

**OPTIONS PAPER ON
THE STRATEGIC POSITIONING OF THE GLOBAL FUND**

Outline: This paper discusses the issue of the strategic positioning of the Global Fund and proposes options for potential roles.

Part 1: Introduction

A. Summary of the Issue

1. The fight against the three pandemics – the ultimate purpose of the Global Fund – is a challenging task that no single entity can hope to achieve on its own. For this reason, it is desirable that each entity's actions be well thought out in order to maximize impact in the context of the actions of other entities working toward the same goal.
2. The Global Fund is a relatively young organization in its field, but one that brought with it from day one a number of striking characteristics:
 - a. a clear, focused purpose with a particular mission of mitigating the impact of the three diseases, thereby contributing to the achievement of the Millennium Development Goals (MDGs) through funding and scaling up direct interventions at the country level;
 - b. a strong set of founding principles (and a "business model" embodying these), establishing the Global Fund as a financing mechanism and not an implementing agency;
 - c. considerable amounts of financing from a variety of sources including private sector businesses and foundations;
 - d. a unique multi-sectoral approach as a public-private partnership that includes the involvement of a wide range of stakeholders on the Board as well as in country-level structures.
3. Beyond its own particular characteristics, the Global Fund is also defined by the context in which it exists:
 - a. The Global Fund is part of a broader ecosystem of multiple actors working to fight the three diseases. This ecosystem encompasses very different types of organizations, each with a different focus and scope, working within different geographic footprints through different approaches and means.
 - b. Ongoing initiatives and efforts aim to improve the specific ways that the desired impact is achieved by the different actors, both in terms of disease-specific actions and the wider aid environment.
 - c. The Global Fund's model as "a financing mechanism only" means that the success of the programs it finances is determined by much more than the Global Fund itself – specifically, it is critically dependent on the involvement of the Global Fund's partners to provide complementary forms of support.
 - i. The Global Fund's experience to date has highlighted a number of areas where technical partners play an absolutely critical role; for instance in helping to identify grants in difficulty and in providing technical and management assistance to Fund grantees.
 - ii. Donors also have a key role to play in helping to provide a supportive financing context for these activities. (The issue of the funding of technical agencies for the provision of technical assistance to Global Fund grants is a good example of this.)

4. The Global Fund's role was defined at its inception in response to the situation at the time – including the donor and partner landscape – and the perceived gaps that would need to be filled to have a larger impact in the fight against the three diseases. Four years after the Global Fund's creation, the context in which the Global Fund exists has changed, and the Global Fund has learned from its experiences.

5. The remarks above emphasize the importance of the Global Fund ensuring an up-to-date, optimal and clear choice of its strategic positioning within the broader landscape of actors.

- a. An explicit strategic positioning includes: sources of possible comparative advantage, the particular role(s) chosen for the organization and its complementarity with partners.
- b. The fundamental purpose of defining its strategic positioning is to enhance the Global Fund's effectiveness in working with its partners in the global fight against the three diseases.
- c. Such a strategic positioning will enable the Global Fund to:
 - i. Appropriately adjust its internal focus, priorities and activities to be optimally consistent with its strategic positioning;
 - ii. Work toward clear and well-functioning interfaces, working arrangements and relationships with its partners.
 - iii. Having been set up with a sense of urgency and guided mainly by a high-level set of principles, the Global Fund has not to date explicitly defined its strategic positioning.

6. The Board and the PSC have recognized that the Global Fund would now benefit from examining the issue of its optimal strategic positioning. They have asked that the strategy effort address the topic. The particular strategic questions at hand are:

- a. What is the Global Fund's appropriate strategic positioning in the context of other key international actors and partners?
- b. From a general perspective, what roles does the Global Fund play uniquely well? What roles – based for example on its principles, design, or skills – might it be uniquely positioned to play well in the future? Conversely, what roles does it play less well?
- c. In light of this:
 - i. What is the appropriate overall role for the Global Fund going forward?
 - ii. What can be done by the Global Fund to strengthen its complementarity with key partners? What understandings or working arrangements should the Global Fund seek to establish with these partners to ensure the development and viability of this strengthened complementarity?

B. Approach to the Issue

7. To address the strategic questions above, this paper is divided into the following three sections:

- a. Sub-issue 1: Strategic context of the Global Fund
- b. Sub-issue 2: Analysis of the current and potential roles of the Global Fund
- c. Sub-issue 3: Potential future role of the Global Fund

Part 2: Sub-issue 1: Strategic context of the global fund

A. Initial Vision

1. In 2000, world leaders recognized that the devastation caused by HIV/AIDS, tuberculosis and malaria in the developing world was intensifying, and significant steps would have to be taken to mitigate these negative consequences. The emerging international consensus of the need for a significant new volume of resources to fight these three pandemics led to the call for the development of a new global fund to defeat them.¹

2. Also, it was believed that there was value in a new approach, building on lessons learned from existing experiences in development and employing a more private sector-type operating model.

3. The creators did not want to duplicate existing donors and organizations involved in fighting the three diseases but rather to create a mechanism to raise and disburse significant amounts of new funds. It was believed that if this global fund provided the financing, then the other partners would provide the technical expertise and on-the-ground experience to complement the funding from a new financing mechanism.

B. Historical context, founding principles, and role of the Global Fund

4. It took less than two years from the first call for a global fund to combat HIV/AIDS and other infectious diseases by Kofi Annan in Abuja in 2001 to the approval of the first grants in April 2002²

¹ Bezanson, Keith. "An Independent Assessment of the Global Fund." (January 2005). See Box 1 on Page 7 of this document for a full description of the key drivers leading to the development of the Global Fund.

² "The extent of the 2001 international consensus to establish the Global Fund was quite remarkable... momentum it created led to an abandonment of standard conventions in establishing the Global Fund." Bezanson, *Op. cit.*

5. Its purpose and design were based on a set of assumptions, namely that:
- lack of funding was a major bottleneck to the successful scale-up of country programs;
 - technical partners would provide the technical expertise and on-the-ground experience to complement the funding from a new financing mechanism;
 - to move money quickly, multiple delivery channels (such as civil society and the private sector) would be valuable, beyond those of national governments;
 - the Global Fund would fill the funding gaps in existing well-designed and costed national plans to fight the three diseases;
 - a large, focused financing mechanism could exert a positive influence on the market for essential health products; and
 - a method for holding a financing mechanism accountable for its narrow financing role could be developed.

6. The initial vision, based on the inherent assumptions above, was "codified" into the Framework Document, including the founding principles of the Global Fund.³ Due to the rapid establishment of the Global Fund, not all points of tension were worked out in advance.⁴ As such, the Framework Document is quite general, leaving a fair amount of flexibility in the implementation of the vision and principles laid out into a specific role and architecture.⁵

7. Furthermore, even with the guidance in the Framework Document, little definition was provided as to the exact boundaries of the Global Fund's role as a financing mechanism. In particular, several points were left ambiguous and unresolved concerning the Global Fund's role, including:⁶

- the Global Fund's role in exerting an influence on global markets for essential health products to achieve lower prices and greater availability;
- whether or not to help enable the performance of grants, versus having a completely passive hands-off "investment" approach that would allocate resources purely on the basis of the results countries were able to produce independently;
- the degree to which nongovernmental funding channels should be actively encouraged, as opposed to simply opening up the opportunity for nongovernmental entities to access funding and implement programs.

C. Expected roles of partners and donors

8. As a financing mechanism only, with no country presence, the Global Fund counted on its partners to provide many of the key complementary functions necessary to ensure the appropriate channelling of funds and to support the successful implementation of grants.

³ Specific principles include "a clear focus on being a financing mechanism, not an implementing or technical agency," "a performance-based funding approach," "a country-driven approach," and "operating in a manner complementary with the broader network of actors in the field".

⁴ Bezanson, *Op. Cit.*

⁵ Only the CCM and the TRP are explicitly called for in the Framework Document. Other architecture in its current form is just one possible design to fulfill desired functions and roles.

⁶ Bezanson, *op. cit.*

9. Roles for which the Global Fund needed to rely on partners included assistance with:⁷

- proposal development;
- getting appropriate technical and management assistance for successful implementation;
- integrating the Global Fund's support with national priorities;
- development of infrastructure, human resources, health systems;
- development of national plans and national coordinating mechanisms;
- program oversight;
- partner coordination;
- procurement coordination and assistance;
- monitoring and evaluation.
- identification of grants in difficulty;
- making available complementary financing;
- participation on CCMs and other coordinating bodies;
- acting as a silent partner or "eyes and ears" for the Global Fund.

D. Changes in context and lessons learned since inception

10. In developing options for the strategic positioning of the Global Fund, it is important to consider changes in the context and lessons learned since the creation of the Global Fund that have strategic implications for defining the appropriate role of the Global Fund. Much has been learned by the Global Fund in its first four years, but this section focuses on those that relate specifically to the Global Fund's role, especially in relation to its partners.

Changes in Context

11. One major change since 2002 is the significant increase in additional funds available for the fight against the three diseases, especially through new donor channels and mechanisms, including the establishment of the U.S. President's Emergency Plan for AIDS Relief (PEPFAR) in 2003 and the recently announced U.S. President's Malaria Initiative (PMI). Other initiatives through private foundations and other bilateral donors have also increased the channels and funding available for the three diseases.

12. Furthermore, international initiatives, particularly for HIV/AIDS, have reframed the debate around the types of priority interventions, the need for technical assistance, and the level of impact that can realistically be achieved. These include the "3 by 5" initiative spearheaded by WHO and UNAIDS, as well as the more recent effort led by UNAIDS for the achievement of as close as possible to universal access for prevention, treatment and care by 2010.

⁷ While most of these roles were anticipated at the Global Fund's inception, it is possible that some of them only became evident later on.

13. There have also been several efforts to better define the roles of the key international players (including the Global Fund) and to set out ways in which they can more effectively work together, recognizing that they are all part of the same integrated development system. These include the UNAIDS-led efforts around the "Three Ones" principles and the Global Task Team (GTT)⁸ to address coordination challenges amongst the multilateral partners in the fight against HIV/AIDS, as well as the work of the Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC) to improve aid effectiveness. This work led to the Paris Declaration of 2005, in which leaders of developed and developing countries agreed to the principles of ownership, harmonization, alignment, and results measurements to improve aid efficiency. The Global Fund, as well as most of its donor and technical agency partners, was involved in the process and signed on to the declaration.

14. In addition, changes in treatments and costs have reframed what is achievable in the fight against the three diseases.

- a. The significant reduction in the cost of first-line antiretroviral drugs (ARVs) has made treatment for the millions already infected a real possibility, raising questions about how donors and financiers can ensure sustainability for this lifelong intervention.
- b. The development of artemisinin-combination therapy (ACTs) and long-lasting insecticide-treated bed nets (LLITNs) have increased the cost of interventions for malaria, but are proving significantly more efficacious in both preventing and treating the disease.

Global Fund-specific lessons

15. The Global Fund, through its unique operating model, has achieved significant results in the short amount of time since its founding.⁹ Despite these achievements, a number of issues hindering even more effective use of Global Fund resources have come to light.

16. With the large influx of money to countries, it became apparent that funding – while critically important – was not the only constraint to achieving significant impact against the diseases.

⁸ As a result of the GTT process and findings, the Global Fund and the World Bank jointly commissioned a study to define the particular comparative advantages of each organization in funding HIV/AIDS programs and ensure greater complementarity. This report's primary recommendation was that the Global Fund clearly focus on funding direct HIV/AIDS interventions and not health systems strengthening activities, which it identified as an area where the World Bank should take a lead role. Shakow, Alex. "Global Fund-World Bank HIV/AIDS Programs: Comparative Advantages Study." (January 2006).

⁹ It has disbursed over US\$ 2 billion to 130+ countries around the world. Through Global Fund funding, hundreds of thousands of people have received anti-retroviral treatment, over one million cases of TB have been treated, and close to eight million bed nets to prevent malaria have been distributed. Global Fund. "Sustaining Performance, Scaling Up Results: Third Progress Report 2005." (August 2005).

17. A number of implementation-related issues have become apparent. Some of the more common of these include the following areas:

- a. Technical and management assistance (TA and MA): Issues include countries' ability to identify their TA and MA needs, and then to find and use quality services to appropriately meet those needs.¹⁰ The Global Fund has developed, and is currently optimizing, the Early Alert and Response System (EARS) to flag grants at risk for partners to react to. However, it only addresses a small number of the issues associated with TA and MA.
- b. Procurement: The decentralized procurement model used by the Global Fund has run into a number of obstacles related to countries' limited procurement capacity.¹¹ This reality is in tension with the Global Fund's country-led approach to procurement.
- c. Health systems: The capacity of country health systems, which are an essential foundation for the implementation of funded programs, is sometimes poor, leading to slow implementation.
- d. Country planning and coordination: The expectation that most countries would already have ready-to-implement strategic, costed, prioritized national disease plans in place at the point of receiving Global Fund funding has not proven true. As a result, the proposals financed by the Global Fund do not always fit into a broader national strategy. Also, coordination between the programs financed by different funders does not systematically or sufficiently occur.
- e. Communication with local stakeholders: Communication with the local level through the Global Fund's reliance on the LFA and CCM, as well as occasional Fund Portfolio Manager (FPM) visits for coordination with local stakeholders, has proven difficult for the purpose of closely monitoring key on-the-ground progress and developments.

18. The above are all areas where support from the Global Fund's partners can be of great assistance. However, partners have not consistently stepped in to provide complementary functions (such as those areas listed above). Many of the partners, especially the UN agencies, have stressed the need for additional funding (from the Global Fund as well as other sources) in order to provide the requested amounts of assistance. Although the partnership model works well in many countries, in others there is a lack of clear understanding of the roles and responsibilities of the partners, leading to dissent and inadequate provision of services.

¹⁰ See the options paper on "optimizing grant performance" for an analysis of the causes.

¹¹ In particular: existing country procurement capacity has been put under significant stress by the large amounts of new funding the Global Fund is providing, especially as it is tied to short timelines for demonstrating results; many country-level procurement processes tend to be bureaucratic and slow; supply shortages across a range of essential health products which hinder the speed of implementation

19. The Global Fund has found itself in a tension between being accountable to its Board for the performance of its grant portfolio – which is affected by the issues described above – and its role solely as a provider of funding.¹² As a result of this, the Global Fund has evolved somewhat from a model of pure financing to a model where it not only manages the flow of resources from donors to recipients but also begins to enable on-the-ground performance. However, even with this, the Global Fund remains far from being an implementing agency.

20. Finally, the Global Fund is still young – only four years have passed since it opened its doors – so there has been an expected adjustment period, where countries were learning how the Global Fund works and the Global Fund was striving to equip itself with the necessary tools. Even now, the Global Fund may not have the full set of appropriate tools and mechanisms to reflect its current role.

Part 3: Sub-issue 2: Analysis of the current and potential role of the Global Fund

A. Roles the Global Fund plays well

1. There are a number of roles that the Global Fund has demonstrated it does well. This section discusses these as well as the Global Fund's comparative advantage.

2. Attracting and approving a high volume of proposals across a range of geographical areas, diseases and interventions:

- a. The Global Fund has significantly increased funding for all three diseases (in particular tuberculosis and malaria) since its inception.
- b. Funding is provided on a purely demand-driven basis, according to the interventions and programs proposed by countries. As such, the Global Fund has provided resources for a wide range of intervention types, including interventions less funded by others, such as needle exchange programs and indoor residual spraying.
- c. It currently funds grants in over 130 countries across the globe, including a number who have limited other donor funding for the three diseases, the so-called "donor orphans."

3. Mobilizing large amounts of resources from a wide range of sources. In addition to the traditional donor countries, the Global Fund taps into non-traditional sources of development financing, such as the private sector and innovative financing mechanisms. However, these resource flows have yet to prove sustainable.

4. Quickly disbursing funds to countries, using a lean organizational model (over US\$ 2 billion disbursed in four years with a ratio of disbursement dollars to staff was US\$ 5.3 million per staff member, a figure nearly double that of the nearest organization analyzed.)¹³

¹² In addition, it has been claimed that the Global Fund has a particular responsibility to communities affected by the diseases to "do what it takes" to ensure the successful performance of grants.

¹³ Bezanson. *Op. cit.*

5. Realizing performance-based funding, with the disbursement of resources being tied to demonstrated results.¹⁴

6. Demonstrating a high level of transparency in its operating processes and decisions, with large amounts of real-time information being publicly available on its website and its decision-making processes being clearly communicated.

7. Encouraging and enabling the active participation of civil society, private sector and people living with and affected by diseases in implementation and governance, although engagement could be further optimized.

8. Evolving and learning constantly as an organization, demonstrating significant flexibility and a sincere openness to respond to lessons learned and criticism received, which has led to the model changing and adapting over time.

9. These items identified above are consistent with the elements of comparative advantage of the Global Fund that have been identified by experts:¹⁵

- a. clearly articulated focus on the three diseases;
- b. ability to raise and disburse a large amount of new resources;
- c. performance-based funding system;
- d. multi-sectoral approach and involvement;
- e. country-driven processes;
- f. funding of a broad range of interventions;
- g. large amount of money spent on health products;
- h. transparency, openness and capacity for self-criticism;
- i. speed in approving proposals and disbursing funds;
- j. unique and broad-based governance structure;
- k. broad country eligibility criteria;
- l. building of public awareness.

B. Potential roles for the Global Fund

10. The above analysis also points to a number of unexploited opportunities for the Global Fund. These are areas where the Global Fund may have a comparative advantage that it could leverage to perform a new role, if this were deemed to be strategically desirable.

¹⁴ Global Fund. "Sustaining Performance, Scaling Up Results: Third Progress Report 2005." (August 2005).

¹⁵ See for example, Shakow, *Op. cit.* and Bezanson, *Op. cit.*

11. The following are such potential new roles which the Global Fund is well positioned to take on, given its comparative advantage:

- a. Influencing the markets for essential health products to lower prices and increase sustainability of supply:
 - i. This relies on capitalizing on a number of the Global Fund's unique features, such as its global visibility, its financial size, and its important share of the global resource contribution to the fight against the three diseases.¹⁶
 - ii. Leveraging these advantages could help address a number of important global supply issues affecting successful implementation, such as the availability and sustainability of supply for various products. In addition, a significant reduction in price due to the consolidation of a large share of the market and its corresponding market negotiation power could be expected. (There was in fact a belief that the Global Fund would play a role in positively influencing market dynamics, but it has not systematically pursued this opportunity.¹⁷)
- b. Centralizing and outsourcing some functions to ensure access to a specific expertise or the provision of a service. The fact that the Global Fund is the central point for its portfolio of grants gives it this ability. This role is similar to that of the LFAs today, where the Global Fund provides the funding to a third party for the provision of a desired function.
- c. Leveraging its influence, size and reach to act as a catalyst, through such actions as incubating key services in-house or providing vital information to others. Such initiatives as the Price Reporting Mechanism and EARS are examples of this catalyzing role, where the Global Fund enables the provision of the function but does not provide it directly.

C. Roles the Global Fund plays less well

12. There are two facets to considering the roles the Global Fund plays less well:

- a. First, from a strategic perspective and considering its comparative advantage, there may be certain roles that the Global Fund is intrinsically not well positioned to do adequately.
- b. Second, from among the roles it is currently performing, there may be some roles where the Global Fund has not yet optimized its execution for a variety of reasons.

¹⁶ The Global Fund currently contributes approximately a fifth of external donor resources worldwide to combat HIV/AIDS, two thirds for tuberculosis and malaria. This results in the Global Fund funding being one of the single largest funders for certain essential health products, which sets up a privileged negotiating position.

¹⁷ As described in Bezanson, the original vision called for the Global Fund to be large enough to "create markets, send powerful market signals, stimulate new research and lower the cost of essential drugs." Bezanson, Op.cit.

13. Concerning the roles the Global Fund is not well positioned to do adequately, these include the following:

- a. It is clear that as a financing mechanism with no local field presence, the Global Fund is not strategically well-positioned to provide broad or ongoing on-the-ground services to grantees, such as direct assistance with TA and MA, procurement, or health systems; nor is it positioned to act as an operator, for example in taking on procurement functions or helping to develop country plans.
- b. Also, it has been suggested that the Global Fund is not strategically well-positioned to fund *broad* health systems strengthening programs, as compared to the institutional skills and capacity that the World Bank could bring to this task.¹⁸

14. Concerning the roles the Global Fund is currently performing but has not yet optimized, these include four areas that deserve particular attention:

- a. Leveraging civil society and the private sector: While civil society and the private sector have made important contributions to the Global Fund at the global and country levels, the Global Fund has not yet realized the full potential of their capabilities. (This area will be further addressed in the strategic issue area of "leveraging civil society and the private sector at the global/institutional level").
- b. Sustainability of Global Fund resource mobilization: The Global Fund has not yet achieved long-term sustainability of its funding inflows. As a result, it has been unable to provide sustainability to the countries it funds. (This area will be further addressed in the strategic issue area of "optimizing Global Fund resource mobilization").
- c. Enabling TA and MA provision: As discussed above, the Global Fund has de facto evolved toward some role in enabling effective TA and MA to grants. (For example, EARS raises awareness and helps to get support for grants at risk.)¹⁹ However, having taken up this role in an incremental, de facto fashion and without a clear sense of how far it should go along this route, the Global Fund has not necessarily developed a strategic approach to the overall issue of enabling effective provision of TA and MA nor has it yet fully optimized its current actions.
- d. Facilitating procurement: Similarly, the Global Fund has de facto evolved toward a limited role in reducing the extent to which procurement is a bottleneck to grant implementation. (For example, it offers training to PRs on writing effective procurement plans that translate into realistic and feasible actions.) However, here again it is unclear how far the Global Fund should go to address the issue of low country capacity in procurement. As a result, the Global Fund's role in this area is not optimized.

¹⁸ Shakow, *Op. cit*

¹⁹ The process is designed as follows: (1) Grants are identified for the EARS list through data collected by the Secretariat (late disbursements and reports, low financial burn rates, poor LFA ratings, etc.) as well as through more qualitative information such as reports from Fund Portfolio Managers and partners. (2) After communicating its concerns with the PR, the Secretariat works with CCMs and PRs to identify the types and sources of assistance needed – technical, managerial, or Global Fund-related. (3) The Secretariat then works with partners, through mechanisms such as the GIST, to identify the necessary technical and financial resources to mobilize an appropriate response at the country level.

Part 4: Sub-issue 3: potential future role of the Global Fund

1. This section addresses, based on the analysis in the previous sections, the strategic question of the possible appropriate role for the Global Fund going forward. The other strategic questions (how the Global Fund can strengthen its complementarity with partners, and what working arrangements should be pursued to ensure this) flow from the basic decision on the role that the Global Fund is to play in the future.
2. The following conclusions from the earlier sections play an important role in the formulation of the possible models for the appropriate role for the Global Fund going forward, which are presented in this section:
 - a. The Global Fund was created to be a “financing mechanism”; there has not to date been a clear definition as to what that means, and what the limits of this are;
 - b. Overall, the Global Fund is playing its role as a financing entity well, in the sense of mobilizing large amounts of resources, attracting and approving a broad range of proposals, “moving the money” and doing performance-based funding. In addition it has shown a good capacity to be an evolving, learning organization;
 - c. The expectation – inherent in the initial financing-only model – of partners stepping in to provide functions that are complementary to the Global Fund’s financing and critical to the performance of grants, has not consistently or sufficiently occurred;
 - d. The Global Fund faces a tension between its formal role as a financing mechanism and its de-facto full accountability to donors for the performance of its grants;
 - e. The areas of enabling better TA/MA and better procurement deserve particular attention in terms of ensuring grant performance;
 - f. The Global Fund is well positioned to influence the markets of essential health products; this is an area of largely untapped opportunity for the Global Fund and a role that was in fact part of the Global Fund’s initial vision;
 - g. The Global Fund is well equipped, should it so desire, to centralize and outsource some functions as well as to act as a catalyst by more proactively leveraging its influence to achieve certain actions or outcomes;
 - h. In response to the fact that grants have encountered implementation issues and to the pressure of the Global Fund’s accountability for the performance of grants, the Global Fund has found itself managing not just money, but actively taking measures to improve the performance of the grants.
 - iii. As a result, it has evolved toward providing a few complementary functions (such as in facilitating TA and MA and procurement) that can help enable mitigate or resolve implementation issues; being new, those functions are still in need of some adjustment as the Global Fund learns from experience.
 - iv. Even taking this into account, the Global Fund is not today fully equipped to optionally take on this expanded role of enabling performance.
 - i. The Framework Document leaves a good amount of room within its principles for flexibly adapting the Global Fund’s role and model to better achieve its purpose, if and as this is deemed to be needed.

Possible options for future role of the Global Fund

3. Two potential models for the possible future role of the Global Fund are presented here, with the second one having a spectrum of possible variations; for each, the model is briefly described and related assumptions and implications of the model are analysed.
 4. As per the Board-approved Guidelines for Option Development, the options are designed to “respect the boundaries inherent in the Global Fund’s role as a financing mechanism, not an implementing entity.” But each corresponds in fact to a different possible conception of what it means to be a financing mechanism (since as established above, there has never been a strict definition of what this meant).
 5. As is the case in all strategy options papers, each option is designed to be as robust as possible – in the sense that each addresses in some way (and likely in different ways for the different options) the issues that currently exist. For that reason, there is no model that corresponds exactly to the current de facto role of the Global Fund. In fact, the current de facto role falls somewhere between the two proposed models.
 6. Both models proposed encompass the Global Fund’s strategic positioning as a whole. However, for the strategic issue of “influencing market dynamics,” the question of whether or not the Global Fund should take on such a role is deferred to the later discussion in a future strategic “batch”. As such, both models can be constructed with or without this market dynamics influencing role.
- A. Model 1: “Strictly Financing”**
- Description of Model 1*
7. Model 1 is based on the premise that the Global Fund was intended to be a financing mechanism in the strictest sense of the term and that it should return to this vision.
 8. Under Model 1, the Global Fund focuses only on what it can do directly, and exclusively, through its financing power. This means that:
 - a. Financing programs in country under the performance-based funding approach;
 - b. Possibly (if the Global Fund decides to take on that role) influencing the market of essential health products – since this is largely a financially-driven strategy.
 9. In this model, the Global Fund does not assume any function related to enabling performance of the grants beyond providing recipients with financing and any potential benefits from successfully influencing the markets for health products (if the latter is chosen as a role for the Global Fund to assume).

10. For this reason, under this model, the Global Fund effectively takes on a "dispassionate funder" approach – leaving the provision of all complementary functions that are necessary to the success of grants to its partners, and (though it would of course strongly encourage partners to play their part) being held accountable to a very limited extent if these other components do not fall into place.

Assumptions inherent in Model 1²⁰

11. The original vision for the Global Fund was that it should be a financing mechanism in a strict sense; the Global Fund should return to that original vision.

12. Being a financial mechanism only, the Global Fund needs to focus its energies on maximizing the impact of its financing power rather than on activities such as involvement in ensuring the provision of complementary functions that are less related to this role.

13. The original vision of the Global Fund was based on a clear separation of roles between the Global Fund and other players, with the Global Fund's comparative advantage being the provision of funds and other players providing the services they are best equipped to offer; Model 1 is the model that maximizes this separation of roles.

14. A purely financially-driven model can be made to work, provided

- a. The Global Fund focuses on becoming excellent at identifying, framing and communicating the complementary functions needed to its partners, for them to then respond;
- b. The right arrangements are made with partners to ensure the effective, systematic and accountable provision of the required complementary functions;
- c. The Global Fund makes the other necessary adjustments to its modus operandi (e.g., incentives) and develops the right skill set to make this model function effectively (e.g., due diligence, risk management, etc. – see below under implications).

15. It is possible for the Global Fund to return to a purely financially-driven model, despite the fact that it has become involved in selected non-financial activities since its inception.

16. A sufficient number of approved grants, with the partner assistance as required, can successfully rise to the challenge of performance-based funding under this model.

²⁰ As a reminder, 'assumptions' is taken to mean "what you would need to believe for the proposed model to make sense and to function as intended".

Implications of Model 1²¹

17. Under Model 1, the Global Fund's complementarity with its partners is very clearly delineated by the Global Fund's financing-only role, with partners providing all relevant functions required for the successful implementation of grants complementary to the financing.

18. The Global Fund under Model 1 has a very high degree of reliance on its partners for the provision of the required complementary functions; appropriate arrangements will need to be made to facilitate the effective, systematic and accountable provision of these functions. (The options paper on "optimizing grant performance" suggests some specific arrangements that might be considered.)

19. The Global Fund itself will need to adjust its approach, skills, activities and incentives:

- a. The Global Fund's incentives will need to be adjusted to reflect only what is within its direct control: In particular the Global Fund's responsibility for the success of grant implementation will need to be reduced. Incentives will lean more exclusively toward financing-related metrics, such as disbursements and the degree to which funding follows high performance;
- b. New skills may need to be developed such as:
 - i. Identifying, framing and communicating the complementary functions needed to its partners, for them to then respond;
 - ii. Investing even more than currently in selecting at the outset those grants that are likely to succeed and in proactively managing risk throughout the life of the grant.²² In particular, a much more thorough upfront "due diligence" that considers the capacities of the specific PR as a strong decision criterion for proposal approval might be required;
 - iii. Some of the current activities that support functions complementary to pure financing may be able to be scaled back.

20. The Global Fund and in particular the Board will need to dispassionately accept (at least at the beginning) a certain rate of failure of grants, which may be higher than the current rate.

²¹ As a reminder, 'implications' is taken to mean consequences for implementation, i.e. "what would need to change to be able to accommodate the model" (in terms of e.g., architectural, operational, organizational, financial and policy consequences, as well as any consequences for recipients and partners).

²² This may be required because of the Fund's limited control under this model over the provision of complementary functions to grants: More stringent selection is one of most compelling ways fully in the Fund's power to make as many of the grants successful.

B. Model 2: "Financing Plus"

Description of Model 2

21. Model 2 is based on the belief, derived from experience of the first four years of the Global Fund's existence, that success of the Global Fund's grants requires the Global Fund itself to get involved in a number of functions that complement its financing role, and that the Global Fund is well-positioned to facilitate the provision of these functions. But, respecting the Global Fund's limits as a financing mechanism, Model 2 takes the point of view that the Global Fund should never get involved as an implementer, only as a facilitator or enabler, and that it should do so in a selective, focused, and strategic fashion.

22. Under Model 2, the Global Fund maintains the financing roles from Model 1.

23. In addition (hence the name "financing plus"), to enable performance of its grants, the Global Fund allows itself to play a carefully measured non-financial role that facilitates the effective provision of select complementary functions – specifically those functions that are substantial bottlenecks (like TA and MA or procurement) or where there is significant opportunity for impact. The types of measured roles the Global Fund might consider under Model 2 are: (see Figure 1)²³

- a. Influencing: where the Global Fund, using its influence, plays an active role in strongly encouraging other entities to provide the complementary function required;
- b. Catalyzing: where the Global Fund plays a catalytic role in helping to set up the ongoing provision by a third-party of the complementary function required (see the "GEM" example in footnote 24);
- c. Enabling: where the Global Fund actively provides an ongoing service, which helps to enable provision of the function (an example is the training offered by the Global Fund to recipients on how to create procurement plans, which enables them to improve their procurement competency; another is the "GIST" example in footnote 24);
- d. Outsourcing: where the Global Fund might consider contracting a third-party entity to provide the function on an ongoing basis (the LFA model is a current example of this).

24. As part of Model 2, the Global Fund makes specific decisions about the choice of functions (e.g. TA and MA, procurement, etc.) in which it plays a deliberate non-financial role, what specific objective(s) it tries to fulfill within each function (see below for an example of this), and the role (from among those above) that it chooses to achieve these objectives.

²³ The financier role is the role currently played by the Fund on a number of the complementary functions; for example, the Fund currently funds TA/MA to recipients who budget for it; it also funds procurement. The "doer" role is not considered as part of Model 2, as consistent with the principle that the Fund is not an implementing agency.

25. As an integral part of Model 2, the Global Fund pays particular attention to strengthening and formalizing its relationship with key partners, so as to encourage the effective, systematic and accountable provision of the required complementary functions. A prerequisite for decision-making on the exact role of Global Fund in a particular area is an analysis of the services reliably provided by partners and potential goals needing to be addressed.

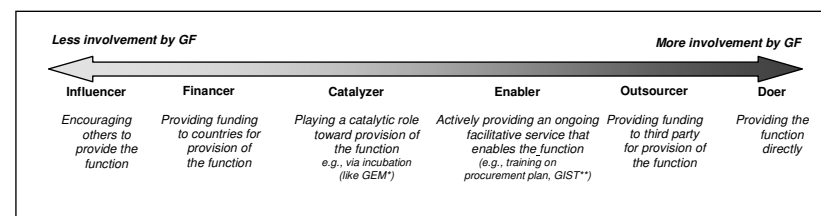


Figure 1: Spectrum of possible roles for the Global Fund for each function (for explanation of * and **, see footnote²⁴ below)

Assumptions inherent in Model 2

26. The Global Fund's experience to date shows that:
- a. It will de facto be held accountable by its Board and its donors for the full performance of its grant portfolio;
 - b. There are always likely to be key gaps in the provision of complementary functions by partners, even if relations with partners are strengthened and formalized;
 - c. Success of the Global Fund's portfolio thus requires the Global Fund itself to get involved in a selective fashion by playing a facilitative role in ensuring the most strategic gaps are addressed.
27. Such involvement by the Global Fund is consistent with it being a financing mechanism because:
- a. These actions are focused and limited, stopping short of playing an "implementing" role;
 - b. They help ensure the success of the Global Fund's financing role;
 - c. It is believed that purely financially-driven model (like Model 1) cannot be realistically made to work.

²⁴ *: GEM is the Global Electronic Marketplace, an electronic procurement initiative which the Global Fund conceived of and incubated during its phase of concept development. Once a suitable plan for GEM was developed and funding secured, the idea was transferred to an appropriate third-party entity for execution. In this way, the Global Fund can help to create (or catalyze) procurement services by the third-party entity that may eventually benefit Global Fund grants on an ongoing basis.

** : GIST is the Global Implementation Support Team, comprised of the Global Fund and its technical partners; in this forum, the Global Fund regularly shares information about grants that are in need of support from partners (as identified for example through EARS), which enables the provision of TA by partners to help the grants.

28. The Global Fund has to a partial extent moved toward such a model over time. However, this progression has not been actively decided or systematic, and would benefit from clear alignment of all stakeholders on where and how to get involved to have an impact.

Implications of Model 2

29. The Global Fund will need to get clarity from the Board that it can get involved, in a selective, strategic, and measured way (as defined by the possible 'deliberate roles' described above), in those complementary functions that have a strong link to the performance of its grants.

30. The Global Fund will need to carefully and strategically identify (a) the most appropriate functions for it to get involved in, (b) the specific objective(s) the Global Fund will try to contribute to within each function, and (c) the right role for the Global Fund to that effect. For example:

- a. The Global Fund might decide that it should get involved in facilitating the TA/MA function (or in procurement);
- b. Within TA/MA, it might consider the strategic objective of ensuring the adequate, transparent matching of TA/MA supply and demand – which is currently a major problem impeding the consistent use of TA/MA by recipients (or it might consider the objective of ensuring high-quality identification of recipients' TA/MA needs, which is another major issue);
- c. Against the objective of ensuring the adequate, transparent matching of TA/MA supply and demand, the Global Fund might consider and decide between the following roles:
 - i. *Influencing*: for example, by publicly encouraging existing TA/MA brokering facilities (a number of which exist) to expand and improve the services they provide, as well as their geographic coverage;
 - ii. *Catalyzing*: for example, by playing an active role in the planning for the development of new such TA/MA brokering facilities, which would then be carried out by a third-party entity;
 - iii. *Enabling*: for example, by creating periodic opportunities for grantees and suppliers of TA/MA to exchange information about services sought and offered (peer sharing or TA/MA regional "trade fairs" at regional meetings).
 - iv. *Outsourcing*: by contracting an external entity (or set of regional entities) to provide a regional TA/MA brokering service to Global Fund recipients.

31. Under Model 2, the Global Fund's complementarity with its partners will need to be clearly and carefully delineated, given that the Global Fund and its partners act in some of the same functional areas. Based on this, appropriate understandings and working arrangements will need to be made to strengthen and formalize relationships with key partners, so as to encourage the effective, systematic and accountable provision of the required complementary functions. Also, the Global Fund will need to spell out clearly which roles it will take on, and which roles it still expects partners to fulfill.

32. The identification of appropriate areas and roles for Global Fund involvement will be informed by the work done as part of the strategy option development for the other issue areas.

- a. Figure 2 shows some of the key functions that will be explored in the strategy development and their link to the strategy issue areas.
- b. For example, TA and MA as well as procurement are treated as part of the issue of "optimizing grant performance;"
- c. As an illustration of roles discussed in the other strategy issue areas, some concrete roles for the Global Fund discussed under procurement in the strategic issue of "optimizing grant performance" include:
 - i. Enabling the direct transfer of funds from trustee account to procurement agents/suppliers on behalf of funded grants: in this way, the Global Fund would play an enabling role to fulfill the objective of faster and more accountable procurement;
 - ii. Offering a centralized procurement service: in this way, the Global Fund plays an outsourcing role, contracting a key function to meet the objectives of faster and more accountable procurement.

33. The Global Fund will need to develop a solid organizational competency in strategically identifying and framing its appropriate involvement in complementary functions. Key considerations in identifying the Global Fund's appropriate involvement might include, amongst others, the following:

- a. The strategic importance of the function and objective considered;
- b. The Global Fund's relative comparative advantage in playing a facilitative role;
- c. The potential magnitude of the impact.

34. Whatever role for the Global Fund is chosen for a given function, the Global Fund will need to fully invest in performing it well, so as to ensure success and impact. This may mean, for example, making the required financial commitments to these activities and acquiring new skills as needed.

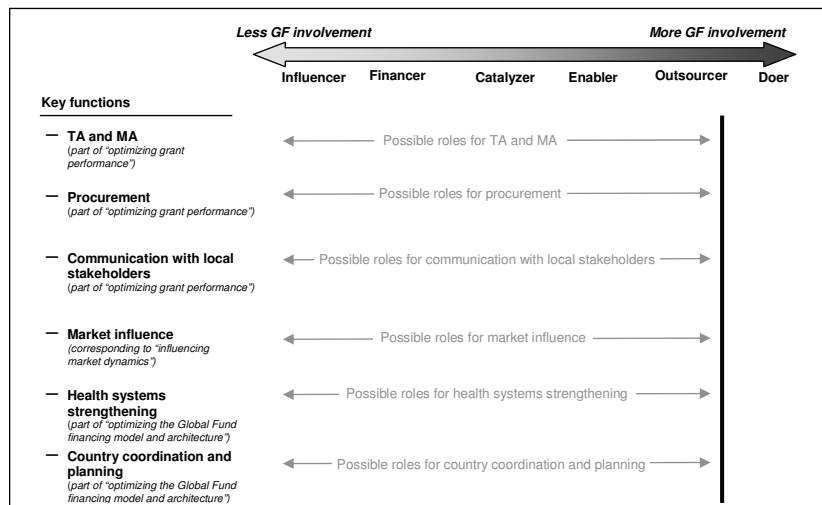


Figure 2: Key functions and their link to strategic issue areas

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