



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

**Eighth Board Meeting
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REPORT OF THE EXECUTIVE DIRECTOR

Outline: This document provides the report of the Executive Director to the Eighth Board meeting.

Introduction

Friends and colleagues, welcome to Geneva and the Eighth Meeting of the Board of the Global Fund.

The agenda in front of us at this meeting bears witness to an organization which is leaving infancy and experiencing the rapid growth of adolescence. There are a number of very exciting developments to report. Round 4 is our largest yet, at \$968 million. It is also a round which focuses on rolling out treatment. Nearly a million new people will receive ARV treatment over five years. Another million patients will be treated for TB through DOTS. And more than 140 million new artemisinin-containing combination therapy (ACT) treatments will be procured. Although none of those figures live up to our own sense of urgency, they represent an impressive result for one round of proposals.

We have recently collected data on progress in the 25 grants which have been operating for a year or more. The results are encouraging. I return to these data in more detail below but, in summary, twelve of the 25 grants are achieving or exceeding their targets. Some of these grants over-perform spectacularly. Five are a cause for concern.

However, the past few months have also revealed some of the pains that come with rapid growth. In addition to a progress update on ongoing work and our impact to date, I would like to focus the second half of my report on the critical priorities in moving ahead. We are at a point where we need to reevaluate our way of working, our resource needs and – in the longer term – our business model, if the Global Fund's success is to be sustained and enhanced.

1. Progress update on ongoing work

1.1 Portfolio Operations

One major ongoing challenge for the Secretariat is to sign the remaining Round 1 and 2 grant agreements and to make significant inroads in signing agreements for Round 3. To date, the Secretariat has committed \$1.3 billion through signed grant agreements in 87 countries, or 63% of the total amount approved for **Rounds 1, 2 and 3**. For Round 1, all agreements have been signed except two. For Round 2, 15 grants have still not been signed. These grants are a serious cause of concern and we are making a special effort to solve the remaining obstacles in order to sign these grants within the coming weeks.

To ensure accelerated disbursements, the emphasis in Round 3 has been to complete all four Principal Recipient assessments in advance of signing the grant agreements. While this process will lead to considerably faster disbursements once grant agreements are signed, it has led to a slower start in the signing of Round 3 grant agreements than in the previous rounds. However, the pace over the last weeks has picked up significantly, and we anticipate that we will have signed 20 Round 3 grants by end of June.

By 18 June, cumulative disbursements had reached \$400 million. This equals 89% of the target of \$450 million disbursed by June 30 that the Secretariat had set for itself.

For Round 4, the Secretariat received and screened 134 proposals from 82 countries containing 217 components. Of the submitted proposals, 173 components were reviewed by

the TRP and 69 components involving programs in 50 countries were recommended for funding, with a total value of \$2.9 billion over 5 years and \$968 million over two years.

Since the last Board Meeting, the Secretariat has held five **Regional Meetings** in Cambodia, Bulgaria, Burkina Faso, Jordan and Kenya for Round 1, 2 and 3 grant recipients and partners at country level. The purpose of these Regional Meetings is for the recipients to learn more about Global Fund policies and processes through discussions with their colleagues and Secretariat staff. The meetings have been important for troubleshooting on known difficulties and obstacles at country level, and for identifying policy or implementation problems in our operations. The thematic clinics, where participants can circulate through various rooms to have their questions answered by teams of Secretariat staff, have been particularly popular.

In April, the Global Fund Secretariat concluded discussions with the **Clinton Foundation** about extending their negotiated low prices for a number of drugs and diagnostics to all Global Fund recipients. A joint declaration with the World Bank and UNICEF announced this agreement. On May 14, The Dominican Republic became the first Global Fund recipient to sign a grant agreement with procurements based on the prices offered through the Clinton Foundation. On May 17, Jamaica followed as the second.

On **malaria treatment**, the Secretariat called together experts from the TRP, WHO, Médecins Sans Frontières, and a group of authors who had criticized the Global Fund's funding decisions for a review of the latest available resistance data on non-ACT malaria treatment. The review compared the data with malaria treatment as currently funded in Rounds 1 through 3. The group recommended that, of 44 grants which include drug procurement, 25 should be changed to ACT as a first-line treatment. Eight countries have already begun the transition while five are planning to change. The Secretariat is now working with WHO to reprogram existing grant agreements or – for most grants in Round 3 – to change the drug procurements as part of grant agreement negotiations.

1.2 Strategic Information and M&E

Over the past months the Secretariat - in collaboration with major partners - has developed an updated version of the **M&E toolkit**, which will help to fully support Round 3 and 4 grant negotiations. With this toolkit, we now have a simplified M&E framework (and a set of indicators) which is widely endorsed (Roll Back Malaria, Stop TB, UNAIDS, UNICEF, WHO the World Bank, and U.S. government partners). The toolkit is the basis for the tracking of grant progress and Phase 2 decisions.

A major exercise has been undertaken over the past months to define a limited set of performance indicators for all grants signed in Rounds 1 and 2, and to work with recipients to integrate these indicators into their reporting system. This **back-fitting** is necessary because Rounds 1 and 2 took place before the Global Fund had established an M&E system. It has now been completed for all grants signed before the end of 2003. Action sheets have been prepared to assist Portfolio Managers in their follow-up with Principal Recipients.

Since the approval of the **Technical Evaluation Reference Group (TERG)** by the Board at its Seventh meeting in March, TERG has been established and an institution to support TERG functions has been identified and contracted. The first TERG meeting will be held in September. As a priority, the TERG will provide advice on the development of an evaluation and quality assurance mechanism for the Phase 2 decision process, consider the measurement of system effects of the Global Fund, and review priorities for the 2005 M&E Work Plan.

1.3 External Relations

The recent regional meetings were used to gather input on the four themes for the **Partnership Forum** discussion. The Secretariat has worked together with the Board Steering Committee to ensure the successful execution of this first gathering. The Forum will be the culmination of months of consultation with stakeholders at the regional meetings and through *Partners GF*, an ongoing on-line discussion forum moderated by Health and Development Networks. *Partners GF* will remain active after the event in Bangkok for post-Forum comment on finalized recommendations. You have received a separate report from the Steering Committee, giving further details about the Forum.

On March 22, 2004 **Friends of the Global Fund Japan** was launched in Tokyo in the presence of both the Chair and the Vice Chair of the Board. "Friends Japan" is headed by Mr. Tadashi Yamamoto, a respected and distinguished Japanese diplomat and leader in international relations, and hosted by the Japan Center for International Exchange. The President of "Friends Japan" is the former Prime Minister Yoshiro Mori. Funding has been secured through generous contributions from the Soros Foundation, the UN Foundation and the Vodafone Foundation. I would like to express my thanks to the Japanese Board delegation, whose support played a crucial role in the establishment of "Friends Japan".

In early June, **Friends of the Global Fight U.S.A.** was launched in Washington D.C. Made possible by a grant from philanthropist Ed Scott, "Friends U.S." has already proven a valuable asset in promoting our cause to an American audience. On behalf of the Global Fund, "Friends U.S." has produced a short promotional video which will be used for awareness-raising. "Friends U.S." has also produced briefing materials which are distributed to legislators, NGOs and the media. The President of "Friends U.S." is Mr. Jack Valenti, the outgoing CEO of the Motion Picture Association of America.

Based on current pledges, contributions are forecast at \$1,472 million for 2004. To date, 67% or \$986 million of this amount comes from non-U.S. sources, while 33% or \$486 million is contributed by the U.S. Even after providing for Phase 2 renewals in 2004, this amount enables us to fully fund Round 4 if the Board so decides, and represents a big increase compared to previous years when we had total contributions of \$957 million (2002) and \$933 million (2003). It is a testimony of the generosity and strong commitment of our donors, most of them represented on our Board.

However, the forecast amount of \$1,472 million falls short of maximizing the potential 2004 U.S. contribution to the Global Fund by \$61 million. The U.S. contribution is limited by law to 33% of total contributions. Current non-U.S. pledges permit a U.S. contribution of the above mentioned \$486 million, rather than the maximum possible \$547 million authorized by the U.S. Government. Maximizing the U.S. pledge would require non-U.S. pledges of \$1,110 million. The total amount of pledges would then be \$1,657 million, including U.S. and non-U.S. sources.

We are in discussion with the U.S. regarding the interpretation of their legislation with respect to a portion of 2003 pledges which were contributed within U.S. fiscal year 2004 (which commenced on October 1, 2003). If these contributions, amounting to \$82 million, can be counted, the loss of U.S. contribution would be reduced from \$61 million to \$21 million. In order to avail ourselves of the maximum U.S. contribution for 2004, additional non-U.S. pledges of \$124 million are needed (or \$42 million if the portion of 2003 pledges can be counted).

A further aspect of the U.S. legislation is that only non-U.S. contributions made by 31 July 2004 are counted when computing the U.S. contribution (contributions made after that date may or may not be counted on a discretionary basis). Contributions for 2004 totaled \$706 million as of 18 June, and I would like to extend a special thanks to all donors who have already contributed their pledge. However it is crucial that the remaining pledges for 2004 be contributed by 31 July in order to maximize the U.S. contribution. Failure to receive the U.S. contribution in full will have significant consequences for the Fund, not just in reduced contributions for 2004, but in weakening our fundraising case for 2005 and beyond.

2. Impact of the Global Fund to date

At 30 months, we now have our first opportunity to take a systematic look at how Global Fund financing is performing. Over the past month, we have analyzed all grants which had been in operation for one year or more by 30 April 2004. In all, 25 grants in 15 countries with a total commitment of \$158 million over two years fall within this group. Of these, nine were for HIV/AIDS (\$ 68 million), eight were for tuberculosis (\$ 57 million) and eight were for malaria (\$ 33 million). The regional breakdown was as follows: nine grants from six countries in sub-Saharan Africa, eight grants from four countries in Asia, seven grants from four countries in Latin America and the Caribbean, and one grant in North Africa.

The 25 programs reviewed in this way are too few and have been in operation for too short a time to provide any definitive conclusions about their performance and, by extension, the effectiveness of Global Fund financing. But it is still possible to draw some interesting information from the analysis.

Overall, the results are encouraging, with more than 80% of agreed targets reached across the 25 programs. Nearly half (12) are on track or overachieving against targets agreed for the first year. In Honduras, nearly twice as many people as targeted were put on ARV treatment, while in Haiti, ARV targets were exceeded by 25%. In Indonesia, 40,000 patients were put on DOTS during the first 12 months, exceeding the target of 30,000 by 33%. In Madagascar, 276,000 long-lasting impregnated bed nets were distributed to families with children and pregnant mothers – more than twice as many as planned.

Other programs that have reached the one-year mark have exceeded targets for some of their activities but are behind on others. Ghana's HIV/AIDS program, for example, has only reached half of the 1,200 people targeted for treatment in their first year of operation. But the program has trained two and a half times as many personnel to provide home care services than originally planned and has gone well beyond the number of health centers envisaged to offer prevention of mother-to-child transmission of HIV. It has also exceeded its targets for the number of people receiving voluntary counseling and testing. Ghana, therefore, is well positioned to drastically scale up the numbers of people receiving ARV treatment over the coming year and may well end up exceeding all its targets.

Another eight programs have shown substantial progress but fall short of targets. With the results shown so far, they are likely to catch up during their full two-year grant period. Several grants have seen delays in the procurement of drugs and other commodities and are therefore behind target, but they are also likely to catch up once procurements have been completed.

Five grants are substantially underachieving against agreed targets. Unless they rapidly accelerate in their implementation, these grants are unlikely to be approved for Phase 2

funding. These five grants, and others that show weak implementation, are now the subject of special measures being led by our newly formed Operational Partnerships and Country Support Team

Existing programs which are scaling up are more likely to achieve rapid results than start-up operations. Yet, a program such as the one bringing ARV treatment to people living with HIV/AIDS in Honduras has been able to provide treatment to almost twice as many people as targeted, despite being a new program operating against a long history of difficulties. In addition, success does not seem to be significantly related to the income level of a country, but rather to the level of planning, coordination and dedication of the Country Coordinating Mechanism, Principal Recipients and sub-recipients. One of the most successful programs is the scale-up of antiretroviral treatment in Haiti, despite the country being among the world's poorest and experiencing social and political disruption.

Civil society appears to perform slightly better than governments as Principal Recipients. While two thirds of programs where civil society organizations are Principal Recipients are achieving or exceeding targets, only half of the government-managed grants fall into this category. Four of the five severely underperforming programs are government-managed.

The performance-based disbursement system functions well. One year into implementation, the 12 grants overachieving or on track received a median 91% of targeted disbursements. The 8 grants somewhat behind received a median 58% of their targeted disbursements, and the 5 grants substantially underachieving received a median 21% of their targets. Overall, the anniversary grants achieved a median 70% of the disbursements expected after one year. At the one year cut off, a total of \$55 million of the expected \$92 million had been disbursed.

For a number of grants, additional disbursements have been made since then. As of June 18, 2004 the median percentage of expected disbursements received by all anniversary grants increased to 73%. In dollar amounts, this translates into an actual disbursement of \$74 million against an expected \$115 million. As of this date, the 25 anniversary grants represent 19% of the Global Fund's total disbursement of \$400 million.

3. Priorities going forward

The priorities of the Global Fund Secretariat over the coming months can be summarized in one sentence: *evolving our current business model and enhancing organizational capacity in order to better serve our clients, and securing sufficient resources to meet the challenges later this year and in 2005.*

3.1 Evolving our business model

Implementing policies for Phase 2

A major priority for the Secretariat this spring has been to develop operational policies and procedures for the Phase 2 funding decisions in accordance with the policies approved by the Board. Given the importance of Phase 2 funding decisions, the key objective has been to develop efficient and transparent procedures that reward successful countries with quick decisions, while providing countries receiving provisional approvals with timely guidance on the necessary measures to be taken in order to avoid funding gaps. Working with MEFA, PMPC and the Board we now feel confident that we have a robust management process in place, which minimizes workload for countries while ensuring appropriate safeguards, necessary documentation to make objective decisions, and guidelines for decision-making

in a resource constrained environment. The latter will be brought before you for a decision at this meeting. The translation of this process into management tools (Grant Fact Sheets, CCM requests for continued funding, Grant Scorecards) is on track and will be completed by August 1.

The challenges now lie in implementation. At the country level, it is of utmost importance that no country experiences a funding gap during the decision making process. As per the Board approved policies, we have an exceedingly tight schedule between months 18 and 22 within which the country submits its request, the Secretariat reviews and approves, and the next disbursement is made. Thus policies and procedures must adhere to a strict time line to ensure that no program is disrupted.

At the Secretariat, there is serious concern about our capacity to effectively cope with Phase 2 renewals in addition to the existing workload. This matter was originally brought to MEFA and the Board in February and March in the context of the 2004 supplementary budget request, which was rejected. I address this issue in more detail later in this report and will return to it elsewhere in the agenda of the meeting.

LFA Optimization

The Local Fund Agent (LFA) is an innovation in grant management. LFAs provide independent, qualified advice to the Global Fund at the country level, and allow the Secretariat to remain lean and centralized. Two years into the life of the Global Fund, 42% of the Secretariat's operating budget is earmarked for LFA fees. Given this substantial amount, the learning that has taken place, and the evolving needs of the Fund, it is timely to assess and refine the current system.

Two efforts are under way. The first one is a comprehensive assessment of the current LFA system launched this spring. Early results shared with MEFA at its May meeting point to significant opportunities for increasing efficiency and programmatic assurance through strategic adjustments of the current model. Substantive proposals to reform LFA performance will be considered through the Board's MEFA committee at its next meeting in October 2004.

Parallel and linked to this strategic and comprehensive review of the LFA system, an LFA "Optimization Team" is looking at immediate, tactical refinements to our transactional processes as we work with these important partners. The objective is to identify short term opportunities for simplifying interactions, improving accountability and quality of LFA services, and reducing costs, without changing the fundamental model. To this end, our five most important LFAs are working with us against this target, with a meeting in Geneva on June 22 to decide on concrete steps. We are confident that this work will – in conjunction with the LFA assessment and a more comprehensive review of the model – yield significant benefits.

Facilitating accelerated implementation

Distinct from our focus in 2002 and 2003 of building the machinery of a financing mechanism and initiating the steady operation of that machinery, our focus in 2004 must be on the work of recipients - public and private partners receiving funds to scale up the fight against the three diseases. This focus on recipients requires us to adapt our procedures and business model based on the realities at country level. The goal is to improve the performance of the Global Fund in meeting the needs of our clients: people living with and communities affected by these diseases.

The steady improvement of our information systems is allowing early identification of programs that require special or extra attention. The example of the one year anniversary grants, described above, illustrates this. There are three countries whose grants run the risk of not receiving Phase 2 funding this year unless substantial improvements in the pace of implementation are achieved. The proper response of the Global Fund to these situations must carefully balance our responsibility to serve our clients with our limited mandate as a financing institution. The first step is diagnostic, and is clearly our responsibility. We need to determine, quickly and accurately, the main reasons for the poor performance. The appropriate remedial measures may then lie with us and/or the recipients and may or may not require intervention by our technical partners. At the very least, we must ensure that the Global Fund and its procedures are not the cause of slow implementation. On some occasions, this may be the case and will require strenuous efforts by the Secretariat to accelerate our procedures, consistent with accountability and due process. Ideally, the CCM should be in the driving seat throughout, although in many countries we are far from this ideal.

To take forward this work in a systematic and effective manner, I have created the Operational Partnership and Country Support Team under As Sy. As and his team report to Brad Herbert, our new Chief of Operations. Drawing on the newly available and more systematic data sets, the Operational Partnership and Country Support Team will identify programs in difficulty, work with CCMs and Portfolio Managers to complete the necessary diagnosis, and then initiate appropriate action. Appropriate action will often involve mobilizing our growing and increasingly strong network of technical partners. Foremost among these are WHO and UNAIDS, together with the Stop TB and Roll Back Malaria partnerships. To further strengthen our practical working relations with these partners, I have assigned Vinand Nantulya to ensure that our working relations are close, effective and focused on providing necessary support at the country level.

Harmonization

A critical theme in our efforts to improve the services which we offer to our clients relates to donor harmonization and the ease with which our recipients can deal with Global Fund procedures. On the one hand, we are constantly adapting our procedures to ensure that they are not unnecessarily onerous. On the other hand, we are always searching for improved opportunities to harmonize our procedures with those of other donors, particularly in ways that are preferred and requested by CCMs.

The recent announcement of the 'Three Ones' is an important and helpful development. The Global Fund participated in the development of the concept of the 'Three Ones', and is fully committed to it. The challenge now lies in the implementation of the concept of the 'Three Ones' on a country by country basis.

The Global Fund has already made a strong contribution to donor harmonization and to the 'Three Ones' through its leadership in the development of a standardized M&E Toolkit for AIDS, TB and malaria. We expect to continue to be a driving force in moving harmonization and the 'Three Ones' from rhetoric to reality. In pursuance of this goal, Bernhard Schwartlander and his team, with support of and in collaboration with a number of Board constituencies and with the newly established TERG, are developing a set of performance measures to track progress in harmonization and the implementation of the 'Three Ones'. We will then put in place the systemic tracking of these measures for ourselves, and advocate their use among our partners. This work will be carried out in close partnership with the Development Assistance Committee of the OECD.

3.2 Building a high performing Secretariat

As part of our organizational development process, I announced an adapted organizational structure for the Global Fund Secretariat on April 30. The structure realigns activities in tighter, functional units, with “Operations” (portfolio management, operational partnerships and country support, portfolio support and policy) placed at its heart, supported by three cross-cutting teams: Corporate Strategy and Performance Management, External Relations, and Business Services. The objective of this new structure is to enable us to focus on our core business and to improve the efficiency, effectiveness and quality of our management.

Since the announcement of these changes, intensive work has been ongoing in four areas to rapidly implement the new structure. These are reviewed below. Much remains to be done to further develop and embed the changes so that we become the sustainable, high-performing organization that we aspire to be.

Optimizing core processes and decision making

One of the goals of the new organizational structure is to strengthen our key processes, internal decision making and management systems. Several steps have been taken to capitalize on the opportunities the new structure presents. Firstly, across departments and supported by external consultants, we have reviewed existing procedures and processes. For our core business of portfolio management, this has resulted in the development of an “Operational Policy Manual.” For the first time, we have a document that brings together in one place all the operational policies relating to the key areas of portfolio management, from grant signing and first disbursement to performance-based funding and the Phase 2 renewal decision. The Manual will help to strengthen and systematize the way we do business with recipients, and to improve efficiency by clarifying roles and responsibilities throughout the cycle of Global Fund activities.

Additionally, top level decision making and direction setting has been streamlined and strengthened by reducing the number of direct reports to me from six to four and by instituting a smaller Executive Management Team (EMT) with clear accountabilities and summary reports of decisions made at weekly meetings to all staff. While the team is functioning well, we are acutely aware that the gender imbalance in the senior leadership group is clearly unsatisfactory. I am working hard to rectify this.

A wider Strategic Advisory Team (SAT), consisting of the top 15 managers in the Secretariat, guides major policy, strategic and organizational decisions for the Secretariat. The SAT also helps to challenge Secretariat thinking and to trigger innovation and new approaches. It is a resource and sounding board for the EMT, and will help ensure ownership, alignment and organizational engagement on key topics.

In addition to these immediate interventions, we are also looking at other ways to improve our current business processes. For example, our current practice of treating all grants and recipients in the same manner, prevents us from managing risk most effectively. A team is thus currently working on a more tailored portfolio management approach, allowing us to dedicate more focused attention and additional safeguards to grants or countries falling into high risk categories.

Managing workload and optimizing staff skill mix

Another critical priority in the context of implementing the new organizational structure has been to clearly define key functions and responsibilities of teams and individuals to increase

transparency and accountability and manage interfaces between teams. This process - conducted by a cross-functional team and supported by an external consultant - has been completed. Individual job descriptions are now in the process of being reworked accordingly. In addition, immediate staffing adjustments have been made, recruiting for key positions has been launched, and the 2004 budget has been adapted to reflect the new structure.

We have identified a clear need for additional skills-building, in particular in portfolio management. To address immediate needs and ensure capacity to perform in the short-term, training will be provided in the three significant skill areas for grant management - financial management, procurement and monitoring and evaluation – starting in September. The new Operational Policy Manual will serve as a base for this training, ensuring that portfolio managers are conveying clear and consistent messages to recipients. This effort will be integrated into a comprehensive learning and development strategy to be implemented in 2005.

Going forward, a critical challenge for us is to ensure that we have the minimum resource levels required to deliver on current commitments. Over the coming six months, the Secretariat must sign the remaining grant agreements for Rounds 1 through 3, negotiate approximately 70 grants for Round 4, reprogram approximately 30 malaria grants for a switch to ACT, diagnose and support underachieving grants, and complete the first Phase 2 renewal evaluations. In total, an estimated 170 grant agreements need to be signed during the remainder of 2004.

The Seventh Board meeting requested that a staffing and resource analysis together with a profile of a mature Secretariat be undertaken and submitted through MEFA, to the Ninth Board meeting, together with the 2005 budget. This substantial work is well underway. The models and projections that will be presented to the Ninth Board meeting build on the current core business model and will not assume any radical departures from the way the Secretariat has operated to date. It is already clear, however, that the work load facing the Secretariat in the second half of 2004 is unsupportable with the current Operations staff and there is an urgent need for strengthening the portfolio clusters. We have signaled these upcoming needs repeatedly to the Board since mid-2003. We are now entering a phase where the under-resourcing of the Secretariat carries substantial risks for the appropriate management of the Global Fund. We could face a situation where we will not be able to meet our targets for signing Round 4 grants or where some grants will face a cut-off of funds due to delays in processing Phase 2 renewals. This will not only have grave consequences for our clients, but may also adversely affect the Global Fund's reputation as an effective, speedy and reliable financing mechanism.

We need to find solutions to these challenges together. There are no precedents here – as the Global Fund develops and grows, we regularly find ourselves in uncharted territory. But it is an issue we need to solve if we are to ensure the Global Fund's continued successful performance.

Ensuring effective performance management and planning

One of the Global Fund's core principles is that we fund programs based on proven performance. It is critical that we apply the same standards we set for our grantees to our own internal management practices and hold ourselves accountable to them. My single most important focus over the coming months with regard to the internal management of the Secretariat is the establishment of rigorous planning and performance management at all levels of the organization. We have come a long way already, since we started the process this spring. At the institutional level, we now have a draft of clearly defined objectives which

are linked to performance indicators and targets. I will share this draft for input at this Board meeting. In parallel, we have developed the so-called “Executive Dashboard”, an IT-based tracking and reporting tool, which will allow us to monitor progress against agreed targets on an ongoing basis and intervene early when there are signs of slippage.

The establishment of institutional key performance indicators (such as grant signings, disbursements, pledges secured) is now enabling us to roll out consistent targets to the unit level and from there to the team and individual levels. This process is ongoing and is led by the Directors of each unit, with the Operations unit in the lead. All units will have completed this process by September.

The result at the institutional level is an integrated operating plan with targets and projections on key performance indicators on a quarterly and annual basis. This plan will also underpin an informed projection of resource needs. It will ensure improved transparency, accountability and focus across all levels of the organization.

Evolving culture and communications

While the rapid “hardwiring” of the new structure through supporting systems and processes is critical, we will only be able to capture its potential if we also address the underlying values, behaviors and skills that shape our use of the structures and systems day to day. My commitment to continuing and reinforcing this part of our growth process is as strong as ever.

I have taken several steps since the last Board meeting to move us forward on this agenda. A first and critical one is the agreement to a Secretariat vision and mission and to an internal values statement to provide a frame of reference for all our organizational development activities. The development of the vision, mission and values statement is a joint effort of the Executive Management Team and the Organizational Development Advisory Group, involving all staff through email, town hall meetings and team discussions.

I have also invested in enhancing and systematizing our internal communications. I have instituted all-staff town hall meetings every 2-3 weeks providing me and other senior managers an opportunity to brief and listen to staff. Recent topics generating lively exchanges have included the finalization of the vision and mission statement, and the internal values, the “Futures Project” and the development of key performance indicators described above. In addition, all Directors have instituted regular team meetings for decision-making and communications, especially during this phase of implementing the organizational changes. The Organizational Development Advisory Group continues to meet on a weekly basis. This cross-functional mixed-level team has regular access to me and provides a forum via which staff can channel concerns directly to me, allowing an open two way exchange of views on staff concerns. We are also planning another all staff-retreat for the autumn and a repetition of the staff survey conducted last year. Finally we have improved document-sharing and access by routinely posting all important Secretariat and Board documents on the GF Intranet with broad access.

While we are making great progress, a lot remains to be done. A critical objective over the coming months is to further strengthen management capacity and skills at the manager level. As you know executive coaching has been ongoing at the Director level, and has proven to be helpful. As a next step we have committed to extending this coaching to the new Cluster Leaders. Where necessary, team coaching will also be offered.

3.3. Securing funding

The financial challenges for 2005 are great. To fund only renewals, we need roughly \$1.3 billion. Based on the experience with Round 4, we can assume that future rounds will produce high-quality proposals with a total 2 year value of around \$1 billion. If we want to stick to our current practice of launching a new Call for Proposals every 8-9 months, this would mean two new rounds before the end of 2005, resulting in a total resource need of roughly \$3.3 billion. Successful appeals of double-rejected proposals could further increase this need. After Round 4, there are 36 proposals eligible for appeal with a total value of \$701 million (for Phase 1); 6 of these proposals account for 67% of the total value. At this point, it's impossible to reliably predict how many of these will appeal and which will be successful.

Up to today, however, we have only received pledges for 2005 of \$886 million. There thus remains a big funding gap which must be closed if we are to maintain our momentum and not disappoint the hopes of people around the world who trust that there will be regular opportunities to apply for Global Fund money.

4. Planning For The Future – Dealing With Growth

The current architecture and way of working of the Global Fund was designed in outline in Brussels during the last half of 2001, and elaborated by the infant Global Fund Secretariat in Geneva through 2002. This work produced the business model with which we now operate. It has allowed us to accumulate substantial assets very quickly and to move in only two years to be supporting a large portfolio of programs in over 120 countries. There is much that is good and successful about our current business model. There are also aspects that require modification and strengthening as described in Section 3 above.

Undoubtedly, our greatest priority must be to ensure the efficiency and effectiveness of the current business model and to devote our energies mainly to serving our clients. In addition to focusing on short term improvements, it is essential that we look into the future and consider in detail the nature of the Global Fund that we are building for the longer term. This planning for the future is now seriously underway, and some aspects of it will be discussed at this Board Meeting. I anticipate that there will be much more discussion on this topic leading up to our November meeting in Arusha and at that meeting itself.

There are two main elements to this planning for the future. They are:

- the way in which we do our business and the implications of this for the future size and shape of the Secretariat and the demands that we place on our recipients;
- the financial size of the Global Fund in relation to demand, the availability of income, and our role within the wider scene of international development finance for AIDS, TB and malaria and for the Millennium Development Goals.

The first of these topics is discussed elsewhere in this Board agenda. I commend it to Board Members as a matter of great importance. At this Board Meeting, we will discuss these issues only in broad outline. This must, however, lead to more detailed and focused discussions in which we challenge ourselves on key questions concerning the way in which we do our business. The conclusion from the diagnostic phase of this work is clear. If we continue to do business in the same way, we will move towards a volume of transactions that can only be effectively carried out by a much larger Secretariat. Equally worrying, we will move towards a situation where our procedures and requirements will be too onerous and

demanding on our recipients and too difficult to harmonize with other efforts in development finance. To avoid these outcomes, we must begin to take corrective action now.

The Global Fund is less than three years old. It has established an extremely innovative model for providing large amounts of additional finance to both private and public recipients on the frontline of the fight against AIDS, TB and malaria. It is inspiring to me to think that we are now able to be critical of the model that we have established and, if necessary, to change it. The discussions we have had on this subject internally, as well as with Board Members, have generated a number of exciting possibilities for the reengineering of the business model of the Global Fund. I look forward to working on these with you in the weeks and months ahead. The Global Fund is indeed a flexible and learning organization.

The second question posed above, that of how big we wish to become, is also now beginning to receive more attention. Our size is the outcome of a subtle interplay between demand, availability of finance, and our role in the broader development finance landscape. Secretary-General Kofi Annan, and others, called for a Global Fund that would mobilize at least \$10 billion per year. I have constantly referred to a cruising altitude in the region of \$7-8 billion per year of income and disbursements. These assumptions are challenging.

On May 26 and again on June 10, I sent to all Board Members projections which show that, on the basis of a few simple assumptions, we will approach a steady state or cruising altitude of roughly \$3 billion per year by 2008. On the one hand, this is double our current level of income and disbursement. On the other hand, it is less than half of the vision most of us share.

In addition, there is the thorny question, which I have been drawing to your attention, of whether a steady state is a desirable outcome. Demand for international development finance in HIV/AIDS will continue to rise steadily for at least a decade and probably much longer. This can be seen by examining antiretroviral therapy alone. Three by Five must become Five by Seven, which must become Eight by Ten and so on and so on. Even with the most Herculean efforts, the global pandemic will not peak before 2020 (in the absence of a vaccine). The financial needs for prevention, testing, treatment and the care of orphans will be enormous. The low income countries will not be able to shoulder this burden from their domestic resources in the foreseeable future. The needs for TB are also likely to continue to climb on the coattails of HIV/AIDS. For malaria, the situation is less clear. The Global Fund is already the major source of development finance for malaria. It is plausible that, with the implementation of large and successful programs, the need for external assistance to finance malaria programs may begin to turn downwards from roughly 2010 onwards.

All this means that, if the Global Fund reaches a steady state while the need for international finance is increasing, its contribution relative to demand will be declining. This is not my vision of the Global Fund and I think it is not yours either.

These are all issues on which honest women and men may disagree, and doubtless we will have a good deal of disagreement as this debate continues. This is healthy. What is not healthy is to avoid these topics, to pretend that where we are today is the right place to be, or to fail to take seriously our responsibility for shaping the future. The future of the Global Fund lies in our hands and must be actively steered. I look forward to working closely with you all on these important topics over the months and years ahead.

In conclusion, let me express a heartfelt thank you to all Board delegations for your continued engagement and commitment to ensure that the Global Fund lives up to its promise to the world.