Investing in our future
The Global Fund
To Fight AIDS, Tuberculosis and Malaria

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OPERATIONS UPDATE

Outline: This note provides an overview of the progress made by the Operations Team since the last Board meeting in March 2004.

Part 1: Introduction

1. As part of the reorganisation of the Secretariat, the Portfolio Management Team has combined with two teams, Operational Partnership and Country Support and Portfolio Services and Policy. These three teams form the Operations Unit.

2. Work managing the portfolio of grants from Rounds 1 - 3, from grant preparation, signature and program monitoring has continued. The emphasis has been on ensuring quality in grants through thorough and complete capacity assessments of Principal Recipients prior to grant signing. While this may have slowed down grant signings in some instances, it has ensured that risks are minimized and programs can start implementation very soon after grant signing, including the procurement of vital commodities and drugs.

3. Implementation is well on its way and results are starting to be seen. However the challenge remains that of capacity especially technical capacity.

Part 2: The Face of the Operations Unit

1. The Operations Unit started work on 1 May. It consists of three teams, Portfolio Management, Operational Partnerships and Country Support and Portfolio Services and Policy. Management has worked assiduously over the past eight weeks to ensure that the new structure addresses structural inefficiencies and encourages innovative and efficient approaches to grant management.

Bringing these three areas under one team should ensure that synergies are created between the three areas of work and robust and consistent guidance is provided to Portfolio Managers and country-level programs where and when required.

2. Portfolio Management consists of 8 clusters, each led by a senior Portfolio Manager, who coordinates the work of Fund Portfolio Managers within the cluster and contributes to portfolio policy of the Global Fund. Currently there are three Africa clusters, an Africa/Middle East Cluster, two Asia Clusters, one Latin America and Caribbean Cluster and one Eastern European Cluster. Recruitment for supplementary Portfolio Managers, as approved at the 7th Board, particularly for Africa, and replacement staff for those who are leaving has already started. In order to enhance the quality of grant management an Operational Policy Manual has been completed. This manual, based on the Fund's guiding principles will, codify and standardize practices and thus ensure consistency across the portfolio.

3. Operational Partnerships and Country Support Team will focus on strengthening Operational Partnerships both at headquarters and country level to ensure partners are fully engaged in assisting countries to achieve their implementation goals. The team will seek innovative ways to manage constrained partnerships. It will also manage the proposal development process, activities of the Technical Review Panel as well as provide support to the CCM process.

4. Portfolio Services and Policy Team includes Procurement, Performance based funding, Finance and Local Fund Agent oversight activities. This team will develop and disseminate operations policy and also play a critical role in supporting core operations of grant preparation, signing and oversight during implementation.

5. The new structure provides a better allocation of resources to manage risk and improve our service to recipients. A strong emphasis on targets and management systems will allow real time monitoring of progress to improve accountability and enhance efficiency. The new

structure aims to reduce the time between proposal submission and grants signing and ensure strong and timely implementation and achievement of planned results.

Part Three: Portfolio Update

1. As at 21 June, 67 Round 1 Grants have been signed. Grants in countries facing particular constraints such as DPR Korea are still to be signed. Disbursements for Round 1 grants total US$222 million

2. Particular efforts have been made to complete signing of all Round 2 grants. Only 13 grants remain to be signed. Ensuring grants implementation with minimal risk has been a particular challenge in post-conflict countries. Round 2 Grants with Liberia have been signed recently through close team work drawing on all expertise within the secretariat and with in-country and technical partners. Total disbursements for Round 2 grants combine to US$175 million

3. The emphasis for Round 3 signings has been to negotiate quality grants which will ensure quick disbursements with minimal risk. All four Capacity Assessments of Principal Recipient are now undertaken prior to grant signature which appears to slow grants signing; however this approach will lead to larger and quicker flows of funds in-country, and speed up implementation as soon as grants are signed. As at 21 June, seven Round 3 grants have been signed with approximately another 37 grants to be signed in the next 2 months. Initial disbursement to R3 grants total US$5 million.

4. Our major lesson learnt over the last few months is that one size does not fit all programs. The operations team recognizes the need to customize the assessment process on a grant by grant basis responding to the country circumstances and specific program being implemented.

5. Procurement remains a bottleneck to full implementation in many countries. The need for each program to have an approved Procurement and Supply Management plan before they can procure health products does slow down the process, also in-country procedures and policies are causing significant delays in some countries. Many countries lack technical capacities, resources and adequate infrastructure. PRs and CCMs need to work pro-actively in leveraging technical support, using procurement agents, including UNICEF and IDA to address these weaknesses and to speed up implementation.

Part Four: Performance Based Funding is a Reality

1. The 25 anniversary grants with at least one year of implementation have been reviewed to focus on aspects where particular characteristics of Global Fund financing and procedures may have influenced the efficacy of the programs. Looking across at all of these grants, the median results across the 42 different indicators are well over 80 percent of the targets set.

2. The anniversary grants are broken up into three categories based on their achievement after one year of activity. The breakdown is as follows: 12 status A grants, defined as being on track or substantially exceeding their one year targets; 8 status B grants, which have shown substantial progress but fall somewhat short of their targets; and 5 status C grants, defined as substantially underachieving against their one year targets. Some of the grants represent spectacular results. In Honduras for example, nearly twice as many people as targeted were put on ARV treatment.

3. Achievement of results in light of agreed targets for one year have also been compared to the disbursement history of these grants. As of June 18, 2004 US$74 million of an expected US$113 million has been received by the anniversary grants. The median disbursement rate for all 25 grants was 74%.

4. When looking at the median rate of disbursements by status, a clearer picture of Global Fund structure and efficiency is apparent. The 12 status A grants received 97% of the expected disbursement. For status B grants this number drops, as these 8 grants received 65% of the expected disbursement. Status C grants received 21% of their expected disbursement. Also, four of the five status C grants have only received their initial disbursement, and none have implemented to necessitate subsequent disbursements.

Part Five: Implementation Challenges*:*

1 Most grants are in implementation phase and progress is underway. People are accessing treatment and other services and results are beginning to show. Managing implementation challenges, particularly in the lead up to Phase 2 grant renewals, is becoming a significant part of the team's role.

2. There are a number of grants in implementation where the PR has strong management capacity, where the CCM is functional and engaged, taking an active oversight role and where partners are active in program oversight and/or provision of technical assistance. Programs with most or all of these qualities tend to manage problems and delays in implementation quickly and effectively, reaching their targets in a timely manner and require minimal intervention from Portfolio Managers.

3. The Round 1 India TB program had a slow start but has sped up implementation and has achieved close to 90% of the coverage targets at a lower budget than originally estimated. This has been achieved through strong political commitment, strong management capacity in the National TB Control Program, particularly at the State level as well as a strong technical assistance from WHO.

4. In the Central Africa Republic strong leadership and management from UNDP, who is acting as the Principal recipient for the Round 2 HIV/AIDS grant has ensured the program is reaching its targets despite civil unrest and a very weak institutional context. In just 8 months the program infrastructure and systems have been established, staff trained and ARV protocols and tools developed, and for the first time PLWHA have safe access to ARVs.

5. In Southern Africa, the Lubombo Spatial Development Initiative Malaria program has reduced the malaria incidence by 90% in both border areas of KwaZulu Natal and in the target region of Swaziland. This has been strongly led by the Medical Research Council in collaboration with private sector partners in Mozambique and government partners in all three countries.

6. In Vietnam while still in the early days of implementation, sound implementation is expected, this is due to strong donor coordination and harmonization of management and activities between Government of Vietnam, the Global Fund supported program and the DFID/NORAD/WHO funded project. Harmonisation at both central and provincial levels is taking place through shared facilities and human resources, shared management tools, using a common monitoring and evaluation system, common advocacy and IEC activities as well as sharing training activities for management staff. We expect this strong coordination to play out in the implementation of all the programs.

7. In Jamaica the program is ready to take off. Through proactive collaboration on the ground between the Jamaican government and partners like the World Bank, Clinton Foundation and others, a solid infrastructure has been put in place which will ensure immediate availability of ARVs without compromising on quality. A Quick Start Program agreed on by these partners will ensure accelerated access to ARVs. In addition a plan for universal coverage by 2005 has also been put in place. Jamaica is a good example of how partners through effective advocacy efforts can step up to the challenge.

8. Some programs experience a very slow implementation pace and may not be able to achieve their targets in a timely manner. Reasons for this range from overambitious programs, lack of management capacity, slow disbursement of funds to sub-recipients, a dysfunctional and disengaged CCM, limited high level political support, lack of access to support from technical partners and lack of facilitation by the Global Fund. While respecting the country-driven principle of the programs, managers take a more facilitatory role in these circumstances.

9. In Sri Lanka the Round 1 TB grants are not achieving their targets. A review mission was undertaken in February 2004 to identify blockages however the CCM and PR were not immediately able to overcome their implementation problems. We have further mobilized WHO and other partners who are now actively engaged in assisting the National TB program, met with the Health Minister and other key officials to ensure their understanding and engagement with the program, and revised the work plan, budget and monitoring and evaluation plan to ensure stronger focus and speed up disbursement and implementation.

10. In Thailand program implementation has been slowed by the change in Local Fund Agents resulting from the open tender for LFAs. This was not a smooth handover and, as the Capacity Assessments were in mid-stream they were delayed by the process. The manager needed to make strong in-country interventions to ensure the capacity assessments got back on track quickly and programs were able to achieve their targets.

11. In Lesotho the National TB Program has collapsed. While the approved Global Fund grant has been signed it is clear that the original proposal cannot be implemented as planned. We are actively trying to engage the Stop TB partnership and the WHO country office to assist in getting the necessary technical resources and tools in place to revive the program and work toward the goals as laid out in the proposal.

12. The implication for Phase 2 funding for programs which are unable to respond to interventions to get their programs on track is serious. So in-country stakeholders, particularly CCM members, need to understand and consider carefully the shared accountability they carry for the Global Fund-supported programs and act pro-actively to ensure they stay on track.

Part Six: Country Coordinating Mechanism

1. The Secretariat conducted, in partnership with bilateral partners, 20 case studies of CCMs and in collaboration with GNP+, a multi-country study on involvement of people living with AIDS in CCMs. The purpose of these studies was to collect information on how specific CCMs function and to identify what has worked and lessons learned in operationalising the principles of the Fund.

2. All countries included in the case study documentation, confirm that CCMs have opened up avenues for dialogue and negotiation that did not exist before. In most countries, the CCMs are in varying stages of meeting the Fund's recommendations towards public-private partnerships specific to country needs and situations.

3. While CCMs have increased opportunities for government-civil society dialogue, members are not equals in decision-making. Most CCMs still tend to be government dominated. Institutional cultures and the need to maintain working relations limit debate and opposition from CCM members to government control of decision making in some CCMs. Members from small, community based organisations were less skilled in the protocol of meetings and were more likely to face language difficulties. The need for involvement of people affected by the diseases was little understood, limiting their effective participation. The Round 4 CCM analysis provides further evidence of this. The analysis indicates that the membership of people living with the diseases shows a marked decrease in representation from 72% of CCMs in 3rd round to representation in only 63% of CCMs. Lack of funds to meet travel costs is a further limiting factor for the involvement of stakeholders from outside capital cities. Even large countries with devolved administrative and political structures have not as yet set up sub-national CCMs, which meant that many interested parties, governmental and non-governmental, were excluded from Fund processes.

4. A number of CCMs have terms of reference, rules of procedure and have established secretariats, subcommittees or technical panels to improve efficiency. But, in many CCMs governance processes are not yet established to ensure a participative approach to decision-making, transparency in PR selection and for overseeing implementation. Working relations between CCMs and PRs are becoming more complex as implementation expands and the lack of clarity in guidelines on role of CCMs in implementation appears to be a cause of concern. Conflicts of interest have also been found to exist in many forms, including where Chairs and Principal Recipients coincide. Stakeholders were conscious of the risks but action to minimise conflicts of interest have yet to be taken except in very limited cases.

5. The case studies revealed a number of areas requiring technical support which are likely to increase as implementation expands. CCMs acknowledged the support they receive from multilateral and bilateral partners; however, currently they acquire that support in uncoordinated and unsustainable ways, and many are unaware of all the sources of support that are available. CCM office holders and members also drew attention to the need for a mechanism to ensure access to resources to support CCM functioning and member participation. The case studies also identified a number of issues related to: lack of clarity in Fund Guidelines leading to difficulties in understanding and interpreting them; their non-availability in local languages and their general lack of accessibility.

6. Based on these findings and analysis from the CCM case studies and surveys, a document with a series of recommendations to strengthen the existing guidelines relating to the composition, roles and responsibilities of the Country Coordinating Mechanisms in proposal development and in implementation of approved grants has been submitted for consideration at this Eighth Board Meeting in June 2004. Recommendations to establish mechanisms to facilitate access to technical assistance and to resources to support CCM functioning are included in that document.

Part Seven: Funding Effective Malaria Treatment

1. On 2 May 2004, a consultation meeting was held in Geneva with representatives of the WHO Roll Back Malaria Department, the Secretariat of the Roll Back Malaria Partnership,

Medicins sans Frontiers, the Technical Review Panel, and the authors of the Lancet article which raised concerns that the Global Fund was funding ineffective anti-malarial drugs, rather than the more efficacious drugs for malaria treatment namely artimisinin-based combination therapies (ACTs).

2. The meeting reviewed the data available on drug efficacy in all countries receiving funding support for purchase of anti-malarials and proposed the way forward for each country based on the available evidence. For each country the following was reviewed:1) grant information; 2) approved funding for drugs; 3) type of drugs identified; 4) the country's present treatment guidelines for first and second line treatment; 5) summary of drug efficacy profile based on published and unpublished studies; and, 6) policy changes or transition toward policy change.

3. From a total of 42 countries with an anti-malarial drug component, 30 countries were reviewed and 28 were identified [1] as needing change and grouped in order of priority, into three categories: a) grants which are already signed and procurement activity has begun; b) grants which have been signed but where procurement activities have not begun; and, c) those grants which have not yet been signed.

4. Based on the analysis described above, the Secretariat identified the following key elements for re-programming:

- Prioritize countries according to grant and procurement status for grants under review (completed)
- Brief the Fund Portfolio Managers regarding steps for reprogramming (done May 26, 2004)
- Inform countries and partners (on-going)
- Examine transition requirements for ACT (on-going)
- Closely collaborate with RBM partners (e.g. MMSS) and industry to ensure access to ACT (a follow-up meeting on June 2 held by RBM partnership – other efforts are on-going).

5. The re-programming of malaria grants is being carried out based on the recent Board decision in March on Phase 2 Funding principles and with the technical input received from the malaria Technical Review Panel experts. The drug gap for the 28 countries for switching to ACTs is estimated at approximately US$ 400 million over a two year period. In order to enable countries to accommodate the higher cost of ACTs US$250-300 million of this gap will be filled by re-programming within the 2 year approved grants from Rounds 1-3, remaining funds from Phase 2 Renewal process, and funds from Round 4 TRP recommended proposals (pending Board approval). US$100-150 million remain as a funding gap which needs to be filled.

[1] Haiti and Swaziland excluded (no drug policy change required).

Part Eight: Growth in the Portfolio

1. The Global Fund has grown rapidly in its first two years of existence. Based on this, the Secretariat has developed a forecast of the medium-term growth of the organization, projections were sent to the Board in the 15th and 16th Board Updates on May 26 and June 10, 2004 respectively.

2. These forecasts are based on conservative assumptions, but nonetheless paint a stark picture. When the Global Fund reaches a "steady state" of operations in 2008, each year will feature:

- 280 grant agreement signings;
- 1500 disbursements; and
- 150 requests for Phase 2 renewals.

3. A total of 700 grants will be under active management, worth US$11.5 billion. These figures represent an enormous increase in the Secretariat's workload. It is clear that unless core business practices change, a much larger Secretariat will be needed.

4. Accordingly, the Secretariat has taken steps to avert this possibility. The paper covers both improvements within the current business model and some ideas for more fundamental shifts in the model itself, so this Update will focus only on some of the efforts that are currently underway to strengthen portfolio management in the short term.

5. First, an "Operational Policy Manual" is being launched in June. This seminal document will set down in one place for the first time all 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. Further, it will serve as a key base for the training of Secretariat staff, ensuring that portfolio managers are conveying clear and consistent messages to recipients.

6. Second, an extensive process of identifying key performance indicators for portfolio management has occurred, and these have been agreed to by each cluster. These indicators will form the basis of a "service delivery contract" between each cluster leader and the Chief of Operations. The progress against these targets – and considerable other information about the status of a grant – will be captured in real-time through the use of a "Grants Management Tool." This IT application is being launched in June and will enable users to get a rapid snap-shot of the progress each grant is making. This grant-by-grant information can then be consolidated into regular reviews of the progress of a cluster and of the entire portfolio.

7. Finally, a more tailored and risk-based approach to portfolio management is being developed. Currently, a one-size-fits-one style of portfolio management simultaneously burdens well-performing, low-risk recipients with unnecessary interactions with the Secretariat, and does not enable those recipients in greater need of support or closer scrutiny to receive adequate attention. It also prevents the Secretariat from optimally managing risk, as time and effort are inappropriately devoted to low-risk recipients, diverting energy from focusing on the grants where problems are more likely to arise.

8. The Secretariat is moving away from interacting with recipients in a manner that is essentially undifferentiated to an approach that is better suited to the needs of a given recipient. Such an approach will be based on a number of key characteristics, such as the country, the performance and nature of the grant, and the extent and harmonization of partner involvement.