



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

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REPORT OF THE EXECUTIVE DIRECTOR

Outline: This document contains the report of the Executive Director of the Global Fund to Fight AIDS, Tuberculosis, and Malaria to the Twelfth Board Meeting

Friends and colleagues, welcome to the Twelfth Meeting of the Board of the Global Fund. This is our third meeting in a recipient country and I know you all will join me in expressing our deep gratitude to the Government of Morocco for hosting us. Earlier this week many of you visited programs around the country which are successfully translating Global Fund dollars into saved lives. Our grant to Morocco, of which these programs are a part, is a powerful example of the principles of the Global Fund in action. It is designed by local partners to support national strategies to fight HIV/AIDS. It is comprehensive, implementing both effective treatment and comprehensive prevention programs. And most importantly, it is effective, surpassing most of its targets and reaching tens of thousands of people with life-saving services.

1. Review of 2005

Overall, 2005 has been another year of substantial development and change within the Global Fund. We moved our first 96 grants through the Phase 2 process, adapting our procedures over the year to ensure the efficiency of this new and critical element of the grant cycle. The Board approved a fifth Round of financing, welcomed a new Chair and Vice-Chair, and introduced a new Committee structure. The Secretariat welcomed many new staff to strengthen our teams and bid farewell to a number of dear colleagues who have worked tirelessly with us since the infancy of the Global Fund. We have begun to implement innovative new systems to better coordinate implementation support and simplify procurement processes for our recipients. And we have tested a new model for resource mobilization through a voluntary Replenishment Mechanism.

At the beginning of this year, I set out three corporate priorities for 2005: ensuring impact and harmonization, mobilizing new resources, and developing the Secretariat. In this report, I review the progress we have made in each of these areas this year and, in doing so, identify the remaining gaps and challenges we still face. Those challenges have helped us define the key priorities for our work in the coming year, which I describe to you at the end of this report.

1.1 Portfolio Management

Grant Signing and Disbursement

Over the course of this year, we have made substantial progress in signing remaining grants and improving the efficiency of the grant signing process. All 322 grants approved by the Board in Rounds 1-4 have been signed and, last month, we signed our first Round 5 grant with Rwanda just eight weeks after Board approval – one month faster than any previous grant. On average, we signed our Round 4 grants 34 days faster than grants from the previous three Rounds.

While this is good news, we must do better. An average of ten months still passed between Board approval of Round 4 and grant signing. With Round 5 now before us, we must further increase the speed with which we sign grants while maintaining high levels of quality and accountability. To that effect, we have launched a new assessment tool for repeat Principal Recipients (PRs), which will reduce redundancy in the often lengthy assessment process conducted by our Local Fund Agents (LFAs). This tool will be optimized based on experience over the next two months and we expect it to have an immediate impact on the pace of Round 5 signings, as 70 percent of grants have proposed repeat PRs.

We also significantly increased the pace and level of our financial disbursements this year. To date, we have disbursed \$945 million in 2005, greater than the total of the two previous years and bringing total disbursements to \$1.8 billion. The average time from grant signing to first disbursement has steadily improved over each Round, with Round 4 grants on average receiving their first disbursement 19 days faster than previous rounds. Across our portfolio, grants have on average received 58 percent of their allocated funds while 63 percent of their grant period has elapsed.

While our disbursements are roughly “on track,” we must continue to improve our information and processes for those disbursements if we are to fully realize our commitment to performance-based funding. In May, the U.S. Government Accountability Office released its second audit report on the Global Fund. This diligent study of Global Fund operations in Geneva and four recipient countries around the world concludes that the Global Fund has made strong progress and makes two primary recommendations for improvement: ensure the quality of information on which we make disbursement decisions and improve the subsequent documentation of those decisions.

We have welcomed these recommendations and taken steps to implement them. The first must be addressed at the country level by improving the monitoring and evaluation (M&E) capacity of our recipients. Working closely with WHO, PEPFAR, and other partners, we have developed tools to assess this capacity and effectively target efforts to strengthen it. The quality of our data is also closely linked to the effectiveness of our LFAs and, in October, we recruited an LFA Manager who will lead efforts to strengthen their services across the portfolio. To address the second recommendation, we have launched a new electronic disbursement tool, which captures performance and expenditure for the grant and the Portfolio Manager’s subsequent disbursement decision. This tool is now in use across our portfolio and 35 disbursements have already been processed through it.

Phase 2

This year also marked the first test of the process at the heart of our performance-based funding system: Phase 2 review. It is through this process that our commitment to performance-based funding will be judged. The responsibility rests jointly with the Secretariat and the Board. For our part, the Secretariat must ensure that we efficiently gather and process robust information and provide sound recommendations based on that information to the Board. Board members, in turn, must use this information to make sometimes difficult funding decisions, balancing the immediate impact of a funding cancellation with the critical incentives created by effective performance-based funding.

At this time last year, we had not received a single Phase 2 request and viewed the impending process with some trepidation. As of the start of this month, 108 Phase 2 grants have been processed by the Secretariat. One grant, a malaria program in Senegal, was cancelled based on poor performance and three others which have been recommended for cancellation by the Secretariat are currently under consideration by the Board. In total, seven percent of the \$1.2 billion requested by grants entering Phase 2 has been withheld on the basis of performance, either through cancellation, revision, or grant negotiation. And there are indications that the “No-Gos” which have later been revised in accordance with Board decisions have served as a wake up call for those countries, prompting engagement by high-level leadership and productive reviews of the root causes of weak performance.

We have already learned important lessons on how to further develop the Phase 2 process. Under the leadership of the Vice-Chair of the Board, a Board Task Force met this summer to review the process for “No Go” recommendations and proposed the addition of a period for PR and Country Coordinating Mechanism (CCM) response and the option of an independent review of disputed recommendations. These proposals were approved by the Board in September and five grants have already been processed through the new procedures. Following a review of internal Phase 2 procedures in October, the Secretariat is also taking action to further streamline the process, including strengthening information management systems and optimizing Phase 2 tools. These are steps in the right direction, but we must remain constantly self-critical to ensure this process is effective and fair.

Results

The true measure of our progress is the services we provide to people affected by the three diseases and, this year, our portfolio reached a level of maturity where this information could be systematically gathered. The results are heartening. As of December 1, programs that we support have provided antiretroviral treatment to 384,000 people living with AIDS, nearly double the number reached in June. TB programs have treated one million cases of the disease, while malaria programs have distributed nearly eight million insecticide-treated bed nets, more than doubling the level six months ago. Tens of millions of people have been reached with other critical services such as HIV counseling and testing and effective malaria treatment. This acceleration of results reflects not only the increasing breadth of our portfolio, but also expanding capacity within countries. Programs that we support have trained 600,000 doctors and other health professionals in techniques to fight the diseases and supported other essential activities, including the building and refurbishment of clinics and hospitals and the strengthening of monitoring and distribution systems. In producing and reporting these results, we have collaborated closely with our partners, including WHO, UNAIDS, the World Bank and the U.S. Office of the Global AIDS Coordinator (OGAC).

Individually, our grants are also demonstrating strong performance. Of the 108 grants that had submitted Phase 2 requests by December 1, 78 percent had met or exceeded their targets (graded "A" or "B1"); 19 percent had underperformed, but demonstrated success in some areas (graded "B2"); and 4 percent had significantly underperformed (graded "C"). Two clear trends emerge from analyses of these programs. First, grants with civil society PRs are performing better than their counterparts, with 100 percent receiving an A or B1 rating compared to 69 percent for government PRs. Second, TB programs are demonstrating stronger performance (88 percent graded A or B1) than those for AIDS and malaria (67 percent for each).

While our funding has begun to have a significant impact, we cannot be complacent. The goalposts have now been rightfully set as universal access to HIV/AIDS treatment, care and prevention by 2010. Meeting this ambitious goal will require a dramatic scale-up in the results produced by Global Fund programs. To do so, we must increase the effectiveness of our investments while at the same time significantly expanding our portfolio. Both areas have been a focus of our work this year and must continue to be in the coming year. I will review our progress and challenges for both in turn.

1.2 Accelerating Implementation and Ensuring Impact

As we have discussed in the past, the Global Fund's ability to accelerate the performance of its programs rests largely in the effective coordination and mobilization of our technical partners. At the heart of our efforts to do so is the Early Alert and Response System (EARS). This system, which tracks key quantitative and qualitative performance indicators for all grants in our portfolio and alerts the Secretariat when grants have fallen behind schedule, was launched in August. We are continuing to review and develop the system based on experience and through consultation with recipients and partners to ensure that it is optimally designed to fill its critical role.

This system is only meaningful insofar as it generates an effective response to the grant performance issues identified. For some grants, the receipt of a notification letter or of best practices documented on our website may be sufficient to mobilize local effort to address the problems. Many though will require more comprehensive assistance from our technical partners. One important step forward in this area was the creation of the Global Implementation Support Team (GIST), a recommendation of the Global Task Team (GTT) report released in June. This team, composed of staff from the Global Fund, the World Bank, and AIDS-related UN agencies, meets monthly to coordinate an effective multilateral response to implementation bottlenecks experienced by developing countries. The dozen countries addressed by the team to date have been in part determined by information generated by EARS and further alignment of these mechanisms is planned. In its current form, the GIST only includes a subset of available partners – bilateral, NGO and private sector partners are included on an ad-hoc basis. While the GIST

does not address challenges faced by TB and malaria programs, similar mechanisms are under discussion with the Stop TB and RBM partnerships and will be a priority in the coming year.

Beyond the GIST, there were other successful efforts to provide effective technical assistance to our recipients this year. Through a concerted global campaign, the Stop TB Partnership successfully achieved its goal of making Round 5 the “TB Round,” with 46 percent of proposals approved by the Board – nearly highest rate for any of the diseases to date. In collaboration with the Secretariat, the Partnership is continuing to provide active support to countries with approved proposals to ensure rapid signing and implementation. Our portfolio staff also directly engaged with our recipients this autumn through 8 regional meetings, which brought together a broad range of representatives from countries across our portfolio. These meetings enabled our operations staff to provide grant representatives with in-person guidance on Global Fund policies and processes and created an opportunity for our recipients to share best practices and local solutions with each other.

Procurement Initiatives

The implementation challenges faced by our recipients are diverse and difficult and there is no single solution to address them. However, it is clear that one area of implementation, procurement, which accounts for roughly 40 percent of our total grant investment, is often a significant impediment to grant progress. For example, in some countries, it has taken well over a year for our recipients to place orders for essential medicines and other products. Accordingly, we have pursued a number of innovative initiatives to streamline procurement processes this year.

The first has been the continued development of our Price Reporting Mechanism, which captures prices paid for essential products by programs across our portfolio. Our efforts to increase the use of this mechanism have led to a doubling the number of prices reported in the past three months and we are further increasing compliance by establishing price reporting as a requirement for disbursement. With the additional data available, we are hopeful that this mechanism will serve as a valuable price negotiation tool for our recipients and partners.

Our second area of focus has been in ensuring access to malaria products such as artemisinin-combination therapies (ACTs) and long lasting insecticide-treated bed nets (LLITNS). At the beginning of this year, there was considerable concern about the global supply of these essential tools. It was also clear that our malaria grants were the poorest performing in our portfolio due in large part to significant delays in the procurement of these products. Working closely with partners such as WHO and the Roll Back Malaria Partnership, we have pursued a number of efforts at both the local and global level to accelerate orders and stimulate supply. These efforts, which included country workshops and encouragement to use direct payment to manufacturers, contributed to the significant increase in results produced by our malaria programs in the last six months. Production capacity of ACTs has increased dramatically. Yet these are only first steps. If we are to maintain the momentum we have recently gained in the fight against malaria, we must expand our efforts to increase supply, lower prices, and accelerate distribution of ACTs and LLITNs. This initiative, like all areas of procurement, cannot be achieved by the Global Fund alone and we will continue to collaborate closely with our partners as we move forward in the coming year.

A further procurement initiative is the development of an electronic procurement platform. This Global Electronic Marketplace (GEM) is the most ambitious, and therefore slowest developing, of our procurement initiatives. The initial business plan was completed in May, 2005, and a number of partners, particularly UNDP-IAPSO, have expressed interest in the system. However, we were not able to meet our goal of having some form of this platform launched by the end of the year. The potential impact of an effective GEM on Global Fund programs is so great that we must renew our efforts in 2006 to ensure that GEM is launched by one of our development partners.

We have also made significant progress in implementing the Board's decision on the quality assurance of products made at the 10th Meeting in April. A full list of products compliant with the new policy is now available on our website and a global tender for companies to conduct random quality control testing will be issued this month.

Alignment and Harmonization

Another critical step to increasing the impact of our investments is strengthening coordination with our partners and reducing the burden of parallel systems on our recipients. In June, the UNAIDS-led Global Task Team (GTT) recommended that we engage in a series of activities to improve our coordination with our multilateral AIDS partners. We have made significant progress in implementing a number of those recommendations such as the establishment of the GIST and the commissioning of a joint study between the Global Fund and the World Bank on the potential complementarities and overlaps between our two programs.

Beyond the GTT, we have engaged in other efforts to increase our coordination with partners, including a meeting in Washington between our portfolio staff and their counterparts from U.S. programs, and a joint assessment of AIDS programs in the Caribbean with the World Bank, WHO, UNAIDS, and other partners, which has led to productive discussions on ways to better coordinate efforts to address the challenges identified. Plans are in place to hold similar activities in the coming year. To reduce duplication of reporting systems, we participated in the launch of the joint facility for monitoring and evaluation (M&E) in March and have held regional training workshops on the use of the M&E Toolkit created last year. At the country level, a number of our grants have been incorporated into pooled funding mechanisms such as SWAPs at the request of the countries.

Addressing the complex challenge of harmonization through implementation of the GTT recommendations and other activities will be a continued priority for us in the coming year. However, there is a natural limit to how much we will be able to achieve within our current business model. More fundamental solutions must be addressed through the strategic development process currently led by the Policy and Strategy Committee.

Recipient Structures

Ultimately, the performance of each of our grants rests with our recipients and in the strength of our local structures – the management of PRs and the coordination and oversight of CCMs. These structures must act as the first line of defense against implementation bottlenecks, mobilizing support at the first signs of flagging progress. Last November, the Board approved a set of requirements to improve the effectiveness of CCMs in filling this important role. Those requirements came into effect this summer and there is anecdotal evidence that this process has catalyzed important reforms in many CCMs. Efforts to more systematically measure compliance with these requirements began earlier this year with an extensive assessment led by the Technical Evaluation Reference Group (TERG). In that report, the TERG suggests steps to effectively measure progress against this baseline moving forward and we will be developing this area further with them.

At its April Meeting, the Board also approved a policy enabling some countries to apply for Global Fund financing for CCM secretariats. There has been an enthusiastic response to this development and a number of CCMs have already reprogrammed grant funding to build a more effective Secretariat. These are strong steps in the right direction. Realizing the full potential of the CCM model will require continued innovation as well as strong communication and support from the Global Fund and our partners and we look forward to engaging with the Board further in this area.

Increasing the breadth of our recipients is another important approach to improving the impact of our investments. There is continuing evidence that countries with grants managed by both public

and private entities are performing more strongly than those with just public management. While it is for the countries to decide the structure of their grants, we have held a number of conferences and other consultations this year to ensure that nongovernmental, faith-based, and private sector networks are aware of the opportunity of Global Fund finance.

A particular focus has been on developing new coinvestment schemes with local private sector institutions. One such scheme, an AIDS treatment program in Zimbabwe which has nominated a trust established by Anglo-American as its PR, successfully applied for funding in Round 5. Efforts to integrate coinvestment into existing grants have also gained momentum, with promising plans in place in seven countries. In Niger, for example, a program developed jointly by the CCM, PR and a major mining company, AREVA, is likely to be launched early next year. A Coinvestment Manager has been recruited to coordinate and drive this work from within the Secretariat in the coming year. At the global level, the Global Business Coalition on HIV/AIDS hosted the second meeting of the "Berlin Group" – a coalition of major donors and private partners committed to the model of coinvestment – to continue discussions on methods to identify and foster coinvestment opportunities. There are efforts underway, led by the GBC, to develop these discussions into a global coinvestment strategy in the coming year.

1.3 Mobilizing Resources

Even if we fully maximize the efficacy of our current investments, we will need to expand our portfolio if the world is to achieve "all by 10" and other global goals. Our current portfolio will support ARV treatment for 1.8 million people – a significant increase over current levels, but well below our necessary contribution to universal treatment access. Accordingly, securing additional resources, to not only extend our current grants but also increase our commitments, has been a top priority for our work this year.

Though most public attention has been on our current shortfall, we made considerable progress in raising new resources this year. We successfully held our first formal replenishment process through three meetings generously hosted by Sweden, Italy and the United Kingdom. Over the course of those meetings, our donors reviewed and endorsed analyses of our performance and needs contained in more than 10 reports prepared for the process. Ultimately, those donors pledged an additional \$3.7 billion for our operations in 2006 and 2007, with a number of countries doubling or even tripling their previous commitments. And at the final meeting, our private sector Board delegation launched an ambitious new strategy to raise additional funds from their constituency – a source of resources that has not been fully exploited by the Global Fund. Rapid implementation of the strategy has begun and a number of exciting fundraising initiatives are likely to be launched in early 2006.

Outside the Replenishment Process, there have been promising developments in three innovative financing initiatives which may benefit the Global Fund. The International Finance Facility (IFF), a mechanism designed by the U.K. government to frontload aid commitments through private capital markets, was launched this summer in pilot form to support the Global Alliance on Vaccines and Immunizations. If this pilot proves successful, this facility may be extended to other organizations. The second initiative, a levy on international airline tickets, was proposed by President Chirac at the World Economic Forum meeting in Davos in January and has gained momentum through the year. It is currently supported by more than 70 countries which are in the process of refining the mechanism and determining the best recipients for the expected revenue. The final initiative is an instrument to convert bilateral debt into support for Global Fund grants in developing countries. A feasibility study for this concept was recently completed with support from UNAIDS and other partners and we hope to launch a pilot program in early 2006.

With the growth of Official Development Assistance slowing, ideas such as these are critical to ensuring our fight against AIDS, TB and malaria matches the continuing expansion of the diseases. We appreciate the strong efforts of the many governments and other partners who have

worked hard to make these innovative ideas a reality and we hope to continue to engage in their development next year.

While these initiatives may have a considerable impact on the Global Fund's financial sustainability over the next five years, we face a significant immediate shortfall. As of December 1, \$66 million is required to fully approve all approved Round 5 proposals in 2005. The Chair of the Board has made an appeal for donors to contribute to meet this need and the results are expected to be announced during the Meeting this week.

More significantly, the pledges we have secured for 2006-2007 meet just over half of the \$7.1 billion need endorsed by our donors during the Replenishment Process. Most of the current pledges are required to renew existing grants during those years. Our immediate priority is Round 6 in 2006. The figures are clear. We currently have \$1.9 billion in pledges, enough for renewals but leaving nothing for a new Round. To approve a robust Round 6, we require an additional \$1.1 billion. Raising this sum is the number one priority for the Global Fund in our resource mobilization efforts.

Our portfolio is now reaching an age where it is necessary to launch new Rounds merely to maintain the current size of our portfolio. This autumn, our first four grants reached the natural end of their proposal term. These three-year grants were the forerunners of what, over the next two years, will be a steadily increasing number of full five-year grants coming to an end. While we are exploring immediate policy solutions to extend ARV treatment and other essential services provided by these grants (known as "Phase 3"), the only true sustainable solution is to ensure countries have consistent access to new Global Fund or other sources of finance. Sustaining our portfolio requires that we adhere to the Board vision of at least one round every 12 months; expanding it will require greater ambition.

Filling this shortfall is an immediate challenge for all of us. Our primary opportunity to raise the additional funds will be the midyear Replenishment Meeting, which is being prepared with guidance from the Finance and Audit Committee. At that meeting, we will present updated estimates of our needs and further analyses of our progress, with an emphasis of our impact on local health systems in our recipient countries. Our donors rightly want to ensure their own investments are performance-based and I believe we will have a strong case to make. I anticipate that, at the time of the Replenishment Meeting, we will be able to announce significant new private sector contributions as well as new donors having joined the Global Fund family.

1.4 Developing the Secretariat

For the first three years of the Global Fund, the Secretariat was focused on establishing the structures required to effectively manage our portfolio and realize the innovative principles on which we were founded. Our staff worked long hours, sometimes without basic policies and procedures in place. At the start of this year – our fourth – I set building a strong Secretariat as one of our major priorities.

While we made progress in a number of important areas, overall progress has been insufficient and strengthening the Secretariat requires greatly increased attention next year. The concerns raised in July, and the subsequent Report by the WHO's Office of Internal Oversight Services (IOS), have highlighted the need to strengthen our internal procedures and management in a number of key areas. I and senior managers at the Secretariat have developed a set of concrete actions that we will be taking to address the issues identified by the IOS Report. Executing these and other actions as part of a comprehensive framework to strengthen the Secretariat will be a top priority for us in early 2006.

A significant and relevant milestone during 2005 was the recruitment of the first Deputy Executive Director of the Global Fund, Helen Evans, who took up her position on June 1. The focus of Helen's work is explicitly on strengthening the Secretariat and she has made strong progress in a

number of areas during her first six months. Following the departure of Brad Herbert as Chief of Operations, Helen has taken on the interim assignment of Chief of Operations from December 1. I am delighted that she has stepped in to fill this critical role and I look forward to her return to full-time commitment to her Deputy Executive Director role as soon as the new Chief of Operations has joined us. During her tenure in this position, Helen will continue to focus some of her time on the development of the Secretariat as a whole. In addition, I have cancelled much of my travel to focus more of my energy on collaborating with her on this important area.

We also made progress in building the capacity of other important areas of the Secretariat. All of our portfolio clusters are now fully staffed and other units have been significantly strengthened. In total, 92 new colleagues joined the Secretariat this year. In recruiting these new staff, we have sought to maintain a diverse workforce which reflects the global nature of our work. As of December 1, 21 percent of our staff are from Africa, 14 percent are from Asia and the Middle East and 11 percent are from Eastern Europe and Latin America, representing small increases over levels at the start of the year. Women continue to make up the majority of staff (58 percent), but representation at senior management level (25 percent) declined this year due to a number of departures. We have also completed a comprehensive HIV/AIDS workplace policy to ensure that we are leading by example in this important area.

Following discussions at a staff retreat held in January, a number of staff-led initiatives were implemented throughout the year to strengthen the Secretariat, including a new body to represent staff interests and concerns, which was launched in November after valuable preparatory work by an internal task force. This Staff Council was broadly endorsed by staff through open elections and has already served as an important mechanism for communication between management and staff during the IOS audit process.

With the pro-bono assistance of the law firm DLA Piper Rudnick Gray Cary, the Global Fund has established the Office of the Inspector General, which will report directly to the Board. Following an international search, Ibrahim Zeekeh was selected as the first Inspector General of the Global Fund. Mr. Zeekeh, who previously served as the Director of the Office of Internal Oversight Services at the International Atomic Energy Agency in Vienna, joined the Global Fund on December 1. He is attending the meeting in Marrakech this week and I hope you all will have an opportunity to meet and welcome him.

This year also saw us successfully transition the Secretariat to more appropriate office premises. At the start of the year, our staff were spread through multiple buildings and working out of converted kitchens and corridors. After a thorough search and rapid outfitting of the new building, we moved into two floors of the Blandonnet International Business Center in July. Over the past several months we have worked to adapt the space to best suit the needs of our staff and we are currently in discussions to secure additional space within the building to enable more suitable accommodation of some staff. We also made progress in commissioning a study of the options and implications of the Secretariat moving to full administrative independence as mandated by the Board at its 9th Meeting. A tender process was conducted this summer and the contract is currently under consideration by WHO's Contract Review Committee. The assessment process is likely to begin early next year.

As we welcomed many new staff this year, we also bid farewell to friends and colleagues who have played an integral role in the growth of the Global Fund. In total, 12 staff on fixed-term contracts left us to pursue other opportunities this year, some to support the work of the Global Fund from roles within our partner organizations. We wish them the best and hope that some may make their way back to the Global Fund family.

I would like to pause for a moment to recognize one particularly significant departure. Brad Herbert joined the Global Fund in November, 2002, bringing immense experience of development and development finance from the frontline. During his three years with us, first as a Senior Fund Portfolio Advisor and later as Chief of Operations, he has been bold and innovative, constantly

finding new ways to improve the systems and structures of the Global Fund. Through his many and varied contributions here, he maintained a special focus on realizing the principles of the Global Fund and effectively delivering services to our end users – the people around the world affected by the three diseases. His energy and leadership will be missed within the Secretariat and I am pleased to know that he will continue to work closely with us in his next endeavor.

2. Looking ahead to 2006

This coming year will be a critical one for the Global Fund. Our success in addressing the challenges I have identified above will determine our role and impact for years to come. The strategy development process, scheduled to be completed by the PSC next autumn, will establish the direction and shape of the Global Fund for the next four years. We all have a role to play in steering the organization through this year, ensuring that it emerges as an even more effective engine to fight the three diseases.

There are five clear corporate priorities for the coming year:

- Developing the Global Fund's strategy and business model to ensure impact and sustainability,
- Scaling up interventions and ensuring grant performance,
- Measuring the broad impact of our investments,
- Securing resources to meet agreed 2006-2007 needs, and
- Strengthening internal systems and building Secretariat culture,

Developing the Global Fund's strategy and business model to ensure impact and sustainability

The continued evolution of the Global Fund is an essential aspect of our work. We must continually analyze, critique, and adapt our operations to increase the impact and sustainability of our vital work. As we enter the fourth year of the Global Fund, it is critical that we develop a robust, forward-looking strategy to guide us through this process over the coming years.

The Board, under the leadership of the Policy and Strategy Committee (PSC), has already begun to develop our four-year strategy. In the coming months, I will personally play a more active role in the Secretariat's support for this work. The PSC has made significant progress and I look forward to working closely with them as they wrestle with the difficult strategic questions before them.

Scaling up interventions and ensuring grant performance

In the sections above, I described to you the significant progress we made this year in addressing key implementation challenges faced by our recipients. But while our aggregate results have been strong, our portfolio is still not at the level of efficiency and effectiveness we must expect. In 2006, we will seek to build on the foundation we established this year, focusing our work in five key areas.

The first will be to rapidly sign and make first disbursements to Round 5 grants. We will set ambitious targets in this area and seek to meet them with new tools and further refined processes. Secondly, we will continue to optimize EARS and strengthen its linkages to key response mechanisms such as the GIST. Our efforts will focus on not only on fine-tuning the internal processes for EARS, but also promoting a more demand driven model from recipient countries. By the end of the year, I hope to be able to share with you examples of grants which went from poor to strong performance thanks to this system.

A third core area of work will be to move forward the procurement initiatives we began this year. This will include increasing compliance with the Price Reporting Mechanism, ensuring supply and effective distribution of malaria products through pooled procurement and other strategies, and working with partners to launch an electronic procurement platform.

Fourth, we will further improve our coordination and harmonization with other donors through implementation of the Global Task Team recommendations and other initiatives. A meeting in January between staff from the three major donors for the three diseases – the Global Fund, PEPFAR and the World Bank – will serve as a springboard for coordination efforts through the year. Finally, we will continue our efforts to strengthen local partnerships, particularly in enhancing CCM compliance with Board requirements and guidelines through regional workshops and other initiatives.

Measuring the broad impact of our investments

Our portfolio will soon reach an age where our efforts to “prove it” must extend beyond measuring the services financed by our investments to assessments of their impact on the prevalence and burden of the three diseases. There is already a growing set of anecdotal evidence. For example, in the Lubombo Region of Southern Africa, a malaria program has reduced malaria incidence by roughly 90 percent, saving thousands of lives and stimulating local industry. We must soon undertake the complex but essential task of systematically gathering and analyzing this impact across our portfolio. Only by doing so will we be able to determine our progress in realizing the Global Fund’s mandate of driving back the three diseases.

However, while a dramatic impact on malaria can be achieved in one or two years, more time is required to show a meaningful affect on AIDS and TB. Most of our grants have not yet reached that stage. In the coming year, most of our efforts will therefore focus on the interim step of measuring the impact of our investments on the local health systems in recipient countries. As you know, the strength of these systems is a critical factor in the success of efforts to fight not only the three diseases within our mandate, but many other conditions as well. We expect to complete a first analysis on this impact by the midyear Replenishment Meeting.

Securing resources to meet agreed 2006-2007 needs

The fundraising challenge before us is clear and daunting. Many of our donors generously increased their 2006-2007 pledges during the Replenishment Process this year. Yet we must still secure an additional \$3 billion to meet the \$7.1 billion need, which was confirmed during the Replenishment process. Our efforts to address this critical challenge will rely on two key modalities: increasing commitments from our existing donors and expanding our sources of income.

The first will center on the midyear Replenishment Meeting. I am confident that the analyses of our results and health systems impact that we will prepare for that meeting, combined with our pressing needs, will present a strong case for increased contributions from our existing donors.

The second priority has been often discussed over the life of the Global Fund, but I believe there is good cause to be optimistic in the coming year. The high-level session held yesterday with leaders from Middle Eastern States was an important milestone in our efforts to increase the political and financial engagement of this region in our work. As I outlined above, there are several substantial private sector fundraising initiatives scheduled for launch in early 2006. And there has been significant progress in the development of several innovative financing mechanisms which may benefit the Global Fund. While promising, many of these opportunities are years away from full fruition, and so we must again look to traditional ODA to fill the bulk of our immediate needs over the next two years.

Underpinning our resource mobilization efforts – as well as most other priorities for the coming year – will be continued work to build the confidence of our donors and other stakeholders in the progress and potential of the Global Fund. These will include, among others, enhanced communication of the impact of our investments on individuals and communities, and strategies to increase our engagement with civil society and other stakeholders in the global South.

Strengthening internal systems and building a positive corporate culture

The reports of the GAO and IOS, as well as our own experience and review through the year, have accentuated the need to strengthen a number of processes and procedures within the Secretariat. Since its inception, the Global Fund has sought to balance the imperative of achieving rapid results with the development of a Secretariat to sustainably deliver those results. To date, our focus has been on the former, sometimes – as the IOS Report indicates – at the expense of the latter. In the coming year, we must find a better balance, devoting significant attention to fine-tuning the internal systems that form the foundation of the core business of the Global Fund.

In our response to the IOS Report, my management colleagues and I presented the steps we will be taking to address the weaknesses identified. Combined with the priorities set out in the Deputy Executive Director's Report at the last Board Meeting, these actions form the foundation of a strong agenda to address a range of issues facing the Secretariat. I have outlined the major areas of focus within that agenda below. Underlying all this work will be continued efforts to strengthen staff morale and build a positive corporate culture in the Secretariat.

- Strengthening senior management oversight: Effective development of the Secretariat must begin with strong management and my Executive Management Team (EMT) colleagues and I recognize that we must lead by example. Following the last Board meeting, the EMT held a retreat during which we set out concrete steps for improvement in this area, including establishing clear targets to measure management and team development.
- Building and streamlining systems to support effective management: Considerable progress was made this year in implementing improved management systems such as the new disbursement tool. Next year, we will focus on developing effective tools in other areas of the Secretariat, including, as an outcome of the IOS report, contracting and human resources. In parallel, we will clarify the policies and procedures that guide these systems and ensure compliance.
- Enhancing staff training and development: This year, we began implementation of a comprehensive training program for staff throughout the Secretariat, focusing on induction of new employees and building of essential operational skills. In the coming year, we plan to significantly expand this program to include detailed training on all aspects of our grant management cycle and to ensure all staff understand our contracting and recruitment procedures.
- Establishing effective performance management and division of responsibilities: A new performance management system will be developed in early 2006 with an initial launch targeted for midyear. This system will measure individual performance against clear targets, enabling appropriate responses to fill identified gaps and better support of staff goals and needs. A corresponding effort will be made to clarify roles and responsibilities between individuals and teams.

In closing, I would like to thank the Chair and Vice-Chair for their collaboration, guidance and trust this year. It has been an eventful nine months since they assumed their posts and I commend them for their strong leadership. I would also like to express my gratitude to all the members of the Secretariat. This has been a challenging year for all of us. But thanks to their hard work and continued commitment to our core principles, we are entering the new year in a position to substantially move forward the Global Fund and the fight against the three diseases. It has been a privilege to work with such dedicated individuals. Thank you.