



Investing in our future

**The Global Fund**

To Fight AIDS, Tuberculosis and Malaria

**Thirteenth Board Meeting  
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Information Only**

## **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 Thirteenth Board Meeting

1. Friends and colleagues, welcome to the Thirteenth Meeting of the Board of the Global Fund. This is the first such meeting in the Global Fund's fifth year, a year that promises to be one of significant transition for the organization. Last year we began the process of shepherding the Global Fund from infancy to adolescence. We must now build on that initial work, consolidating, strengthening and, through the strategy process, possibly revising the systems and structures which have served as the foundation for the rapid progress we have achieved to date. At the same time, we must ensure that 2006 is a year of continued growth in both the size and effectiveness of our grant portfolio.

2. To guide our efforts to achieve these goals, I have set five corporate priorities for the work of the Secretariat this year, which I outlined for you at the last Board Meeting in December 2005. In this report, I examine each of these priorities in greater detail, describing the objectives we have set and the specific steps we will take to achieve them and reviewing the progress we have already made over the first four months of the year.

### **Part 1: Developing the Global Fund's strategy**

1. Our objective for this area is clear. according to Board mandate, a final draft of a comprehensive four-year strategy must be prepared before the Board next meets in November. To reach that goal, the Secretariat will continue to provide the Policy and Strategy Committee (PSC) with analysis and other support to assist its deliberations on key strategic issues. We will also organize the Global Fund's second Partnership Forum this summer under the guidance of the PSC, providing a venue for a broader range of stakeholders to share their perspectives on the future direction and shape of the organization.

2. As the PSC will report at this meeting, it has already considered options for a number of key issues which will form the foundation of the new strategy, including the strategic positioning and size of the Global Fund, as well as an issue that has become increasingly urgent this year: how to best ensure continued support for programs whose grants have ended. There are many more important strategic issues to examine, from the best methods for increasing the alignment and harmonization of our investments to our influence on the market dynamics of key commodities, and I look forward to continuing to engage with the PSC and all Board members as this process continues through the year.

### **Part 2: Scaling up interventions and aligning and harmonizing investments**

3. The rapidly-growing impact of the Global Fund's investments is well known by now. Nearly 400,000 people around the world have been provided with antiretroviral therapy and millions more have been reached with other effective interventions, from DOTS treatment for TB to the distribution of insecticide-treated bed nets to prevent malaria. While this is heartening progress, we cannot be complacent. Our current investments are not yet being used with the level of effectiveness and efficiency that we must strive for and our portfolio is not yet of a sufficient size to deliver the results necessary to achieve our mandate and fulfill our central role in reaching global goals such as universal access for AIDS treatment, prevention and care by 2010. Accordingly, we will continue to focus on a range of actions to increase the impact of Global Fund investments this year.

## Scaling up Interventions

4. At the center of our efforts to achieve this goal will be increasing support to effective programs around the world through our core grant management processes: the signing of quality grant agreements and the disbursement of funds based on performance. By the end of the year, we aim to have all Round 5 grants signed and initial disbursements made within an average of eight months from Board approval, an improvement of more than three months from the time required to launch Round 4 grants. We have also set a target of disbursing a total of US\$ 1.5 billion over the course of the year, a nearly 50 percent increase from our disbursement level in 2005. Equally important to the speed and scale of our signings and disbursements is their quality. While more difficult to capture in quantitative targets, ensuring the quality of all grant decisions will be a continued focus for us throughout this year.

5. We have already made substantial progress towards meeting each of these objectives. As of 19 April, we had signed seven Round 5 grant agreements, the first of which, a health systems strengthening grant to Rwanda, was signed one month faster than any previous agreement. While this represents just ten percent of the total grants approved in Round 5, the most time-consuming aspects of the signing process, including Technical Review Panel (TRP) clarifications and Local Fund Agent (LFA) assessments, have been completed for most grants, paving the way for a rapid increase in signings over the coming month. According to the most recent work plans of our portfolio teams, we expect to sign an additional 41 grants by the end of May, which would bring total grant signings to 73 percent of Board approvals. As a result, it is likely that we will meet or fall just short of our target of making first disbursements to grants within an average of 8 months of Board approval. Even if we fall behind the current signing schedule, we will have signed Round 5 grants more than two months faster (on average) than those in Round 4, an efficiency gain that is largely attributable to the hard work of our staff and the introduction of new tools to streamline the Principal Recipient (PR) assessment process.

6. We have also continued to rapidly channel funding to our recipients. First disbursements were made to the seven active Round 5 grants an average of 15 days after they were signed, a significant improvement from the average of more than 40 days for Round 4 grants. Across our portfolio, disbursements continue to be roughly "on track," with active grants on average having received 62 percent of their total grant sums while 66 percent of their grant implementation period has elapsed. And the new disbursement tool I informed you of at the end of last year is now fully in use, systematically capturing the performance and expenditure information used to make the decision for each disbursement. However, the US\$ 249 million we have disbursed in 2006 to date falls significantly short of our projections for that period. While our first priority is always to ensure that our funding matches the pace of implementation and performance of our recipients, we will be examining whether there are steps that should be taken that would accelerate disbursements over the remainder of the year.

7. Another essential component of our efforts to scale-up our portfolio this year is the continued strengthening of Country Coordinating Mechanisms (CCMs). In addition to the intrinsic benefits of effective coordination and oversight of implementation and development of quality proposals, CCM performance is now required for the approval and signing of grants following the decision reached by the Board at its ninth meeting. While many CCMs have undertaken reforms in line with the new requirements, there are some which still must make significant improvements. These underperformers often face challenges which have hindered their ability to make the necessary reforms. As a result, we will work closely with partners over the coming year to mobilize external advice and support for those most in need of improvement. In collaboration with UNDP and GTZ, we have already arranged for such assistance for three CCMs since the start of the new year and the U.S. has committed a portion of its 2005 budget to help restructure and build the capacity of CCMs. We recently recruited a new CCM manager who will coordinate and support these and other efforts, which we expect will lead to a growing number of effectively functioning CCMs by the end of the year.

## Aligning and Harmonizing Investments

8. Maximizing the impact of our investments will also require heightened focus on reducing the burdens which parallel systems and structures create for our recipients. With the rapid growth of funding from the Global Fund and other donors in some countries, it is increasingly important that we take steps to limit the transaction costs associated with our mutual investments, while maintaining a focus on our core principles. In 2005, a number of global processes, including the Global Task Team on Improving AIDS Coordination (GTT) and the High-level Forum on the Health Millennium Development Goals, fostered constructive dialogue on ways to overcome the challenges to achieving meaningful alignment and harmonization and, in the case of the GTT, recommended specific actions that the Global Fund and other multilateral partners should take. Our focus in 2006 must now be to translate the principles and recommendations generated by these processes into concrete improvements at both the country and global level. Specifically, by the end of the year, we aim to have made significant progress on most, if not all, of the recommendations made by the GTT as well as additional initiatives.

9. Building on progress made last year, we have moved forward on a number of GTT recommendations over the past several months. In January, an independent consultant, Alexander Shakow, completed an evaluation of the complementarities, overlap, and comparative advantage between the Global Fund and the World Bank. This study, which is available on the Global Fund's website, makes a number of recommendations for actions that our institutions should take individually and jointly, ranging from strengthening the communication and collaboration between our operational staff to adopting more distinct, complementary roles for the immediate scale-up of disease programs (the Global Fund) and long-term investment in strengthening health systems (the World Bank). Discussions are ongoing, including at the most senior level, between the Global Fund and the World Bank concerning these recommendations.

10. Another GTT recommendation, increasing the use of joint program assessments, has been included as one of our proposed key performance indicators (KPIs) for this year and we have set a target of significantly greater ambition than that in the original report. To track our progress in this and other areas highlighted by the GTT and the OECD Development Assistance Committee, we have developed an electronic tool to capture a range of information for grants across our portfolio, from the number of joint missions organized with partners to whether Global Fund funding is reported in national budgets. Once this tool is launched, we hope to be able to begin providing regular updates on our progress in these areas.

11. Our efforts to better align and harmonize our investments have not been limited to the steps recommended by the GTT. In January we held two meetings together with the World Bank and U.S. bilateral programs – one focusing on AIDS and one on malaria and TB, which the Gates Foundation and Roll Back Malaria Partnership also joined – to further strengthen our communication and coordination in countries where we jointly invest. We are moving forward in implementing some of the specific operational recommendations that emerged from these meetings and plan to further engage with these and other partners throughout the year. Earlier this month, Peter Piot and I sent a joint letter to all UNAIDS and Global Fund staff encouraging our staff to use UNAIDS offices as a base for their country missions, thereby ensuring greater coordination with our multilateral partners on the ground. And in March, we held a joint retreat with the Global Alliance for Vaccines and Immunization (GAVI) to discuss solutions to our common challenges to further aligning and harmonizing and explore areas of possible collaboration between our organizations.

12. While increased alignment and harmonization of our investments is clearly an important goal, it is important to note that many of the steps we are currently able to take towards achieving that goal create a significant additional burden for the Secretariat. Our Operations staff, many of whom are already consumed by our increasing grant load and the particularly taxing Phase 2 process, often do not have the capacity to participate in the joint reviews, planning sessions, and other initiatives for which they are now increasingly requested. And active participation in some of these initiatives is beyond the original operational mandate of the Secretariat, creating the possibility of mission creep away from the Global Fund's model as a financing instrument. From its inception, the Global Fund has had to strive to find the most effective balance between a range of competing priorities arising from its core principles; between speed and local ownership, for example, or ensuring grant performance and maintaining a lean, Geneva-based staff. The recent heightened focus on alignment and harmonization has raised or accentuated more such tensions.

13. This is an issue for which the Board's guidance is needed. The PSC is already scheduled to examine questions surrounding alignment and harmonization through the strategy development process. As it does, I ask that it consider the natural limits to further alignment and harmonization within our current business model and the implications that any decisions it reaches in this area will have on the workload of the Secretariat.

### **Part 3: Managing for results and measuring impact of investments**

#### **Managing for Results**

1. Driving the rapid growth of our aggregate results has been strong performance to date by our individual grants. The most recent analysis of grants which have completed Phase 2 review shows that roughly 75 percent are performing adequately, meeting or falling just short of the majority of their targets. While some poor performers must be expected in a portfolio of 386 grants across 131 countries, we can and must take steps to help those grants which are struggling to overcome implementation challenges. And our actions should not be limited to poor performing grants, but also seek to assist moderate and even well-performing programs make the best possible use of Global Fund finance.

2. As with last year, our efforts to mobilize that assistance will center largely on the continued refinement and effective application of the Early Alert and Response System (EARS). By the end of the year, we aim to ensure that EARS is operating smoothly, monitoring progress across the portfolio and interfacing with partners and support mechanisms to generate effective responses to implementation challenges. To evaluate our success in doing so, we have proposed that one of our KPIs for 2006 measures the number of grants flagged by EARS which are performing adequately by the time of their phase 2 review. As with overall grant performance, the responsibility for this outcome is shared jointly between the Secretariat and the Board; the Secretariat must identify and diagnose bottlenecks through EARS while technical partners, most of whom are represented on the Board, must deliver appropriate local assistance.

3. While we established a solid foundation for EARS last year, there is much more work to be done if we are to achieve our target. An important first step we have already taken this year is the strengthening of the Operational Partnerships and Country Support (OPCS) team, which manages EARS and our other initiatives to enhance grant performance. Three new staff have been recruited over the last four months and we plan to add roughly five more to ensure the team has the necessary capacity to execute the priorities in front of them this year. We will also continue to refine and optimize the EARS system throughout the year based on experience and feedback from partners. One small but potentially important modification currently under consideration would be to list the performance grades grants receive for each disbursement (information not yet publicly available) on our website, further increasing transparency of, and appropriate reactions to, the ongoing performance of all of our grants.

4. The success of EARS – and by extension the model of the Global Fund – will depend largely on the strength of the technical assistance mechanisms which act on the information it generates. Last year, the GTT report led to a significant step forward in this area through the creation of the Global Implementation Support Team (GIST), a partnership between the Global Fund, World Bank, and all AIDS-related UN agencies, which meets regularly to coordinate responses to major implementation bottlenecks faced by developing countries. GIST is already having a visible impact. In Niger, for example, a range of multilateral and bilateral partners responded to an HIV grant where implementation had stalled and hundreds of people were in danger of losing access to antiretroviral therapy due to a supply shortage. Following a joint assessment of the causes of these challenges, the partners coordinated the provision of technical assistance in a number of areas, including procurement, monitoring and evaluation and program management, thereby overcoming the drug shortfall and putting the program largely back on track. Similar mechanisms are now urgently needed for malaria and TB and we will work with partners to develop and launch them this year. There have also been fruitful discussions on forming regional and country-level equivalents of GIST. Fostering, strengthening, and effectively interfacing with each of these mechanisms should be a priority for all of us this year.

5. As I have highlighted before, product procurement often acts as the greatest impediment to the performance of our grants. Facilitating more efficient and effective procurement by our recipients is therefore a key element of our efforts to increase the impact of our portfolio this year. Last year, I outlined a number of initiatives we had begun in this regard. Let me briefly update you on the progress we have already achieved in each of these initiatives this year and our objectives for the coming months:

- a. *Quality Assurance* – In consultation with a broad range of partners, we are near completion of permanent agreements with a number of third parties to carry out sampling and testing of limited-source products as required by Board policy. By the end of the year, we aim to have these agreements in place and the first samplings conducted. We have also posted a full list of the products compliant with the new policy on our website and will regularly update it throughout the year.
- b. *Price Reporting Mechanism* – Despite a doubling of the number of prices reported through this mechanism at the end of 2005, we have not yet realized the full potential of this tool to assist recipients in their negotiations. We will continue to explore further integration of the tool into grant processes and aim to secure a significant increase in reporting by the end of the year.
- c. *Procurement Training* – Together with partners, we held a series of regional workshops in 2005 and early 2006, which provided essential training on the development of procurement plans to a range of recipients from 120 countries. These workshops have clearly led to accelerated grant signing and implementation in some countries and we aim to hold roughly five more by the end of the year.
- d. *Malaria Procurement* – Last year, we worked with partners and private manufacturers to increase the supply of key malaria commodities. The challenge now facing us is to ensure that recipients fully utilize that supply through the Global Fund finance available to them. To that end, we are participating in monthly meetings with a range of partners and suppliers to reduce purchasing delays and better forecast demand and expect to witness a dramatic increase in product orders by the end of the year.

6. Procurement is another area where there is a natural limit to the amount of further improvement we can make within our current model. The PSC is considering opportunities for broader change through the strategy development process and I look forward to the outcomes of their deliberations at the end of the year. In parallel, we are in discussion with the French government and other partners concerning the design and role of the proposed International Drug Purchase Facility (IDPF), an initiative that could have great implications for procurement by Global Fund recipients.

7. I am hopeful that with this range of actions and the support of our many partners around the world, we will see continued growth in the performance of our portfolio this year. However, more than anything else, the short- and long-term impact of our investments will depend on our ability to establish a culture of accountability through the effective and consistent execution of our performance-based funding model. Progress to date has been promising. Recent analysis shows that A-rated grants are receiving roughly 33 percent more of their initial grant sums than C-rated grants. Nearly US\$ 200 million has already been shifted from poor- to well-performing programs through the Phase 2 process as a result of cancellations and budget negotiations. And the cancellation or suspension of grants has led to important reforms in some countries.

8. But performance-based funding requires constant vigilance and we still have room for improvement in a number of areas. Accordingly, we have outlined several specific priority steps for this year. Firstly, we will seek to further refine our processes for ongoing disbursements. In doing so, we will build from the disbursement tool introduced at the end of last year, which has already led to more systematic decision-making based on performance. To measure our progress in this area, we have proposed that the outcome of our disbursement decisions – the level of funding disbursed compared to the performance of the grant – be included as one of the KPIs for this year. We have also already initiated actions to further streamline our internal Phase 2 processes. While Phase 2 decisions ultimately rest with the Board, we have identified areas where the Secretariat can improve its role in the process.

9. Lastly, we will continue to pursue a number of initiatives to optimize the cornerstone of our accountability model – the LFA system. Last year, we outlined a number of actions we would take to improve our management of and communication with our LFAs. We have made significant progress in executing those actions and will focus our work this year on two key processes. The first will be to shift our agreements with LFAs to a fixed pricing model, which promises to greatly improve efficiency by limiting the number of negotiations and work orders which must be conducted (in the past three years, our contracts team has completed more than 1,200 separate LFA work orders). In addition, the initial framework contracts with our LFAs are coming to an end this year and establishing new agreements through a global tender, building on the lessons learned over the past three years, will be a major focus for our Business Services team this year.

### *Measuring Impact*

10. Over the past four years, we have consistently welcomed and encouraged analyses of our various aspects of our model, using the information and recommendations provided to further improve our work. The Global Fund will soon reach an age when that model must be analyzed and judged as a whole for its ability to realize our core mission: reducing the burden of the three diseases around the world. That process is underway this year through the launch of a comprehensive five-year evaluation of the Global Fund under the guidance of the Technical Evaluation Reference Group (TERG). The Secretariat will provide support to the TERG in producing this analysis and by the end of this year we aim to have produced a detailed analytical plan, coordinated with the efforts of our technical partners, and have put in place the necessary steps to ensure that impact measurement and reporting for that evaluation will be completed by the scheduled date in 2008 (the completion of our first full five-year grants). We are also working with the TERG and PSC to ensure that the outcomes of early analyses provide inputs into the development of strategic options.

11. Our efforts to measure the impact of our investments will not be limited to the studies of the five-year evaluation. Eventually, information on the effect that Global Fund-supported interventions have on the prevalence of the three diseases should consistently flow from all grants across our portfolio. It is still several years before we reach that state (our grants are still on average only 18 months old), but we will work with our recipients this year to ensure that they prepare to measure and analyze the necessary information by including impact measurements among the indicators which they must report – and be judged on – during their implementation of Phase 2 funding. Our success in building this framework for assessment of impact will be evaluated as part of the proposed KPIs for 2006. Measuring the impact of programs on the morbidity and mortality of all three diseases, and HIV in particular, is a complex, lengthy, and resource-intensive task. We therefore plan to work with our technical partners to support our recipients in aspects of this essential work. Currently, we are in discussions with the U.S. Census Bureau to extend their analysis of the estimated new infections averted by U.S. HIV prevention programs to include Global Fund-financed programs in three countries: Cambodia, India, and Malawi. If successful, we will explore further expanding this relationship with the Census Bureau and pursuing similar arrangements with other partners.

#### **Part 4: Securing Resources to Meet 2006-2007 Needs**

1. While some of our donors made generous new pledges during last year's replenishment process, we require at least an additional US\$ 2 billion to maintain and expand our grant investments during 2006 and 2007. The task before us is therefore clear. We must secure sufficient pledges so the Board can approve a full Round 6 in November 2006 (if that round is launched at this meeting) and ensure that further funding is available to enable the Board to launch and approve at least one additional round of funding in 2007. With a growing number of grants reaching their natural end, these new rounds are now needed to extend the progress achieved with our existing investments as well as to expand our portfolio in line with global goals such as universal access for HIV interventions.

2. As I outlined at the end of last year, we will pursue four key means for meeting this goal. The first is securing further increased pledges from our existing government donors. Our efforts in this area will focus on the final meeting of the 2006-2007 replenishment process in Durban in July. As with the meetings held last year, we will provide our donors with detailed analyses of Global Fund's progress to date and resource needs in order to demonstrate that it is an effective instrument for the fight against the three diseases. A comprehensive progress report will examine the results of grants across our portfolio, while additional analyses will further explore our success in better aligning and harmonizing our investments and our impact in fragile states. This final meeting will also provide an opportunity to discuss lessons learned from this first replenishment process to improve the effectiveness of the 2008-2010 process, for which we must already begin to prepare during this year.

3. The second area of focus for our resource mobilization efforts this year will be cultivating significant new government donors. Building on the high-level ministerial meeting in Marrakech last year, we have continued to engage with a number of Middle Eastern nations during the last several months. Some of these states have expressed interest in attending the replenishment meeting in July and we are hopeful that they will make new pledges at that time.



4. Even with these initiatives, it is unlikely that the full needs of the Global Fund will be met with ODA alone. As a result, we are also continuing to engage with a number of innovative financing mechanisms currently being developed. The airline levy proposed by France and now supported by a range of other countries is the closest of these to fruition, with the new levy scheduled to take effect in July. In February, I and other members of the Secretariat joined representatives from around the world, including some members of this Board, in Paris to discuss how the funds raised through this levy can best achieve the goals of the participating nations, particularly in fighting AIDS, TB and malaria. Building on those consultations, a technical working group meeting for the proposed International Drug Purchase Facility (IDPF) will take place this month and we look forward to participating in this and other discussions as this innovative and much needed funding system moves forward this year. Beyond the airline levy, we plan to continue to engage with our partners on two other promising innovative financing mechanisms: the launch of a full International Finance Facility (IFF) and the conversion of bilateral debt to finance Global Fund grants.

5. Lastly, we will seek to increase the contributions we receive from the private sector. This area received a major boost at the start of this year through the launch of (Product)<sup>RED</sup>, a new initiative which promises to sustainably build the income and profile of the Global Fund by creating mutually beneficial arrangements with participating companies. RED has made a strong start with the launch of a range of products by the first four partner companies and I am hopeful that, within the next several months, we will see more major companies join the initiative. We are most grateful for the vision and tireless efforts of Bono and Bobby Shriver in creating and launching RED.

6. Our efforts to engage the private sector will not stop with RED. Indeed, we are currently finalizing plans for the launch of another fundraising initiative: a Global Fund postage stamp and metered mail themed around AIDS. The campaign will be unveiled this summer, with a full launch scheduled for the end of the year in the U.S. Each stamp will feature images and messages relating to the Global Fund and its work, thereby further increasing our profile and brand as well as our income. I am grateful to the partners who have worked with us to make this initiative possible, including the Friends of the Global Fight U.S., the United Nations Foundation, the Global Business Coalition on HIV/AIDS and Publicis Groupe. In the coming months, we will be approaching our civil society and private sector partners to join us in this first phase of the stamp campaign, and we look forward to the support of our government partners in helping us expand the campaign to be a truly global initiative.

#### **Part 5: Enhancing internal systems to ensure a high-performing, well-managed and efficient Secretariat**

7. This area is the subject of much reporting at this Board Meeting, including an update on the Management Action Plan in response to the findings of the Report by the WHO's Office of Internal Oversight Services (GF/B13/10) and a report on broader organizational development efforts by our Deputy Executive Director, Helen Evans (GF/B13/16). I will therefore not provide detail in this section to avoid inundating you with redundant information. I will, however, stress that the internal strengthening of the Secretariat is of the utmost importance for our work this year. Last year I set the consolidation of our systems and staff as one of the priorities for the Secretariat, but we did not achieve the necessary progress. We must go much further this year, emerging with a high-performing Secretariat which is able to effectively and efficiently meet the demands of our evolving organization.

8. This is a challenge for all of us. While the management of the Secretariat must take the lead in making these improvements, the Board and staff also have important roles to play. The Staff Council, which was created at the end of last year following a staff retreat, has already proven to be an important mechanism for staff engagement in organizational processes and Helen and I will work closely with them in moving forward measures to strengthen the Secretariat throughout this year. I would also ask the Board to further consider the roles that it can play in this process. One of the major themes that has emerged from our consultations with staff over the last year is that workload and stress in the Secretariat is high, at times far too high. There are important steps that management can and must take to improve this situation, which Helen discusses more in her report. There are steps the Board can take as well. Over the past three months alone, the Secretariat produced more than 100 papers for the Board and its committees, already well over half the total prepared in 2005. While supporting the Board is a critical responsibility of the Secretariat and one that we take very seriously, that support can also at times create a significant additional burden for staff.

\*\*\*Post-script

9. In closing, let me express my debt and appreciation to friends and colleagues in the Secretariat, among Board Delegations, in the TRP and TERG, and across our partners and stakeholders around the world, whose energy and commitment have advanced our work so far and so fast. I share with you all the chronic impatience, and sometimes anger, that it is not far enough and it is not fast enough. This coming year will be one in which, together, we move farther and faster and begin to see concrete evidence of a reversal of the tide of AIDS, tuberculosis and malaria. I look forward to working with you all during this critical period and to handing over an effective, dynamic, ambitious, impatient, self-critical and restless Global Fund to my successor. Thank you.