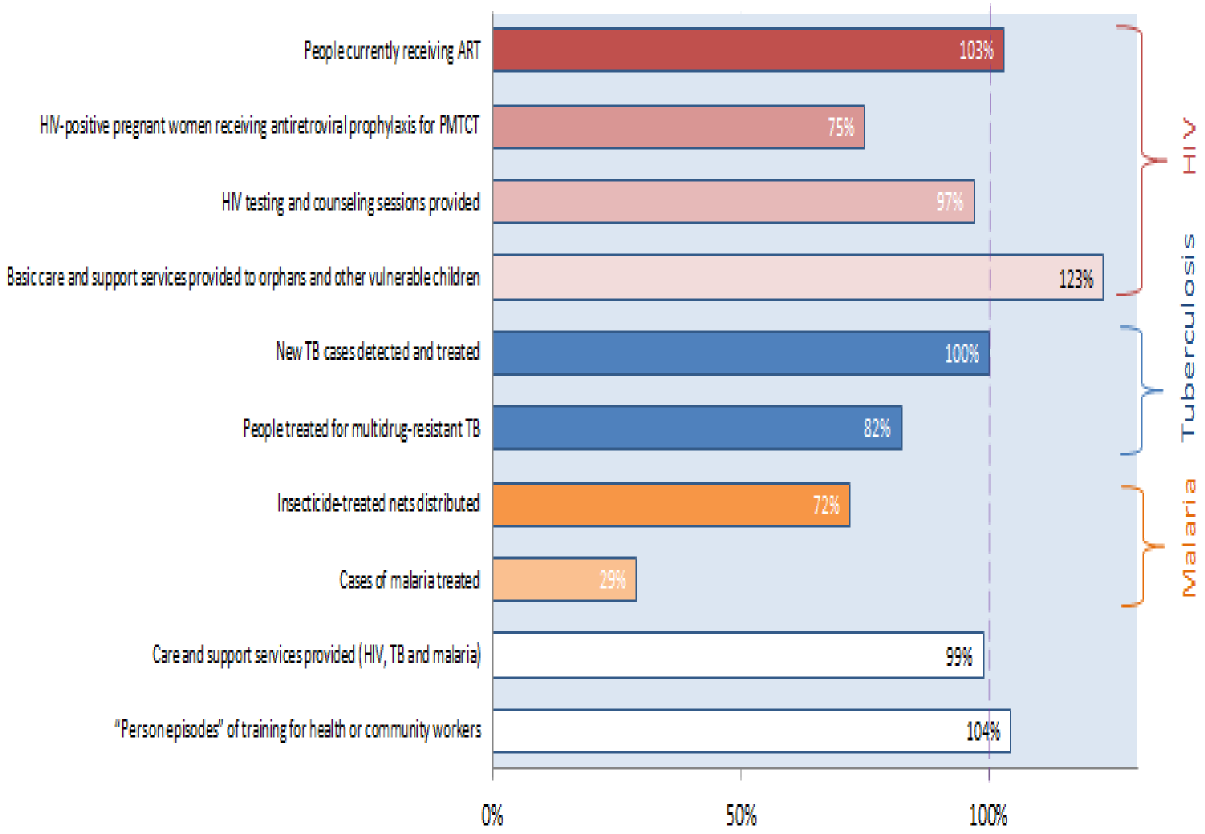
2.17 Other important highlights from our soon-to-be published 2012 *Results Report*, include the following:

- Of the 3.6 million people who were receiving ART in June 2012, 590,000 were initiated into treatment in 2011 and 2012 alone. Nearly two-thirds of these individuals were from the 20 "High-Impact" countries as defined by the Global Fund.
- By mid-2012, 1.5 million pregnant women living with HIV received anti-retroviral prophylaxis through Global Fund-supported programs for the prevention of mother-to-child transmission of HIV (PMTCT), which represents an increase of 50 percent compared to the end of 2010.
- Recipients of Global Fund financing have detected and treated 9.3 million new smear-positive TB cases – 84 percent of which were in the 22 high-TB-burden countries, a share consistent with the distribution of the impact of TB around the world.
- For the distribution of insecticide-treated bed nets, the rate of annual increase between 2009 and 2011 in absolute numbers is 20 times the rate for 2006-2009.

2.18 Our most-important challenge in assessing our portfolio as we move forward is to measure, not just model, the impact of our investments, and to build accountability for impact into our programs. We are beginning this process by building an evaluation function into all of our grants in high-investment countries, so that CCMs and implementers can measure and own their impact. We are also working with partners to develop a more-focused and prescriptive choice of indicators; this streamlining should enable better analysis, and we will complement it by better disaggregation of data in terms of target groups, age, sex and location.

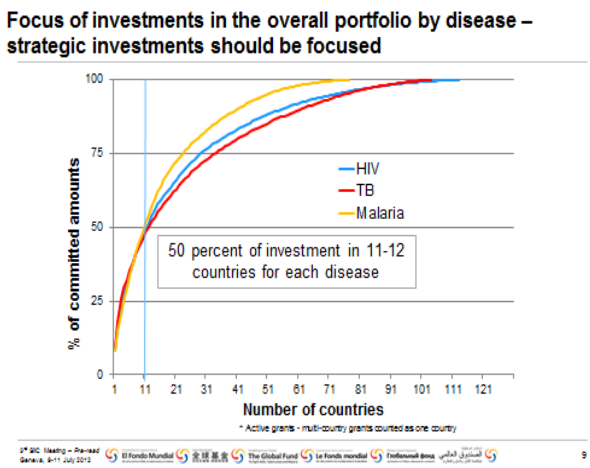
[5] For example, we have some large malaria grants in Nigeria, for which our efforts this year and next will aim to catch up to the very ambitious targets.

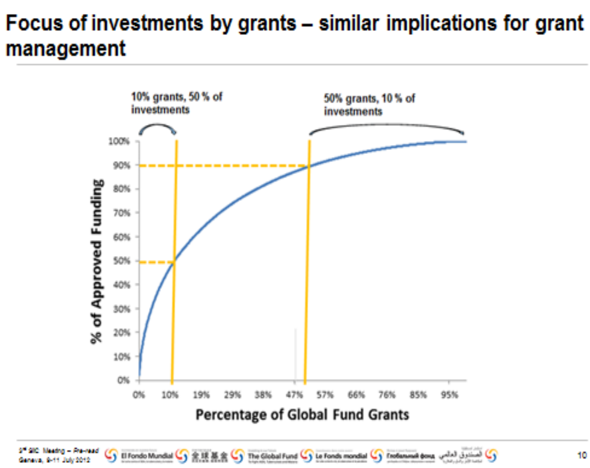
Cumulative Results Achieved During Grant Review for Selected Key Services in Relation to the Agreed Grant Targets, End-2011



Lessons from Analyzing Our Current Portfolio

2.19 As we move toward a more-strategic approach to investing our resources, it is worth noting that 50 percent of the committed amount of our grants for each of HIV, TB and malaria are concentrated in only 11 or 12 countries. Examined from the perspective of grant management, 50 percent of our investments, as measured by approved funding, are concentrated in only 10 percent of our grants.





2.20 However, our review has shown that strategic gaps in our portfolio are emerging in four areas:

1. **Leveraging partners in key, high-burden countries:** For countries like Nigeria, the Democratic Republic of the Congo, and Mozambique for malaria, or Nigeria, Mozambique, Zimbabwe, DRC, and Malawi for HIV, we must find ways to leverage the considerable investments of our partners in a more-coordinated manner to maximize impact.

2. **Transitioning away from Global Fund financing, and ensuring sustainability:** For countries like the People's Republic of China, Russia and Mexico, we must wind down our grants in a way that helps the most-at-risk populations we serve continue to receive protection and assistance. On the other hand, for Botswana, Ethiopia and others we should be working with Governments to secure the sustainability of essential services such as ART, given the large size of our investments relative to local financing.

3. **Fragile countries and repeat proposal failures:** We need to tailor our approach to address fragile countries, as well as those from which proposals have repeatedly failed. Solving these challenges requires increased amounts of funding in systems-strengthening, technical assistance and realistic, on-the-ground risk-mitigation structures.

4. **Fine-tuning the mix of interventions we finance:** Our approach needs to encourage both the scaling up of proven interventions and the rapid introduction of promising new ones; joint work with partners to apply strategic investment guidance will provide direction in this area.

Update on Progress in Implementing Our *Strategy*

2.21 The best opportunity in the short term for a strategic reshaping of the portfolio is through renewals, which represent a pipeline until 2014 of over US$ 6 billion (US$ 3.59 billion remaining for 2012, US$ 2.61 billion for 2013 and US$200 million for 2014).

2.22 Over the past few months, we have implemented a number of improvements to increase our strategic investment through Renewals:

1. **We have invited partners to participate in the Grant Renewals Panel** at the Secretariat to provide high-level technical advice on the grants' technical and programmatic content. The World Health Organization, Roll Back Malaria Partnership, Stop TB Partnership, the Joint United Nations Programme on HIV/AIDS, the World Bank, the European Commission, the United States and the Germany/Switzerland/Canada Constituency have participated so far in the Renewals Panel.[6] We encourage other interested partners to join in. Through this engagement, which is on a non-voting basis, we have gained better access to country-by-country information on updated epidemiological trends and the impact of our investments; enabled closer coordination of investments at country level; strengthened our oversight on risk, especially in relation to drugs and commodities; enhanced technical review; and identified re-programming opportunities.

2. **In consultation with partners, we have developed guidance on programming for HIV, TB and Malaria,** as supplementary guidance for

[6] Bilateral and multilateral donors have participated, by disease and by wave, based on their significant in-country investments.

Country Teams at the Secretariat to use as reference in reviewing *Requests for Continued Funding* prepared by CCMs, identifying re-programming opportunities and in negotiations to refocus grants further towards high-impact interventions.

3. **We have introduced a two-step, iterative process** to increase dialogue with CCMs and in-country implementers, which includes pre-assessments for all countries. The real value of this approach lies in obtaining the involvement of partners in-country much earlier, at the time when CCMs are preparing their requests for continued funding.

4. **We have rolled out a new simplified Grant Scorecard, effective from 2012 Wave 7 (July 2012)**, with plans for further revisions in upcoming waves. Most important, we now only produce one Grant Scorecard for each review by disease, per country.

5. **We are refining new measurement standards for Grant Renewals,** which will cover service-delivery, quality, equity, coverage, outcome and impact. We have already conducted program evaluations to provide evidence of impact at renewal and generate data to guide re-programming for grants in a number of countries that have gone through Periodic Reviews, including Bangladesh, Cambodia and Myanmar (Malaria); and Ethiopia and Namibia (HIV).

6. **We have introduced Re-submission Requests** with Periodic Reviews, which allows the Grant Renewals Panel to request CCMs to re-submit their applications in cases in which limited progress is apparent, and in which the CCM's investment plan does not demonstrate potential for future impact.

7. **We are working with partners through the Global Fund's Disease Committees to get specific normative guidance or policy** needed to inform strategic choices or prioritization in relation to key investment decisions.

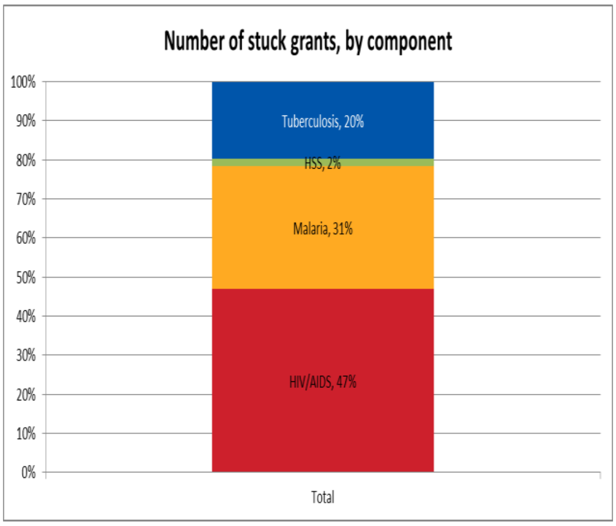
2.23 In the short term, we need to improve the information presented to the Grants Renewals Panel as it makes its decisions. We must enhance our "peripheral" view of overall national disease programs, and gain a better understanding of the funding landscape in each country, including other Global Fund investments and other domestic and donor financing. We should do more to analyze what has been successful in each grant, and what needs adaptation, and must face that a weakness in our portfolio has been an under-investment in operations research at country level.

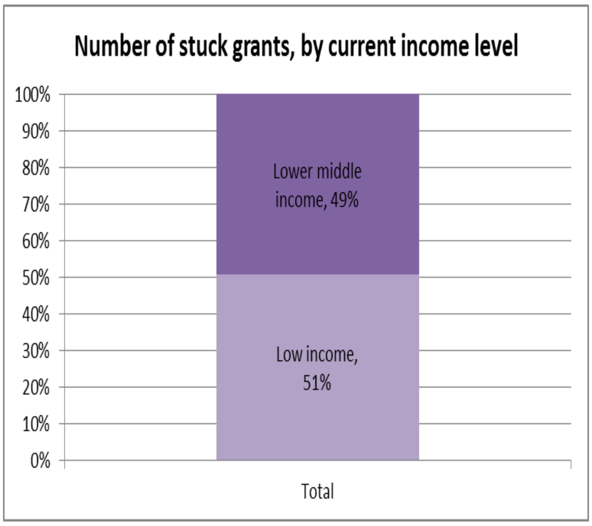
2.24 Our longer-term challenge is to determine how much we should invest in additional modifications to the current Renewals system before we transition the current portfolio to the new model. We are focusing on developing elements that will fit into our new business processes (such as guidance on strategic investment, including unit-cost benchmarks; the development of a new methodology for performance-based funding responsive to our *Strategy*'s goal of investing for impact and procedures for re-programming funding between diseases within a country portfolio and for moving money across countries to optimize the portfolio).

C. Achieving Impeccable Grant Management: “Stuck Grants”

Definition of the Problem

2.25 The Secretariat has concentrated efforts towards resolving “stuck grants,” or those grants to which no money has flowed within the last six months, or within three months after signature. At present, 51 of our 519 grants are “stuck,” approximately 10 percent of the total number of grants in progress. From these grants, 17 signed more than three months ago have still not received any disbursement. An additional 34 grants for which the period covered by the latest disbursement ended more than six months ago have not received financing from the Global Fund (19 of these have a disbursement period that ended more than nine months ago). Collectively, the 51 “stuck” grants have a total committed value of US$ 1.8 billion, which represents 13 percent of the total active portfolio. The breakdown of these grants according to disease component and country-income level is not significantly different from the overall composition of the portfolio as a whole, except that we do not currently have any “stuck” grants in upper-middle-income countries. A total of US$ 681 million still remain to be disbursed to the “stuck grants,” which equals 18 percent of the total undisbursed funds for the whole portfolio. As such, removing the associated bottlenecks would make a significant difference to our overall disbursement figure.

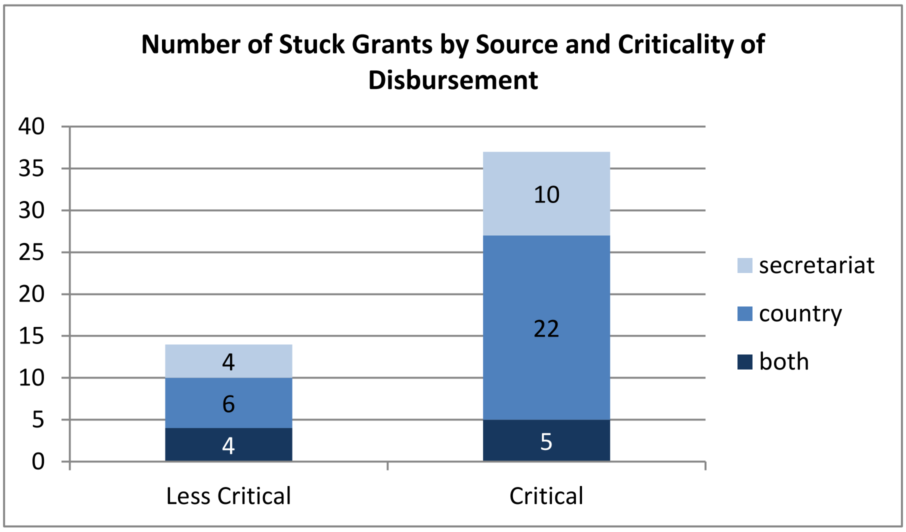




2.26 The Grant Management Division has put in place a regular “watch list” of the affected grants, and is identifying the issues in each one, creating resolution plans, and setting expected dates for completion. The Executive Grant Management Committee oversees implementation of this practice, and makes the required decisions related to mitigating risk or re-engineering our approach to support the operations of our Principal Recipients (PRs) on the ground on a sound basis. We have also flagged 26 grants that are potential future candidates for the “watch list,” as the period covered by their latest disbursement ended between three and six months ago.

2.27 We have broken down these grants into the following two categories:

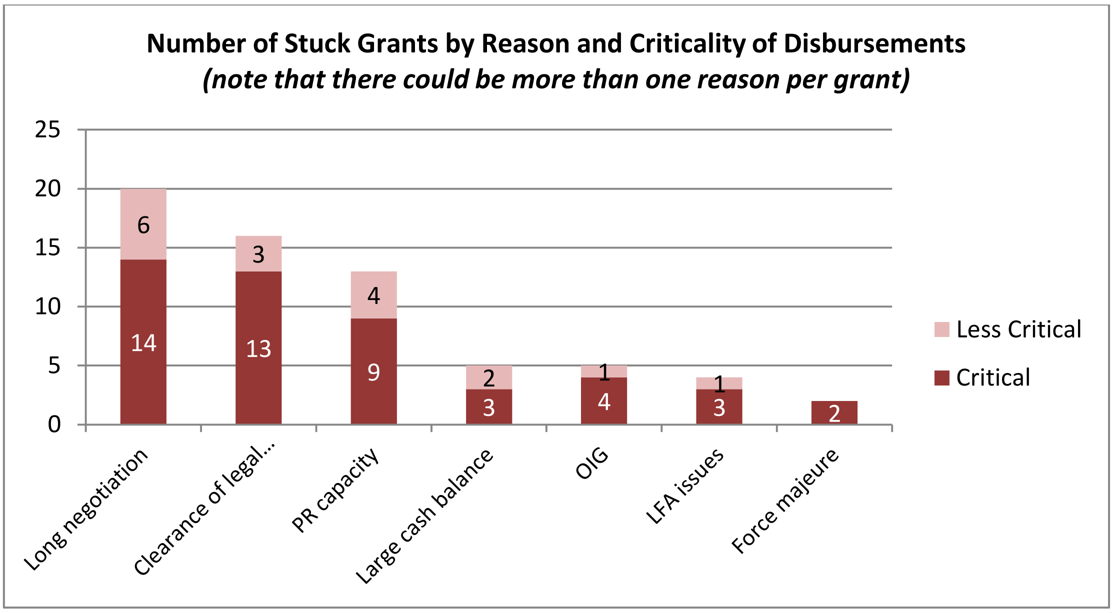
1. *Critical Disbursement*- 37 grants, for which the Global Fund has disbursed less than two-thirds of the total committed amount; and
2. *Less-Critical Disbursement*- 14 grants soon to be closed, for which the Global Fund has disbursed more than two-thirds of the total committed amount.



Reasons for Bottlenecks

2.28 As expected, many of the "stuck" grants have problems in the performance of their programs: 36 percent of them received a rating "B2" or "C" at the time of their latest disbursement - compared to 21 percent for the whole portfolio. The reasons why grants become "stuck" vary from delays in disbursement or the signing of grants, or because of problems at the country level, such as the following:

1. Protracted negotiations, usually during renewals, and sometimes because of consolidation and the necessity to align with other grants;
2. Delays in the clearance of Conditions Precedent, usually because of the delayed submission of the necessary documents by the PR (especially significant for new grants);
3. Issues related to limited capacity or the inability to use funding;
4. *Force majeure*;
5. Investigations by the OIG;
6. High cash balances and no need for additional funds in the short term for the programs (especially significant for grants soon to be closed); and
7. Issues with the current Local Fund Agent (LFA).



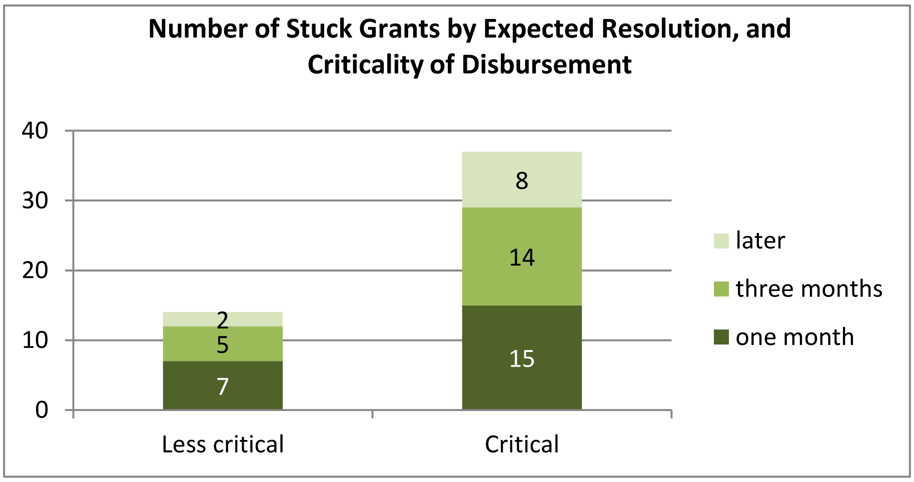
2.29 The two main reasons for bottlenecks (negotiation and Conditions Precedent) appear to be linked to the Secretariat's model and processes, which highlights the necessity for the Global Fund Secretariat to streamline the way it is working. This is a major focus of the *Better Grants for Increased Impact* initiative described in more detail below.

Solving the Bottlenecks

2.30 Since the implementation of a "watch list" at the Secretariat, the focused tracking of these grants has led to the resolution of twelve previously "stuck" grants in less than one month, and we expect to resolve more than a third of the rest shortly.

"Slow" Grants

2.31 "Slow" grants are those that are receiving much-smaller disbursements than expected from their planned and approved budgets. These grants exhibit performance issues, but could also have delayed implementation because of the failure of PRs to comply with a Condition Precedent. The Secretariat is currently developing a similar "watch list" to identify and proactively address such cases.



Resolving Cases of Misuse

2.32 With your support, we at the Global Fund make serious efforts to ensure that all of our funding is properly handled, disbursed and managed. Wherever impropriety is discovered, whether by the OIG or through other channels, we report it. When PRs or sub-recipients of our grants misappropriate or improperly spend funds, we attempt to recover them as fully as possible.

2.33 To provide an overview of our experience to date with cases of misuse, on 10 July the Secretariat published an analysis of the 28 reports on audits and investigations performed by the OIG and released as of that date. This accounting showed three percent of the funding audited or investigated had been misused. Since this announcement, the OIG has released an additional four audit and investigation reports, and, as a result, the percentage of misuse of the funding audited or investigated has decreased somewhat, from three percent to 2.5 percent. It is important to note that one cannot consider this analysis a representative sample of the portfolio as a whole, and that we expect these numbers to fluctuate as the OIG releases more reports in the coming months:

Breakdown of Misuse

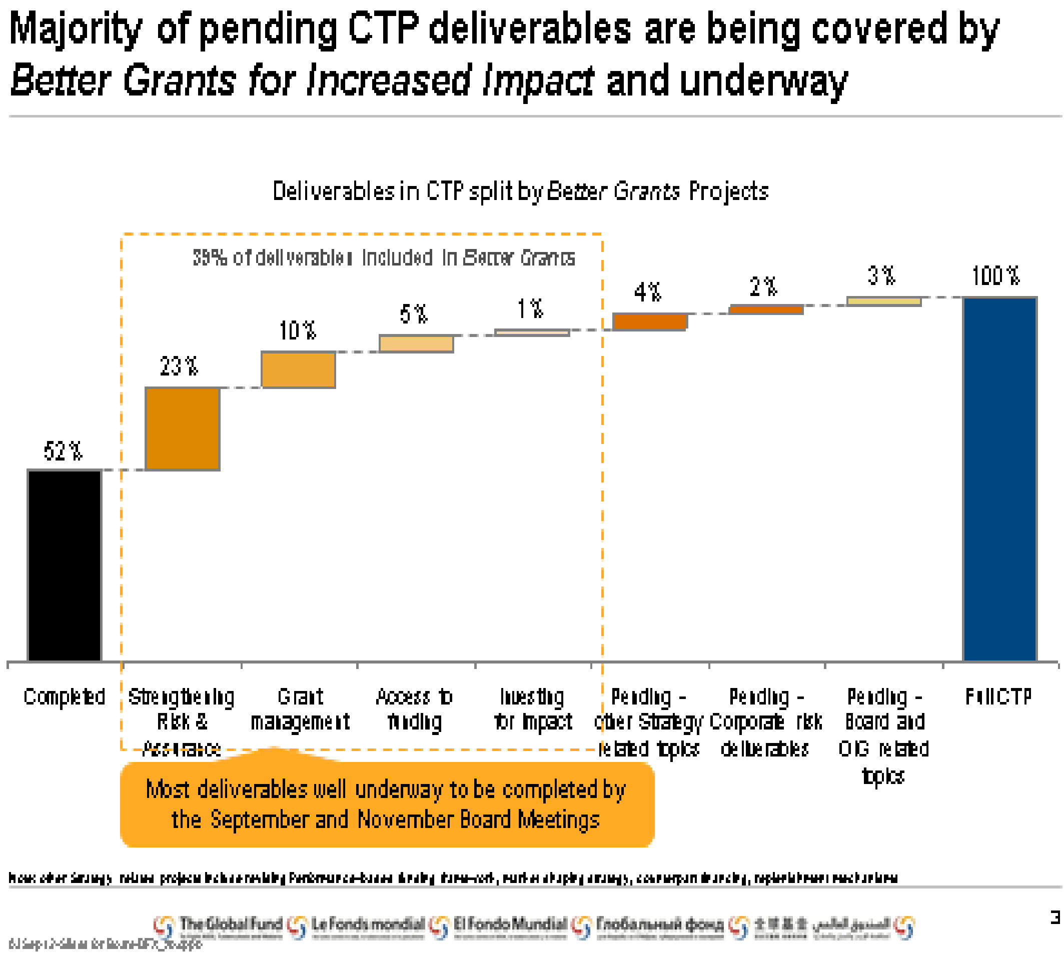
	10 July Report	*31 August*
Ineligible Expenses or Activities Not Covered by the Grant Agreements	1.1%	0.9%
Expenses Inadequately Substantiated Because of Poor or Missing Documentation	1.1%	1.0%
Fraud	0.5%	0.4%
Failed to Report Funds as Required	0.3%	0.1%
Total	3.0%	2.5%

2.34 Under my leadership and the direct management of CRO Cees Klumper, the Secretariat has assigned a very high priority to resolving these cases of past misuse. In July, we established a senior management committee, including representatives of the OIG, tasked with recovering all outstanding amounts, and with removing any other barriers to the resumption of normal relationships in countries where OIG action identified misuse. So far, we have recovered approximately US$ 22 million in 13 of the 29 individual cases, and a further eight cases are at an advanced stage of resolution. Our aim is to resolve all cases as expediently as possible, in as fair and equitable a way as possible, while complying with the Board's policy of zero-tolerance for misuse.

D. Achieving Impeccable Grant Management: The Better Grants for Increased Impact Project

Orientation

2.35 The Global Fund Secretariat launched the *Better Grants for Increased Impact* project in June of this year to transform the organization in line with the objectives of its *Strategy 2012-2016*. The implementation of this project corresponds to 41 percent of the Comprehensive Transformation Plan (CTP).



2.36 The project focuses on four topics core to the Global Fund's operations and our strategic objective of investing for impact:

1. **How we invest for impact**: With the Strategy, Investment and Impact Committee (SIIC) of the Board, we are developing a more-continuous and -predictable funding model that focuses resources in the areas with the greatest burden/unmet need, while maintaining the global scope of the organization's portfolio and ensuring that the tenets of performance-based funding continue to guide investments.

2. **How applicants access funds**: We are examining how the process for accessing funds can be clearer in the guidance provided to applicants, more streamlined in the information the Secretariat requests and faster to first disbursement, and result in more successful proposals approved. We are working to enhance the engagement with partners and recipients throughout the process, and to improve the way independent technical reviews of proposals take place with the overarching goals of increasing predictability and improving the success rate in access to funding.

3. **How we commit our financing**: We are seeking to enhance the level of engagement and oversight with applicants and partners to create impeccable grants. We are evaluating how to better evaluate and work with PRs, how to address implementation challenges up front, and how to get funding flowing to those who need it as quickly as possible with adequate assurance.

4. **How we manage grants**: We are differentiating our approach to countries and PRs by developing a risk-based methodology to assure the Secretariat focuses its attention where the risks are greatest, enhancing the ability of Fund Portfolio Managers (FPMs) to work effectively with implementers and partners in-country, and clarifying roles and responsibilities for all stakeholders.

2.37 The SIIC has provided guidance to the development of the Better Grants project. Over the course of three meetings (two held in Geneva and one by teleconference), members of the SIIC have provided input to us, and struggled to find the right balance in implementing this fundamental piece of our *Strategy*.

2.38 In addition, the content of the project is informed by extensive analytical work; the report of the High-Level, Independent Panel[7]; the experience of the TRP, the OIG and the Global Fund Secretariat; and, especially, inputs gathered from consultations with a wide range of stakeholders. The stakeholder consultations included working sessions with implementers (one in Bangkok, one in Nairobi[8]), a workshop with the TRP, and consultations around existing gatherings such as the meeting of the Global Fund African Board Constituency (9-11 July, in Johannesburg, South Africa), the International AIDS Conference (22-26 July, in Washington, D.C.). In all, partners from 58 countries and 227 organizations have provided input through consultations. The meetings drew on the perspectives of implementers, civil society, the private sector, other donors, technical partners, affected populations, members of CCMs, LFAs and parliamentarians. Consultations will continue through to the November meeting of the Board.

2.39 Board paper GF/B27/4, "*Options for the New Funding Model*," describes the work that is underway at the Global Fund Secretariat around the first three topics in the Better Grants for Increased Impact project. The sections below describe the changes we are carrying out in the way we handle our grants: long-term changes to improve grant-management processes and near-term improvements that will immediately reduce the administrative burden on implementers and Global Fund staff.

2.40 Near-term improvements, such as changes to disbursements and reporting, clarity in roles and responsibilities at the country level and targeted efforts in poor performing or blocked grants, will begin during the fourth quarter of this year. We will phase in longer-term changes over the following year, after the approval and adoption of a new funding model by the Board. Many existing grants will observe these improvements in grant management at their current natural trigger points, such as re-programming or renewal.

[8] An additional working session is planned in September with implementers from Francophone countries in Africa.

Changes to Grant Management

2.41 Effective grant management is critical to achieving the impact we aim to achieve with our investments. A "one-size-fits-all" approach we have traditionally adopted has increased the burden on higher-performing countries unnecessarily, and has not provided sufficient support for lower-capacity countries. Country Teams at the Secretariat do not consistently communicate or engage across countries, which results in a range of experiences for implementers. Across all regions, Conditions Precedent limit the ability of our recipients to focus on carrying out our grants effectively, and shifts the burden of problem-solving to the country level. Furthermore, the Secretariat has not always adopted a collaborative approach to overcoming bottlenecks. Without addressing these issues, even well-designed grants will not have the maximum level of impact.

2.42 As a consequence, we are working to change the way we operate in several areas:

1. **Customizing grant management**: Today, grant management inefficiencies have resulted in a heavy reporting burden, redundant sign-off procedures and cumbersome processes. Although some grants will always need careful handling, for the part of our portfolio that is doing well, we can customize our approach based on performance, needs and risks. For example, PRs with consistently high-performing grants and relatively low risk could have reduced frequency or depth of reporting to free up capacity within the country and the Secretariat to support lower-performing grants or PRs. In contrast, a higher-risk grant could require an increased level of in-country presence by Global Fund staff, or lower thresholds for the escalation of problems to the Grant Management Committee within the Secretariat.

2. **Simplifying disbursements**: Our current disbursement process today is too heavy: it links disbursements systemically to program reviews, and occurs too frequently during the life cycle of the grant (four times a year in many cases). Numerous Conditions Precedent (on average ~10 per grant), which the Secretariat must track at each disbursement, also slow the system down. By de-coupling these processes and addressing implementation challenges proactively even before signature, I am convinced we will have more disbursement-ready grants with no or significantly fewer Conditions Precedent.

   A number of Country Teams recently started an exercise to streamline the use of Conditions Precedent, and find rapid solutions to deal with common problems at the implementer or country level while strengthening fiduciary controls and risk-management in our grants. The initial results are promising, and I am eager to roll out this initiative out to all Country Teams and already realize instant impact wherever we can.

   Another immediate need is to create differentiated disbursement schedules tailored to the needs of specific grants. During the fourth quarter of 2012, we will move small grants (defined as those with less than US$ 3 million disbursed on average each year) towards an annual disbursement schedule, as the administrative costs outweigh the benefits of more frequent payments. This step should reduce the pressure to disburse without proper evaluation, better align cash transfers with national review and reporting cycles, enable higher-quality reporting and verifications, include a risk-based approach and enable long-term improvements in efficiency. We are investigating whether we can separate progress updates from the approval of disbursements and subsequent cash transfers, so that they could take place sequentially, at different times, and disbursements would occur regularly unless halted by the Secretariat.

3. **Making re-programming easier:** We are also improving the re-programming process to make it a normal, day-to-day element of our work. To date, few grants have undergone formal re-programming, which requires the review of the TRP and can take many months. Implementers generally avoid asking for re-programming because they are afraid they will lose previously committed money, or that the process is so slow that their programs will stall while it drags on. We must provide incentives for implementers, empower our staff and give them the freedom to – within certain boundaries – make independent decisions. Over the next several months, will make the re-programming process faster and easier by enhancing the decision-making authority Country Teams have to execute budget adjustments and make changes to targets in grants, within certain thresholds, without further review, subject to appropriate approval by senior management, the relevant Committees and/or the Board. In addition, we are working more closely with our technical partners to drive re-programming proactively, based on evidence, with the goal of supporting implementers to accelerate towards fulfilling the Millennium Development Goals, adopt new technologies, and ensure the strategic re-focusing of our investments towards high-impact interventions.

4. **Introducing consistency to Country Teams and FPMs:** I hear repeatedly from implementers that the biggest change they would like to see is consistent communication from, and a better way of engaging with, the Secretariat and our Country Teams. We are actively working to develop standard and uniform expectations for how our Country Teams and FPMs engage with partners, Governments, CCMs, other donors, civil society/faith-based organizations, the private sector and people living with the diseases. These steps will include more time spent in the field, the open and collaborative planning of country missions, more structure for what our staff does on those missions, "Call Plans" and formal "Country Mission Reports." As a start, during the fourth quarter of 2012 we will establish internal fora at the Secretariat to share our best practices and case studies, as well as begin active mentoring by more senior FPMs, to train and develop our newest Country Team members. I am convinced we can use more fully the knowledge that we have accumulated internally, and really push our boundaries by learning from other industries that strongly engage with clients to develop deeper, longer-term relationships.

5. **Enhancing on-going monitoring:** As part of the on-going monitoring of our grants, each Country Team will focus on potential risks and issues in real time, and in a consistent way. The cornerstone of monitoring is information, obtained by formal and informal sources, including reports provided by CCMs and implementers, the increased presence of Global Fund staff in the field, data from LFAs and partners, and the empirical knowledge on the country and implementers that is growing within the Secretariat over time. The reporting frequency and level of financial and programmatic verification will depend on the performance and degree of risk for each grant. For our Country Teams to monitor their grants and identify issues consistently, we developed the Qualitative Risk Assessment Tool (QUART), a comprehensive risk-assessment and -management tool we are currently rolling out to the grants in our 20 “High-Impact” countries first. The QUART helps our Country Teams evaluate risks in a standardized and comprehensive way, and steers them to receive guidance from the Secretariat’s Operational Risk Committee on appropriate prevention and mitigation actions to take.

   We are also investigating ways to clarify the reporting expectations for our implementers, in particular between PRs, LFAs and sub-recipients. In many cases, we are requiring our recipients to report information that is redundant or of little use. One of my goals here would be to develop a simple set of guidelines for those situations in which reporting via paper evidence is not possible (such as at the community level), and instead increase the use of actual field verifications of results and the quality of services.

6. **A standard menu of solutions:** We are gathering best practices within the organization and from others to create a standard set of options our Country Teams can use if our monitoring activities during the year reveal a critical problem (for example, non-compliance with minimum standards, very high risk exposure beyond an acceptable tolerance level, the misuse or inefficient application of funds). These options include, among others, the outsourcing of specific functions of the grant (e.g., procurement elements for a lack of capacity along the supply chain), specific capacity-building (e.g., support to build a financial reporting system), a specific training program or a more intensified monitoring with independent reviews.

7. **Procurement**: Arrangements via Voluntary Pooled Procurement and Procurement Agents will shift to annual or otherwise scheduled disbursements, separate from the transfers for other activities under our grants. This step will significantly improve our planning and purchasing power by increasing the predictability of funds for in-country procurement, capturing the cost advantages of pooling orders and allow for the better management of long lead times.

8. **Continuity of Service:** In the past, we have regularly found ourselves responding to stock-outs or emergency disbursement requests for a range of reasons, including poor country-level information and planning as well as internal Secretariat delays. We anticipate the proposed changes to the procurement-related disbursements described above will help prevent many of these situations.

9. **Measuring Quality:** Not everything is about simplification and streamlining processes. We must add reporting on the quality of the interventions we support, such as data on the use of bed nets and the number of patients lost to follow-up. As I mentioned above, we must fund operations research in the field to take stock of what we learn through our grants.

Part 3: Securing the Resources

A. Update on Donations

Orientation

3.1 We have focused during the last few months on the conversion into contributions of the outstanding pledges from the last Replenishment conference in 2010, and on preparing for the next pledging opportunity, in 2013.

3.2 I am pleased to report that throughout the year we have seen a trend towards the earlier payment of contributions by donors compared to last year. This welcome change reflects increased confidence in our ongoing transformation. I have seen this positive outlook as I have met with most of our major donors, be it at the margins of the World Health Assembly and the International AIDS Conference, or during my visits to Japan, France, the United Kingdom, the European Commission in Brussels, Spain, the United States and Australia since the Board last met in May.

3.3 From 1 January to mid-August 2012, the Global Fund received contributions that totaled US$ 1.81 billion, which represents more than half of the US$ 3.47 billion in total contributions expected by the end of this year. In 2011, by contrast, we received 55 percent of all our resources for that year in the final quarter. This very encouraging development has had a significant, positive impact on the forecast of uncommitted assets we regularly report to the FOPC.

Forecast of Uncommitted Assets

3.4 The Forecast of Uncommitted Assets shows continuing improvement in the financial outlook for the Fund. Through the conclusion of calendar year 2014, the end point through which we prepared our Forecast for the meeting of the Board in May, we project our available, uncommitted assets to reach US$ 1,428 million, an increase of US$ 373 million. The base Forecast for the three-year period from 1 July 2012 through 30 June 2015, after accounting for grant commitments under all Board-approved proposals (including the TFM), shows uncommitted assets available at 30 June 2015 of US$ 2.11 billion. When looking at the Forecast, please remember that it reflects only commitments for grants under Board-approved proposals, and does not include either funding for expiring grants or potential commitments the Board has yet to approve (e.g., under a new funding model). At the same time, the Forecast includes donor contributions beyond the current replenishment period (for 2014 and 2015), based on a somewhat conservative outlook. I need not remind you that volatility remains very high in this economic climate.

3.5 Notwithstanding the good news, you will face challenges in making decisions regarding how to invest the uncommitted assets outlined in the Forecast. Even if we do not implement a new investment model immediately, there are already a number of claims on the available funds for the 2012-2014 period, including applying the Continuity of Services Policy to grants that are expiring in 2014 (including a possible decision to include bed nets in the Policy), and the future of the Affordable Medicines Facility- malaria.

3.6 In conjunction with the Forecast, the Secretariat has conducted a review of the unanticipated-risk provision we set aside earlier this year (GF/B26/05). In view of the large possible variations in the uncommitted assets available, we recommend maintaining the reserve at its current level of US$ 500 million.

3.7 Each Forecast gets more precise as we make bottom-up analyses, on a grant-by-grant and country-by-country basis, and do the same with donations on a donor-by-donor basis. We have compared our new Forecasts with actual results on a monthly basis, which provides other valuable information on the many variables that go into making predictions of our resource flows. To better understand the forecast process, as well as to assess the reliability of the forecasting tool, the leadership and Focal Points of the FOPC were involved in updates for the months of April, May and June 2012. During these reviews, we discussed forecast techniques and methodology, clarified our processes and analyzed monthly variance. A firm conclusion of these sessions was that, although our forecasting process and tools have significantly improved over time, much work remains for us to do.

3.8 Over time, we expect to transfer the heavy involvement of human capital required for this effort to more-sophisticated IT models. As we develop more long-term Forecasts, they will include more-precise information on the unit costs of life-saving treatment, and the "ethical liability" created by our grants (the funding necessary to avoid interruptions in life-saving programs). We are also requesting permission to change the periodicity of the presentation and reconciliation of the Forecast from monthly to quarterly, starting with Q3 2012. The Secretariat does plan to continue preparing basic reconciliations with the Trustee's reports on a monthly basis.

Public-Sector Donors

3.9 All major public-sector donors have already made significant contributions in 2012. The largest payment, of more than US$ 1 billion, came from the United States, but France, Japan, and Germany have also made major contributions in 2012 that total more than US$ 590 million. Norway, Canada, the Netherlands and Russia have together added more than US$ 150 million this year, while the United Kingdom front-loaded its 2012 contribution at the end of calendar year 2011. A number of mid-sized and smaller contributions have also come through, some of which are the conversion of pledges, and others *ad-hoc* contributions. Some of them reflect the implementation of Debt-to-Health (D2H) agreements, others the implementation of a Multi-Year Contribution Agreement.

The Private Sector

3.10 In addition to intensive work with public-sector donors, whose generosity provides the bulk of Global Fund resources, we have continued a productive relationship with the private sector. In 2012, the private sector has contributed to the mission of the Global Fund in many tangible and innovative ways: as donors that provide direct cash transfers, as donors that build giving to the Global Fund into their retail-sales processes, as providers of services to support our grants and as implementers of programs. Let me give you examples in each of these categories:

- Chevron Corporation has donated US$ 45 million directly to the Global Fund.
- Apple, one of the founding partners of (RED), has raised an impressive cumulative amount of more than US$ 50 million for the Global Fund through its sales of iPad Smart Covers, iPod shuffle and nano, and an iTunes gift card branded as (PRODUCT)RED merchandise.
- Building on success in Tanzania, our strategic partnership with The Coca-Cola Company in logistics and supply-chain management has expanded to Ghana in 2012.
- Oil Search, the largest company engaged in the extractive industry in Papua New Guinea, has become the PR for our HIV and malaria grants in that country.

3.11 We are working closely with our Private-Sector Board member, Dr. Brian Brink, his delegation and its focal point, the Global Business Coalition on Health, to increase the involvement of private firms in all areas to leverage their full potential as partners. This should lead to a comprehensive business plan in time for the 2013 Replenishment.

B. Planning for the Next Replenishment Cycle

Building Coalitions

3.12 Effective resource-mobilization requires the engagement and effective coordination of many different partners who advocate for the Global Fund and for the general need to invest in programs that address AIDS, TB and malaria. I would like to recognize the tireless work of the many non-governmental organizations around the world in this regard. On all my trips I make a point to meet with them, and I have always been deeply impressed by their passion and creativity. The Global Fund Advocates Network is coordinating many of these activities, as was evident during the recent International AIDS Conference in Washington, D.C.

3.13 I am grateful that the leadership of the Board has traveled with me over the last few months, to help make our case with partners, Government officials, Members of Parliament, advocates and the press. In particular, the Chair of the Board joined me at the Harmonization for Health in Africa Conference of Ministers of Health and Finance in Tunis, in early July, and the Vice Chair came all the way to Australia with me in August.

3.14 I would also like to thank the Friends of the Fund organizations, who continue to play such an important role in our advocacy and resource-mobilization. The leadership and staff from Friends U.S., Europe, Japan, Pacific and Africa have facilitated a number of high-level political meetings and impressive advocacy events since the last meeting of the Board, which have brought increased visibility and support for the Global Fund in their respective regions. I welcome the new Presidents of Friends of the Global Fight, Deb Derrick, and the new Director of Friends of the Global Fund Japan, Ken Shibusawa.

Event at the United Nations General Assembly

3.15 On 25 September, United Nations (UN) Secretary-General Ban Ki-moon will host the "Every Woman, Every Child" dinner during the upcoming UN General Assembly in New York. In the context of celebrating the progress achieved since the launch of the "Every Woman, Every Child" campaign two years ago, this event will also be a great opportunity to recognize the work of the Global Fund and our extraordinary contribution to women's and children's health around the world. New partners will be joining this global effort, and a number of Heads of State will speak to demonstrate their commitment to the health of women and children, and to the Global Fund.

Mid-Term Review of the Third Replenishment

3.16 The Mid-term Review (MTR) of the Third Replenishment will take place in Geneva on 16 November, immediately after the 28th meeting of the Board. Participants in the MTR will assess the progress we have made since the 2010 Replenishment meetings. Topics will include an update on the transformation process and the presentation of the new *Results Report*. Participants will discuss the structure of the Fourth Replenishment, based on the findings of a review of our current resource-mobilization structure.

3.16 Strong engagement by Board Members in all of our fund-raising efforts is essential to achieve the best possible outcome in a difficult economic and budgetary environment. To ensure a successful Replenishment in 2013, I worked with the Chair and Vice Chair of the FOPC to create an informal Resource-Mobilization Advisory Group under their leadership, in close cooperation with the Chair and Vice-Chair of the Board; they will work directly with Dr. Benn and his team to develop ways to involve all of you in Replenishment-related planning.

Part 4: Looking Forward

In my previous report, I concluded by outlining for you my priorities for the year. I have shared with you in this document more of an update on the great advances we have made since you last met. I have to tell you that we have accomplished even more than I would have thought possible within eight months. I am very optimistic that, by the end of the year, we will be able to deliver an organization that meets your expectations.

Yet the long-term sustainability of everything we have done so far at the Secretariat depends on the direction you set in the next two months. You will define the real transformation of the Global Fund during your meetings in September and November, where you, as the Board, will play your biggest role in this process of fundamental change.

First, in September, you have a chance to show the Board's commitment to "walking the talk" of the *Strategy* you approved last year to invest our portfolio strategically and effectively in terms of returns. Approval of an investment model in line with the *Strategy* and its principles is indispensable to the future of the Global Fund. As I have mentioned above, I have visited the capitals of all of our major donor nations, and, especially in conversations with members of legislatures, I heard a clear message that the September meeting of the Board needs to take us forward into a new paradigm of investing.

Next, in November, you will shape the future of this institution with the selection of the new Executive Director. Choosing a strong manager who is committed to implementing the transformation will be a great legacy for you to leave behind.

One year ago, I stood before you as a member of the High-Level, Independent Panel, and brought you a series of recommendations for changing the Global Fund for the better. You have allowed me to carry that work forward as General Manager through the CTP. But we are only a little more than halfway to fulfilling your goals. Positive outcomes at the two critical milestones of your meetings in September and November will determine the success of our shared reform agenda. I want to reiterate my full commitment to support all of you in these processes, in whatever capacity you require. I am confident we will emerge with the answers the Global Fund, and our beneficiaries, both need.