



The Global Fund to Fight AIDS, Tuberculosis and Malaria
Sixth Board Meeting
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REPORT FROM THE EXECUTIVE DIRECTOR
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Check Against Delivery

Friends and colleagues, I add my warm welcome to all of you, as we begin the Sixth Meeting of the Board. It is a true pleasure and honor to be in Thailand for this meeting. The Thai people contribute to the success of the Global Fund in countless ways, including the leadership of Dr Suwit and as a donor. Certainly, they have shared with us tremendous hospitality during our visit to Chiang Mai.

What we have seen first hand in the last two days is that Thailand also leads by example as a recipient. The Global Fund has committed more than US\$60 million over two years to Thailand's fight against AIDS, tuberculosis and malaria. Already public and private recipients are making good use of the US\$8 million disbursed. It is particularly heartening to see that the full range of interventions are being pursued, from prevention to care, including an increase in people on antiretrovirals from 3,000 to more than 40,000 in 2004. And partners are working together towards goals like these, with the Ministry of Public Health collaborating closely with NGOs, the private sector, faith-based organizations and many others. They are bringing to life the principles of the Global Fund, and their work is an inspiration for us and people around the world.

2003: On Track at the Global Level, Programs Mobilizing at the Country Level

Thailand's progress appropriately reflects the progress of the Global Fund as a whole, and the direction in which we are moving. At our meetings in January and June, I called 2003 the Global Fund's "make or break year", when we would have to turn rhetoric into reality at the country level. I believe we have done so, and that our collective priority going forward must be scaling up the work now underway, through operational partnerships, increased disbursements, new pledges and improved processes.

Much has happened in the past four months. In June, the Global Fund had signed grants for only a minority of the proposals approved in Rounds 1 and 2. Now, we have signed the great majority, though still not all. Since our last meeting, the Global Fund has increased its disbursements from US\$30 million to more than US\$140 million. The Global Fund has also been the subject of much public debate, particularly at the July 16 International Meeting to Support the Global Fund in Paris and the United Nations General Assembly on September 22.

For me, what has been most heartening at these events is the words of endorsement voiced by recipients, both government ministers and people living with HIV. A year ago, they expressed frustration, and rightly so. In the last months, they have congratulated us on our pace, endorsed our approach, and shared with us their hopes

for the future of the Global Fund. And this sentiment has been increasingly echoed by donors and partners alike. It is a tribute to your work, and the long hours of our colleagues from the Technical Review Panel and the Secretariat. Most of all, it is a tribute to the thousands of people taking advantage of the opportunity of the Global Fund, people like those we encountered on our site visits.

These endorsements are no cause for complacency. The Global Fund has graduated from its infancy, and we can no longer attribute poor performance to youthful enthusiasm. The sound and efficient management of the Global Fund and its processes will maximize our input to the global fight against these diseases. Partners like WHO and UNAIDS are mobilizing recipients to accelerate the pace of implementation with existing grants and to set the foundation for ambitious new programs—for which finance from the Global Fund is expected to be a critical engine of progress.

To play our part, we must match momentum with maturity. In my report to you today, allow me to note the ways in which the Secretariat is ensuring such maturity across our core operations. These efforts are building the basis of sustainability for the Global Fund. They will enable 2004 to be a year in which our focus is not on policies and procedures in Geneva, but instead on the hard work and steady success of public and private recipients and local communities around the world. Let me describe the work of our core operations under three headings: portfolio management, performance monitoring and resource mobilization.

Portfolio Management

As I mentioned, the Global Fund has made substantial progress in portfolio management since we last met. The status of our Round 1 and 2 grants is as follows: 9% have received a second disbursement, in addition to 47% which have received the first disbursement; 20% more are signed and awaiting disbursement; finally, 8% have completed Principal Recipient (PR) assessments and are in grant agreement negotiations, and 16% (all from Round 2) are past TRP clarifications and entering the phase of PR assessment.

Agreements have been signed with a variety of Principal Recipients. Of the 84 with whom we have agreements to date, 40% are Ministries of Health, 24% are other government recipients—including Ministries of Finance and National AIDS Councils, 20% are non-governmental, faith-based and academic organizations, and 15% are country offices of UNDP. We are encouraging appropriate flexibility at the country level to ensure consistency with national frameworks and to maximize absorption capacity.

While all of this is good news, there are real challenges facing portfolio management as we evolve as a financing mechanism. Let me mention four.

First, *information management*. As our portfolio expands and matures, the amount of information that must be managed is increasing exponentially. It is critical that we maintain appropriate oversight over our data, in order to adhere to our policies and make accurate commitments, disbursements and calculations of performance. As I communicated to you by email, our information flow has been imperfect thus far, causing a discrepancy in a limited number of Round 1 grants between Board approval and commitments made in signed grant agreements.

We have responded comprehensively to the cause of this error, putting in place internal systems to track changes in relevant grant data and share that information across teams and with the Board and the public. Going forward, we are linking the information systems of our teams through an electronic Proposals and Grants Management System (PGMS). This is being designed for the Global Fund by a firm named Synergy, and the tender for this important work is one of three major tenders completed since the last Board Meeting.

Second, *clarity on forms and procedures*. The forms and procedures of the Global Fund have been simplified and clarified steadily as we have signed agreements with more than 70 countries. Nonetheless, we are obliged increasingly to codify our policies for reference by our recipients, and this work is underway with the help of a secondment from the World Bank. We also must improve our proposal form and guidelines prior to the next round of proposals, and we have already solicited CCM and Board input for that process. Beyond the forms, we must ensure that CCMs have clarity on what is and is not eligible for funding.

For example, countries have had little information on how they can take advantage of the financial support that the Global Fund offers for operational research. As with many other challenges, the solution will come from local dialogue with partners, and we have initiated conversations with the UNDP/World Bank/WHO Special Program for Research and Training in Tropical Diseases, and the Wellcome Trust, to work with countries on this issue. Similarly, countries are asking what qualifies as “private sector co-investment”. Some partners, like Anglo American, have taken the initiative—with Anglo specifically pledging US\$3 million to complement a US\$12 million grant by the Global Fund to the loveLife program in South Africa to expand antiretroviral therapy. The Secretariat must provide better information to all applicants on how they can take advantage of this modality in making new proposals.

We are keeping our ears open to input from recipients on how else we can clarify our work and procedures. I look forward to input from the Partnership Forum, and the regional consultations which precede it. We should use this opportunity to agree concretely on ways in which the Global Fund can improve its support of countries as a financing mechanism. We should also facilitate specific and tangible partnerships to support countries in ways that the Global Fund cannot. Our collaborations with Roll Back Malaria and Stop TB are good examples of such partnerships.

Third, *enabling CCM performance*. I attached with my latest email update to you an analysis of the differences in CCMs from those applying in Round 3 to those which applied in Round 2. As you will recall, the high-level synthesis is that little has changed, at least regarding membership. Independently of this analysis, at least two external studies are preparing to make commentary on CCMs—one is the CCM survey conducted by the Global Network of People Living with HIV, on behalf of the Affected Communities delegation of the Board, and the other is the four-country Tracking Study commissioned by four donors and conducted by the London School of Hygiene and Tropical Medicine. We welcome these studies but note that what they reveal is a challenge. CCMs are not performing as well as we would hope, whether in empowering the engagement of civil society or in ensuring approaches to fight these diseases that are harmonious with other efforts to improve health and reduce poverty. It is important that we note soberly the information from these reports and respond, in a way that can enable strong CCM performance while not taking on a role that is inappropriate. My commitment is twofold: we should proactively solicit partners in

countries where we know CCM performance is suboptimal, and the Secretariat should document and distribute CCM best practices.

Fourth, *cost-effective, best-fit local oversight*. The Global Fund is committed to cost-effective, best-fit local oversight. The arrangements with our initial four Local Fund Agents (LFAs) were put in place about a year ago. There have been constant adjustments to these arrangements, and much has been learnt. A clear need emerged to broaden the menu of LFAs, for ourselves and for countries. We have done this since we last met. The Secretariat's largest and most advertised tender has been for LFA services in all countries in which the Global Fund is or may become active. Eighteen organizations responded to that call, and our adjudication short-listed 10 firms. From these country-by-country selections are being made, based on specific country bids, and input from references including CCMs. This process is now nearly complete. Six LFAs have been selected for Round 1 and 2 countries. Following this meeting, LFAs will be selected for additional Round 3 countries.

The LFA tender has allowed the Global Fund to make a number of strides forward in portfolio management. Work processes and expectations of LFAs have been standardized and clarified. We are getting a better deal on LFA services through open competition, and ensuring a better fit with each local context by vetting multiple options. We are minimizing potential conflicts of interest. And we have encouraged creative solutions to LFA services, including partnerships among companies, and with academic institutions, to extend competency on technical matters. We now look to performance monitoring with greater comfort, knowing that mechanisms are in place at the country level to verify the data which are reported and to ensure a high degree of accountability.

Performance Monitoring

While there is good progress to report on performance monitoring, there is still much to be done, and the burden of "proving it" is firmly ahead of the Global Fund. Institutionally, our most significant advance in monitoring and communicating our performance since the last Board Meeting is the publication of the Global Fund's first Annual Report and audited financial statements. The document reports on the Global Fund's core operations using a number of indicators that can form the basis of standardized measurement of institutional performance. Country level progress has thus far been reported anecdotally. Actual data are becoming available as our grants mature, but monitoring performance well will depend on our response to the challenges of a more mature portfolio. Let me mention four areas in greater detail.

First, *data gathering and evaluation*. A primary task in "proving it" is gathering data in a systematic and standardized fashion. Given our deference to countries to choose their own indicators, and the lightness of touch that has characterized the design of our performance-based disbursement process, ensuring extraction of meaningful data will be a challenge. To move forward, we have recruited to the Global Fund new expertise and leadership, which will operate as a Strategic Information and Management Unit. We also intend to establish a Technical Evaluation Reference Panel to solicit consistent and objective technical counsel. Beyond these measures, the Secretariat will be conducting a thorough overview of the information available from a limited set of countries where our grants are most mature, so that we can test our systems and report to MEFA concrete examples of how we will utilize data across our portfolio.

Second, *policies and processes on renewals*. The architects of the Global Fund articulated early on their commitment to performance-based funding. One of the hallmarks of this system will be whether or not the Global Fund renews grants following initial two-year commitments. Saying no, when appropriate, will be as important as saying yes, as it creates a strong incentive for performance. But this must be a transparent process. On what basis will the Global Fund make this determination? With what technical input? What feedback will recipients receive after making a renewal request? Will recipients have an opportunity to redress shortcomings before a renewal becomes impossible? The Secretariat, working with Board committees, is addressing these difficult questions, and they are urgent. By the next Board Meeting, a transparent and clear process must be in place. At around that time, the first recipients will begin mobilizing their renewal requests—and integrating this into their national financial planning processes.

Third, *indicators of institutional performance*. As I mentioned, the Global Fund's first Annual Report relies on indicators for each of our core operations to paint a picture of our institutional performance. These reveal, for example, that we have decreased by more than 50% the time it takes us to move from grant agreement signing to disbursement. We also measured features of our resource mobilization. Given that we are a financing institution, and one that currently relies on voluntary ad hoc contributions, such performance indicators are critical. We also must fulfill commitments made in 2002 to measure the performance of different structures of the Global Fund, including the Secretariat, the TRP and the Board. The Secretariat stands ready to agree a set of indicators with MEFA, a task we must complete in advance of next year's Annual Report. On a related point, the Secretariat has initiated activity to measure and to improve internal performance, through staff appraisal and professional development.

A fourth area of work under performance monitoring is *communicating with and within countries*. The information that the Global Fund mobilizes depends on our communication with recipient countries, and it is useful only as far as it can be disseminated among country stakeholders. The world expects that a local Malawian NGO can learn what it is that Global Fund money is achieving in Malawi. And we depend on that NGO to report to us and our LFAs when there are discrepancies between what is reported and the reality that local stakeholders perceive. This is at the heart of our commitment to transparency. A critical tool to enable this vision is our new website, which has just been launched. It makes it easy for anyone to learn just about anything about our grants, along with contact information for every CCM, every PR and every LFA. Moreover, much of the content is available in six different languages. This is thanks to our Communications Team and Non-Linear Creations—the winner of our third major tender in the past few months.

Beyond accessing a website, we are also committed to in-country communications and advocacy. You see here an example of a country-specific brochure that describes the work of the Global Fund in Thailand. We are also launching a CCM newsletter to share information with and among CCMs. Given that our Portfolio Managers are front-line representatives of the Global Fund, we have provided media training for them.

Stories of the exciting work happening among recipients will be a critical component of our branding efforts, and Publicis is working hard on developing the content of that campaign. Their team recently shared their initial conceptual work with the Resource

Mobilization Committee, and it is exciting to see advertising experts so engaged by the goal of promoting the Global Fund.

Resource Mobilization

Achieving and communicating results sets the foundation for our third core operation: resource mobilization. Of the more than US\$1.9 billion pledged through 2003, 81% has been paid, including 101% of 2002 pledges and nearly three-quarters of the amount pledged for 2003. The World Bank's management of the trust fund has resulted in an annualized rate of return of approximately four percent, which is nearly covering all operational costs of the Global Fund. New resources are being pledged on an ongoing basis. Since the last Board Meeting, new pledges have been made by Barbados, Belgium, China, Denmark, Germany, Greece, Iceland, Mexico, Norway, Poland and Portugal, as well as the Treatment Action Campaign and many hundreds of individuals, who contribute through the UN Foundation.

A year ago, pledges for 2003 totalled only US\$685 million, but pledges for 2003 today total US\$978 million, an increase of 43%. This year, Heads of State from around the globe have called for more resources to the Global Fund—at the G8 Summit at Evian, at the European and African Union Summits in Thessalonica and Maputo, and most recently at the UN General Assembly. The outlook for mobilizing more resources for 2004 is promising, but we must together do much, much more if we are to achieve the target set by President Chirac of US\$3 billion per year for the Global Fund.

Beyond dollars and cents, we face more systematic challenges to our efforts to mobilize resources. Let me mention four of these.

First, *projecting financial availability and need*. According to the recommendations by MEFA and the PMPC for a comprehensive funding policy, the Secretariat will provide financial projections to every meeting of the Board. We have prepared such projections for this Board meeting. In doing so, we have become increasingly aware of the challenge of this task given two fundamental features of the Global Fund—that our needs are demand-driven and that our income depends on voluntary, ad hoc contributions. On the income side, this modality ensures that, at any given time, firm knowledge of pledges for an upcoming year is likely to be a gross underestimate of what is ultimately pledged and contributed for that year.

On the demand side, we have seen first hand that our estimates, made in good faith with a transparent methodology, have overestimated what recipients requested—and what the TRP recommends—for Round 3. So the Secretariat has revisited our “bottom up” approach and assessed not the volume of imagined proposals but instead the amount of request that is currently in our pipeline – in other words, all the Category 3 proposals that have not been approved or recommended after three rounds but remain eligible. The amount is nearly US\$1.4 billion for two years. With conservative assumptions about what proportion of this may be submitted and recommended, we can estimate that a minimum of US\$650 could be recommended for Round 4.

But that is a minimum. More is likely to be requested as our partners work with countries to develop practical plans to achieve global targets, not least of which is 3 million people on antiretroviral treatment by the end of 2005. Other finance will contribute to this goal, but I do not believe, and nor do the partners of the Global Fund believe, that this goal can be achieved without greater financial contributions by the

Global Fund. And as WHO and UNAIDS work with countries to apply simplified treatment guidelines, to develop human resources, and to facilitate drug and diagnostic procurement, the absorption capacity of countries will grow, and demand on the Global Fund will increase.

We face an inherent tension between the imperative to be a responsible financial institution that projects its resources and acts upon those projections, and the imperative to be an ambitious financing engine to turn the tide on preventable and treatable diseases that kill tens of thousands of people every day.

A second challenge is *sustainable financing*. Our outlook on the future is tied to the challenge of sustainability, which we will face in a new and important way in 2004 as the Global Fund has to consider its first renewals of grants made in Round 1. Those renewals that are approved will become a major component of our financial needs going forward. How we ensure funding for renewals, along with new proposal rounds, will be based on whether the Global Fund continues to rely on voluntary, ad hoc contributions, which demand that we have front-loaded resources to back grant agreements. Alternatively, the Global Fund can adopt a replenishment or “replenishment-plus” mechanism, under which our resources on hand must be commensurate with annual commitments to disburse. This is a matter for the Board to decide. Regardless of which mechanism is agreed, the financial policies of the Global Fund must continue to evolve to meet the need for sustainability and both the legal and moral commitments that we are making to our recipients.

Third, *private sector opportunities for fundraising*. An important component of our future is partnership with the private sector. We have worked diligently over the past year to define and encourage opportunities to work with corporations and foundations to meet various needs of the Global Fund, including in-country technical assistance to our recipients and operational support to the Global Fund. A number of private sector partners have responded with a variety of assets. To date, cash contributions have been modest, with notable exceptions including Winterthur, Eni, Statoil and the great generosity of the Gates Foundation. The Secretariat is committed to expanding this list of contributors.

We are in negotiation with two financial institutions on transactions-based models for contributions by consumers. We hope that we can launch one of these “round-up” credit card schemes within the coming year. We are also working with a company to make the Global Fund a “charity of choice”, whereby the company would match the aggregate contributions of its employees. Other ideas include issuing Global Fund stamps. Publicis has already designed the French version, which will be used for branding purposes. The common theme among these possibilities is reaching large audiences of contributors with focused initiatives that the Global Fund can manage practically. As we pursue these initiatives, we must be prudent about sharing our logo and brand and about financial and reputational risks inherent in large ventures reaching broad audiences.

Finally, we are faced with the challenge of *facilitating in-kind contributions*. Beyond cash contributions, the Secretariat is committed to exploring the opportunity of in-kind contributions to our recipients as a way to leverage and extend the reach of our financial commitments. The paper from the Private Sector at the last Board Meeting estimated that this could—if managed appropriately—generate cash-equivalent

contributions of tens of millions of US dollars per year. While there are many variables to this proposition, it demands serious consideration given its potential.

Specifically, the Private Sector study estimated that between 15 and 30 percent of funds awarded in Round 2 could be substituted with in-kind contributions. But a third party is required to manage those contributions, receiving and distributing them on behalf of the Global Fund and providing competent technical oversight of product choice, formulation and packaging, particularly in the case of pharmaceuticals. The focus on pharmaceutical products results from two factors: they represent the largest financial opportunity, and there are international mechanisms in place or coming into being that could act as the necessary third party. I am speaking specifically of the Global TB Drug Facility and the AIDS Drug and Diagnostic Facility being pursued by the WHO.

If the Board believes that this opportunity is worth pursuing, I suggest that we focus on the high-value and most-likely opportunity by entering into specific conversations with the GDF and the emerging ADDF to answer the questions which face us. Could they, and how would they, process in-kind drug contributions? How would they judge their value to funded programs in terms of available alternates and the costs of donation versus local purchase? We need ways to measure the financial equivalence of in-kind contributions and how to appropriately “discount” financial commitments in grants. This is a significant amount of work, but the Secretariat is committed to this opportunity as we seek to maximize available resources.

2004: Our Next “Make It” or “Break It” Year

In thinking through the challenges facing the Global Fund, and what we are doing together to anticipate and address those challenges, I am inspired by how quickly the Global Fund has evolved from a start-up enterprise to a credible organization. When I first joined the Global Fund, I told our advocates that the Board had rightly put the cart in front of the horse—making commitments without the mechanisms to move money—as a means to accelerate our progress and keep pace with the urgency of the epidemics. In doing so, you have led our growth and made possible the endorsements we have received this year.

With the horse now back in front of the cart, our task is to look boldly to the horizon and keep up the pace. We did that in 2003 by turning the gears of our mechanism to disburse money to many recipients in many countries. To do so in 2004, we must recognize and pre-empt today the challenges that will face us tomorrow. Only by doing so can we keep our promise to the communities living with and affected by these diseases—that the Global Fund will significantly bring forward the day when we have stopped TB, rolled back malaria and turned the devastating tide of HIV/AIDS.

I thank you all for your continued support for the Global Fund and your thoughtful counsel to me and the Secretariat. As we approach our second birthday, I look to the future with hope for what the Global Fund can achieve with your leadership.