



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Sixteenth Board Meeting
Kunming, China, 12 - 13 November 2007

**GF/B16/3
Information**

REPORT OF THE EXECUTIVE DIRECTOR

INTRODUCTION:

1. Dear Board Members: I am delighted to welcome you on behalf of the Secretariat to this 16th Meeting of the Board of the Global Fund. With this first report to the Board as Executive Director, I wish to contribute to building the close and trusting relationship between the Board and the Secretariat that is so essential to achieving the Global Fund's mission.

2. None of us underestimates the importance of this meeting being held in the People's Republic of China. I warmly thank the government of China, and the Chinese delegation, for hosting this meeting. China is challenged by significant and highly complex AIDS, TB and malaria epidemics. The country is beginning to rise to these challenges, in part, as a recipient of more than US\$ 420 million in approved Global Fund financing for the three diseases, involving 10 approved grants that support programs in all 31 provinces with the exception of Beijing. China is also assuming its role as a donor, with total pledges to the Fund of US\$ 16 million. The Global Fund looks forward to China playing an increasingly active role as an advocate for and contributor to global health in the coming years.

3. I was particularly pleased that a Round 6 HIV grant for China - which focuses on capacity building for civil society - was signed prior to this meeting. Experience around the world has shown that no truly effective national response to AIDS is possible unless the outstanding skills and energy of civil society, including people living with HIV, are leveraged to the full. Among the many advantages of engaging civil society in the provision of health services is that civil society is able to reach those who are most vulnerable, where government and other sectors cannot.

4. The preparations for this meeting have not been without difficulty. I acknowledge the concern of all Board delegations – particularly the delegations representing NGOs and people affected by the diseases – that the Global Fund should be a leader in promoting the right of people living with HIV to travel without the need to disclose their HIV status and without fear of stigma or discrimination, consistent with best practice and policy in international public health. I sincerely thank all those who played a part in reaching an accommodation that has allowed this meeting to take place in China, including the government of China for its firm assurances to implement visa policies in 2008 which do not require a declaration of HIV status. I fully expect that this experience will provide new momentum to the global effort to ensure freedom of movement for people living with HIV.

5. I am very pleased to formally welcome Rajat Gupta and Elizabeth Mataka to their first Board meeting as Chair and Vice Chair. I have already benefited from their guidance and expertise in my first six months as Executive Director and look forward to working with them closely at this meeting and for the remainder of their term.

6. I thank all Board members for their contributions to our unique partnership, and for their confidence in and support to me as Executive Director. I extend my sincere gratitude to each staff member in every Unit of the Secretariat for his or her dedication and commitment to achieving the goals of the Fund. I particularly acknowledge the leadership of the Executive Management Team, including my friend, colleague and Deputy, Helen Evans.

7. This Board meeting comes at time of significant change and opportunity within the Global Fund, and on the international health landscape. The Global Fund is now the largest multilateral financier for the three diseases, providing nearly a quarter of global resources for HIV and two-thirds of international funding for TB and malaria. The Second Replenishment Meeting held in Berlin in September generated major new resources for the Fund.

8. Within the Secretariat, a comprehensive Organizational and Management Review has recently been completed, as has the first component of the Five Year Evaluation of the Global Fund. These complimentary initiatives both call for changes in the way the Global Fund is structured and operates.

9. On the global health landscape, the focus on health systems strengthening has intensified in 2007, notably with the launch of a number of new initiatives - including by the governments of the UK and Norway - which aim to strengthen country mechanisms and improve overall aid effectiveness to achieve the health-related Millennium Development Goals. Such initiatives are closely related to the important discussions that the Board will have at this meeting concerning the financing of health systems strengthening.

10. We also meet here in the context of new global leadership in our field, not only at the Global Fund, but in partner agencies such as WHO and the World Bank. Given this context, managing growth and change are overarching themes of this report.

11. The report is arranged as follows:

- i. Part 1 provides an update on the progress made in the core business of the Global Fund: scaling up prevention, treatment and care for the three diseases. It includes an overview of the Global Fund portfolio and a report on operational issues and challenges.
- ii. Part 2 describes progress made in the three areas that I identified as priorities when I stood for the position of Executive Director: mobilizing resources, facing organizational challenges in the Secretariat, and building partnerships.
- iii. Part 3 addresses key priorities and challenges for the Global Fund in the short and medium term.

PART 1: INCREASING ACCESS TO PREVENTION, TREATMENT AND CARE

Results: Scaling Up and Achieving Impact

1. The Global Fund is translating the hope of access to prevention, treatment and care into reality around the world. As reported in June 2007, results of Global Fund-supported programs for the major indicators show that millions of people are receiving essential health services and that coverage is at least doubling each year (Table 1).

Table 1: Global Fund Top 3 Results Indicators - June 2007

Indicator	Results mid-2006	Results mid 2007	% increase in one year
HIV: People on ART	544,000	1,100,000	100%
TB: DOTS treatment	1,400,000	2,800,000	100%
Malaria: ITNs distributed	11,300,000	30,000,000	165%

2. A more comprehensive set of results in prevention, treatment and care is presented to Board members in a pre-Board information session.

3. In addition to the continued progress being made in expanding access to AIDS and TB services, the rapid increase in scaling up malaria interventions over the last year is particularly encouraging, almost doubling in the first part of 2007. Up to and including Round 6, capacity challenges hindered the success rate of malaria proposals compared to those for HIV and TB. Now, investments in capacity building for malaria are paying off. If the Board approves the recommendations of the Technical Review Panel (TRP) for Round 7, the Global Fund will consolidate its role leading the fight against malaria in most countries and as the main financier of malaria interventions globally. The Global Fund model is supporting systems as well as the delivery of bed nets, with significant decreases in child mortality and incidence of severe malaria reported in some of the highest burden countries. Access to artemisinin-based combination therapies (ACTs) is also rapidly expanding in the public sector.

4. Children and women are major beneficiaries of many of the interventions supported by the Fund, notably in the case of malaria prevention and HIV treatment.

5. By mid-2007, it was estimated that 1.8 million lives had been saved through Global Fund supported programs, with an estimated 100,000 additional lives saved every month. The increasing scale of Global Fund-supported programs provides the basis for further analysis of the Global Fund's impact in reducing AIDS, TB and malaria, consistent with Millennium Development Goal 6. Work is presently underway to improve and invest in impact measurement systems, including through Study Area 3 of the Five Year Evaluation, which will report at the end of 2008.

6. The Global Fund has been among the first donors to transparently measure and report on its progress against the Paris Declaration indicators, and to highlight cases where AIDS, TB and malaria funding can have positive effects on health systems. The benefits of such "diagonal" funding are being increasingly recognized. The Fund will also strengthen its measurement frameworks in these areas in the next year.

Portfolio Overview

Disbursements

7. The grant portfolio has been growing steadily since 2002, with a cumulative total of 491 grant agreements signed as of 31 October 2007. The Global Fund is now disbursing more funds, faster and to more grants than ever before. At the end of October 2007 the Secretariat had disbursed US\$ 1.3 billion of its 2007 target of US\$ 1.7 billion (Table 2).

Table 2: Global Fund Disbursements - 31 October 2006 and 2007

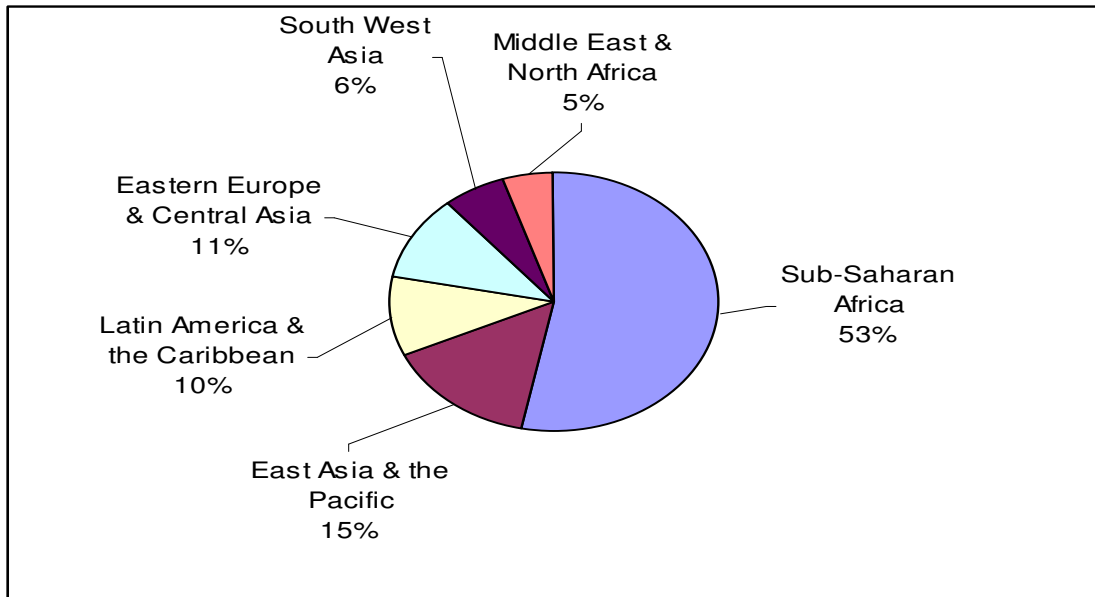
	Disbursed (million US\$)	Target	Rate	Number of Grants
2006	943	1,400	67%	308
2007	1,327	1,700	78%	376

8. An accumulated total of US\$ 4.6 billion (89% of target to date) has now been disbursed in 134 countries and territories. This represents 65% of the total US\$ 7.1 billion committed in signed grant agreements.

9. The corporate Key Performance Indicator (KPI) relating to disbursements is 90% of the disbursement target. For 2007 this target is US\$ 1.7 billion, of which 78% had been disbursed by the end of October. Close attention is needed to ensure that disbursements remain on track.

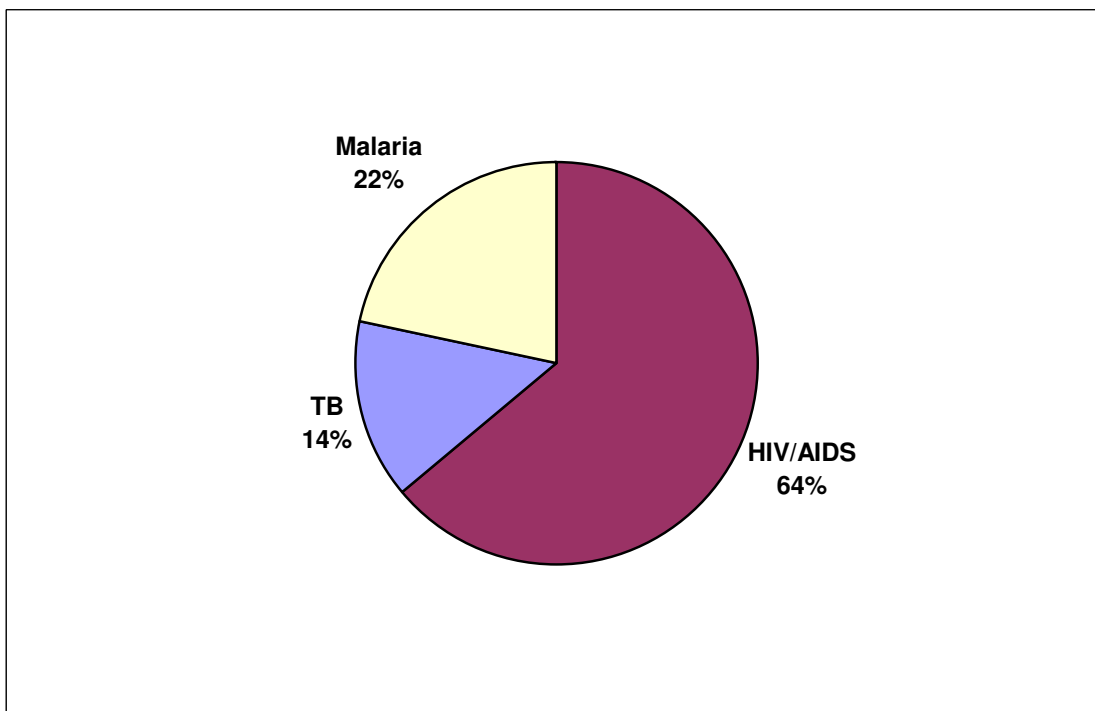
10. More than half of the total amount disbursed (53%) has been to sub-Saharan Africa (Figure 1). The proportions disbursed to East Asia and Pacific, Latin America and the Caribbean and Eastern Europe and Central Asia are roughly equal (10-14%). The Middle East/North Africa and South West Asia have received 5% and 6% respectively of the total amount disbursed.

Figure 1: Percentage of amount disbursed to geographic regions - cumulative total at 31 October 2007



11. Nearly two thirds of the portfolio (64%) to date has been committed to HIV grants, with 22% committed to malaria and 14% to TB (Figure 2).

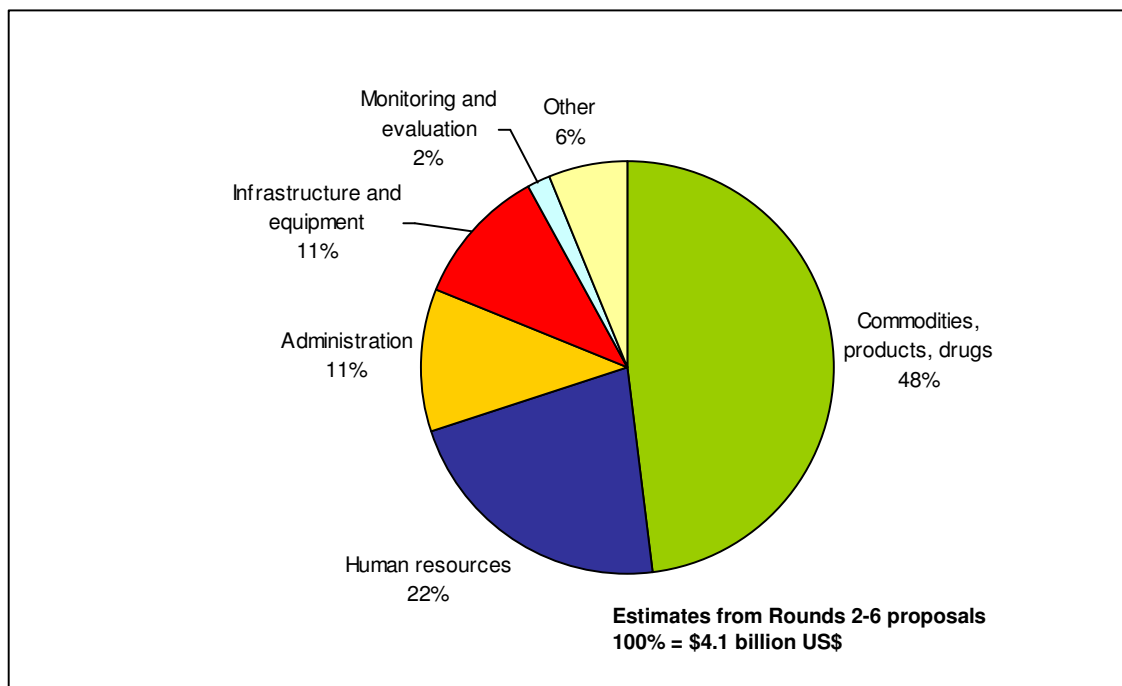
Figure 2: Commitment by disease component – cumulative total at 31 October 2007



12. The Global Fund supports integrated prevention and treatment strategies in all disease areas. While the portfolio to date has favoured treatment, the proportion of spending for prevention is significant. With regard to HIV, for example, an analysis of 190 HIV grants awarded in 110 low- and middle-income countries between 2003 and mid-2007 showed that 95% have prevention related Service Delivery Areas. Of these, 85% contained one or more following prevention activities: condom distribution, HIV counselling and testing, gender-focused interventions, harm reduction and community based prevention. In 2006, a third of the total US\$ 926 million budget for HIV grants (US\$ 305 million) was allocated for prevention.

13. Drugs and other commodities account for nearly half of Global Fund spending (Figure 3), while broad health systems strengthening, including human resources, management capacity building, monitoring and evaluation and infrastructure/equipment, represents between a third and a half of spending.

Figure 3: How are Global Fund Resources Used?



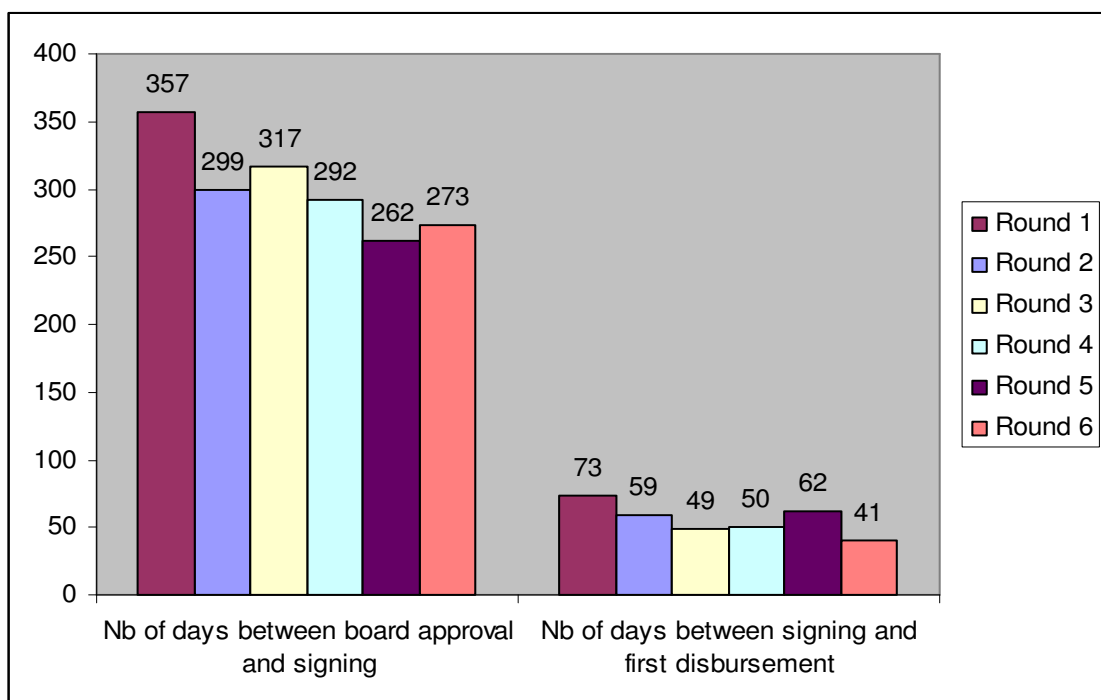
Round 6 Grant Signing

14. Of 87 disease components approved for Round 6, 94 grant agreements have been prepared and 85 had been signed as of 31 October 2007. Four grants were granted extensions, namely China (HIV)¹; Indonesia (Malaria); Iraq (TB); and Vietnam (TB). These extensions were the result of delays arising from grant consolidation, suspensions that have subsequently been lifted, security problems and changes in implementation arrangements during grant negotiations. One grant (Egypt HIV) was approved following a successful appeal and has a signing deadline of early February 2008. This brings the total number of grants in Round 6 to 97.

¹ China (HIV) was signed in October 2007.

15. The KPI relating to grant signing (average time between grant approval and first disbursement) can be broken down into two processes: 1) time between Board approval and grant signing and 2) time between grant signing and first disbursement. The trends for these two measures have been quite stable over the last three Rounds (Figure 4)². An analysis of factors causing delays in grant signing shows that past performance of the Principal Recipient (PR) influences the time from approval to grant signing. Repeat PRs with A and B1 performing grants sign faster than Repeat PRs with B2 and C rated grants, and larger value grants take longer to sign than smaller grants.

Figure 4: Mean number of days elapsed between Board approval and grant signing, and mean number of days elapsed between grant signing and first disbursement (per round, as of 31 October 2007)



Phase 2 Renewals

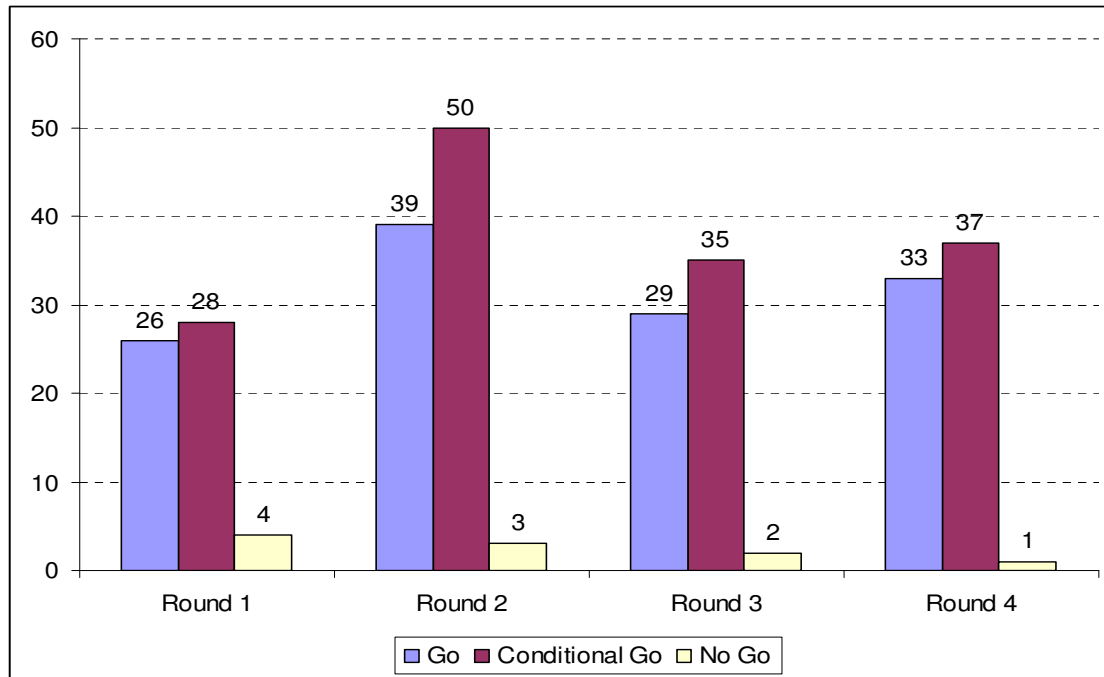
16. The Phase 2 process consists of an extensive review of grant performance after the first 18 months. In the case of grants so far analyzed from Rounds 1 to 4, most Phase 2 decisions favoured continuation of the grant (96%), either with (52%) or without (44%) conditions. For each round, the largest number of decisions favoured conditional renewals, while the “No Go” decisions remain a small proportion overall, with a declining trend (Figure 5).

17. The time taken for signing Phase 2 grants correlates with the decision category. Unconditional renewals take on average 154 days to sign, while conditional renewals

² To calculate the mean number of days between grant approval and signing, grants that have not been signed yet and which have not been granted an extension are assumed to have been signed on 1 November 2007.

take an average of 209 days. These timeframes are lengthy, but experience suggests that shortening them may be difficult to achieve given the intensive work required with PRs to fulfill the conditions attached to grant renewal. Funding has followed grant performance, with A-rated grants receiving on average 95% of the funds requested for Phase 2, while a C-rated conditional renewal received on average 71% of the requested funds.

Figure 5: Phase 2 Grant Renewal Decisions per Round



Rolling Continuation Channel (RCC)

18. RCC is a preferred funding channel recently introduced with the intention of providing high performing grants with an opportunity to continue for another six years, while also scaling up and expanding scope where appropriate.

19. At the outset, there was an expectation that no more than one third of grants would qualify for RCC. This led to an assumption that these grants would enjoy a high approval rate in their RCC applications. At least in the first wave, this has not transpired. Of the 110 grants considered, 30 were found eligible and 10 were submitted for TRP review in the first wave. Only 5 of the 10 were recommended for funding, essentially no different from the approval rate in Round 7 (49%). For those not recommended, the result can be equivalent to termination of the grant. This has potentially serious consequences for continuity of services in some countries, and calls for a review of the RCC process, as further discussed in Part 3 of this report.

Grant Consolidation

20. Following the Board decision in April 2007, the Secretariat conducted a pilot project of consolidating grants to reduce transaction costs, improve alignment and harmonization, and facilitate grant management in a diverse set of grants in Africa, Latin America, Asia and the Pacific. Based on the lessons learned, the Secretariat is now working with countries on a voluntary basis to consolidate existing and new grants. Experience to date suggests that grant consolidation is most feasible at the time that new grants are being negotiated.

Portfolio Risk Management

Portfolio Risk Management Framework

21. The Secretariat is actively working to formalize an institutional risk analysis and risk management framework. The Secretariat is currently finalizing a risk analysis model and will be testing it with individual grants in Round 7 to establish how it can complement current “early alert systems”.

Early Alert and Response System (EARS)

22. EARS is being more visibly integrated into the regular grant management and reporting process to ensure a consistent and transparent approach across the portfolio. EARS was established two years ago to identify performance challenges, to diagnose the source of problems with grants and to mobilize timely technical support. This has served to prompt action by the Secretariat, country-based and global partners, including the multi-stakeholder Global Implementation Support Team (GIST). The system requires improvements, particularly in the areas of timeliness of identification of grant challenges, as well as accuracy and sensitivity of indicators used for monitoring the portfolio in the Secretariat. To date, EARS has not been as systematically implemented and documented across regional clusters as was intended. In addition to establishing a more consistent approach to grant performance ratings, the Secretariat is developing guidelines to standardize the identification and documentation of grant challenges and recommended responses within the grant disbursement process, as well as improving public access to performance data on the website. It is also clear that making the system more accessible and operative at the country level is critical to ensure that implementation challenges are identified as early as possible.

Audits by the Inspector General

23. Between September 2006 and July 2007, the Inspector General carried out audits of Global Fund grants in Bolivia, Indonesia, Kenya, Sierra Leone and Zambia. These reports would be made available under the terms of the Disclosure Policy to be considered at this Board meeting. Approximately 50% of risk factors identified were related to the activities of Principal Recipients. These included poor management, poor monitoring and evaluation systems, conflicts of interest, non-compliant activities and non-compliance of cost expenditures. Thirty percent of risk-factors were directly or indirectly related to CCMs. The main problems identified were a lack of internal guidelines, conflicts of interest, absence of grant oversight and inadequate committee structures.

Additional Safeguard Policy (ASP)

24. The ASP is part of the Secretariat's grant-related risk management strategy. It is used exceptionally, and is invoked by the Secretariat when existing risk management systems suggest that funds may be placed in jeopardy unless additional steps are taken.

25. The ASP has been invoked in five countries: Sudan (Northern Sector), Myanmar, Iran, Cuba and Ukraine. In total, ten grants under the ASP have been signed to date (eight for HIV, one for TB and one for malaria). A total of US\$ 102 million and US\$ 57 million has been approved for Phase 1 and Phase 2 respectively, with a total of US\$ 72 million disbursed. Ukraine has recently been taken off the list of ASP countries, while the grants in Myanmar have been terminated due to restrictions on Global Fund access to the country.

26. Currently six grants are active in the three ASP countries. Most grants were rated B1 at the time of the Phase 2 review and at the time of their most recent disbursements (Table 3).

Table 3: Performance rating for countries managed under ASP

	Phase 2 decision	Phase 2 rating	Latest Disbursement rating
Iran Round 2 HIV	Conditional Go	B1	B1
Cuba Round 2 HIV	Conditional Go	A	B1
Sudan Round 2 Malaria	Conditional Go	B1	B1
Sudan Round 3 HIV	Conditional Go	B1	B1
Sudan Round 5 TB	n/a	n/a	B1
Sudan Round 5 HIV	n/a	n/a	B2

Operational Support

Country Coordination Mechanisms

27. CCMs are a key component of the architecture of the Global Fund and supporting them is a priority for the Secretariat. The CCM Team conducted 42 visits in the past 18 months visiting CCMs and other stakeholders across all regions. CCMs were supported in the context of regional meetings, training workshops or direct visits to provide assistance with governance and grant implementation bottlenecks. The focus of the training workshops is to increase understanding of Global Fund processes and procedures and to strengthen links with existing national coordination processes.

28. Since Spring 2007, the Secretariat has been working with CCMs and other partners to develop a series of 40 case studies that cover 19 countries and 8 thematic areas. The case studies, due in March 2008, reflect upon many of the key challenges and lessons of the CCM model during its first five years, while also highlighting the roles and responsibilities of CCMs in proposal development and grant oversight.

Operational Policies

29. The Secretariat is now implementing a Data Quality Framework which evaluates data quality during the grant lifecycle. The framework includes an LFA On-Site Data Verification Tool, a Monitoring and Evaluation Systems Strengthening Tool, and an External Data Quality Audit. LFAs are closely involved in this work.

Technical Support from Partners

30. Technical support and funds available for capacity development and implementation have increased in 2007. The US Government, for example, has made US\$ 31 million available for this purpose. Other partners, including UNAIDS, WHO, DfID, the French ESTHER network, AusAid and GTZ, among others, have also participated in such efforts. The further expansion of such partnerships is a high priority for the Secretariat, both to build demand and to improve grant implementation.

Procurement

31. Procurement has been strengthened over the last 12 months with the recruitment of additional staff for country and operational support and the preparatory work for the implementation of Voluntary Pooled Procurement. Further strengthening of the Secretariat's Procurement Team is anticipated in early 2008.

32. In order to ensure timely and efficient procurement support to countries, a PSM Operations Support Report is maintained on a daily basis and circulated monthly. In 2007, the average time taken to respond to country requests has been two days.

33. Monitoring of procurement reporting occurs monthly. Analysis of the data shows that the level of compliance has improved considerably. In all, 107 countries and 217 grants – out of 115 countries and 346 grants that include procurement of health products included - have reported procurement activities in the Price Reporting Mechanism. This represents an increase in reporting of 79% for countries and 71% for grants compared to September 2006.

34. The Secretariat has continued the random quality control testing of C-products and is enforcing compliance with the Quality Assurance Policy. Thirty-seven pharmaceutical products have been tested or are in the process of being tested: 17 antimalarials, 1 anti-TB drug and 19 ARVs. Quality control has been successfully completed for 17 products and 46 lots were found to be within the manufacturer's specifications. Twenty more products are currently under quality control testing. As of mid-2007, more than 84% of entries of Single and Limited Source Pharmaceuticals were fully compliant with the policy.

35. For malaria, this activity will be conducted under the supervision of Roll Back Malaria Partnership. An initial status report will be submitted to the Board in April 2008 and the Portfolio Committee will present to the Board for decision at its 18th Meeting its recommendation for modifications to the Quality Assurance Policy.

Price Reporting Mechanism

36. The Price Reporting Mechanism provides valuable information that assists in negotiating the prices of health products. The Secretariat now links the release of disbursements to price reporting, a step which has increased the quantity of data available. The database now contains information related to the procurement value of US\$ 623 million for 107 countries and 217 grants. Data are shared with WHO and we are discussing how best to collaborate with Unitaid in the use of such tools to impact on market dynamics.

37. The Price Reporting Mechanism is being strengthened. Short term improvements are being made to ensure more rapid generation of reports and to improve the quality of data and reporting compliance. In the longer term, overall functionality and integration with other systems - such as WHO and Unitaid databases - will be improved.

Re-tendering of Local Fund Agents (LFAs) and preparation for handover

38. Proposals from organizations seeking to provide LFA services have now been submitted to the Secretariat. The steps involve an internal evaluation of proposals (now underway), review of contracts by the WHO Contract Review Committee, and final negotiation of Framework Contracts with each contractor. The subsequent competition for the selection of the LFA at the country level is scheduled to be completed by the end of March 2008.

PART 2: PROGRESS AGAINST PRIORITIES

1. When I addressed the Board in April, I described three challenges that I saw as the most pressing priorities for the Global Fund, and proposed a range of actions that I considered necessary to address them. This section describes the major activities undertaken by the Secretariat in each of these three priority areas - mobilizing resources; facing challenges in the Secretariat, and building partnerships - in the six month period between my taking office in April and the end of October.

Mobilizing Resources

2. Doubling or tripling the size of the Global Fund over the next three years - consistent with the Board's strategic direction - require significant effort on numerous fronts, drawing upon the capacity and contributions of the whole Global Fund partnership. The Fund is now receiving increasing support and trust from major donors, and solid progress has also been made this year in private sector engagement through the Product (RED) campaign and in the development of new sources of funding, such as Debt2Health.

3. The Second Replenishment cycle of the Global Fund has required intensive focus since I took office. Building on the momentum generated with the release of the Global Fund's second results report, *Partners in Impact*, in Oslo in March, I personally visited most of the major donor capitals between May and early September. In meetings with and visits to recipient countries, I have emphasized the need for strong expressions of demand for Global Fund resources. In the lead up to the Replenishment Meeting, the

Resource Mobilization and Communications Teams in the Secretariat worked tirelessly to build support for the replenishment process.

4. At the Replenishment Meeting in Berlin in September, a total of approximately US\$ 6.3 billion was pledged. Additional minimum contributions anticipated by the Secretariat total US\$ 3.4 billion, meaning that at least US\$ 9.7 billion will be available to meet the Global Fund's needs in the period 2008-2010. This ensures that the Global Fund will have the resources needed to approve the continuation of all ongoing programs over the next three years, estimated at a total cost of US\$ 6.5 billion, and will also be in a position to support new programs valued at US\$ 3.2 billion.

5. I am very grateful to the government of Germany for hosting the Replenishment Meeting, and to both Kofi Annan and Sven Sandström for their leadership as Chair and Vice Chair of the meeting.

6. We welcome the initiative of the United Kingdom in pledging additional amounts up to 2015. Several other donors have indicated that they will also consider making similar long-term commitments.

7. The trust and confidence shown in the Global Fund by donors reflects the commitment of all Secretariat staff, civil society advocates, UN agencies and bilaterals who believe in the vision of the Global Fund and contribute daily to achieving it.

8. In the future, innovative and new funding mechanisms must increasingly complement traditional ODA contributions if we are to meet global targets for health and increase the size of the Global Fund. Berlin witnessed the signing of the first agreement under the Debt2Health initiative, whereby Germany agreed to cancel €50 million of Indonesia's debt on the condition that Indonesia invests half of the freed-up money into national health programs through the Global Fund. Over the next three years, Germany will mobilize a total of €200 million for Global Fund programs through the Debt2Health Initiative. Negotiations are now under way with Kenya, Pakistan and Peru. Debt2Health has also established a new network of people committed to supporting the Global Fund. The speed with which this initiative was developed and implemented clearly shows how much can be achieved and how much is possible if all parties – donors, beneficiaries and the Global Fund - join forces.

9. In September the (PRODUCT) RED campaign announced that the sales of (PRODUCT) RED-branded products had generated more than US\$ 45 million for the Global Fund in since it was established just over a year ago. Together with other cash contributions received this year, this amount represents a more than five-fold increase in the total of resources raised by the Global Fund from the private sector in 2006. Also in September, more than US\$ 7 million of the US\$ 45 million raised flowed to the third Global Fund-(RED) grant to help finance national AIDS programs implemented by the Ghanaian Ministry of Health. With this latest disbursement, (PRODUCT) RED has invested more than US\$ 30 million in AIDS programs in Rwanda, Swaziland and Ghana. In October, Hallmark Cards became the latest major company to join the (PRODUCT) RED campaign.

Facing Challenges in the Secretariat

10. Demands on the Global Fund Secretariat are rapidly increasing, not only in terms of financing for the three diseases, but also with the strong expectation that the Global Fund will play an expanded role in the evolving global health architecture. At the same time, the Secretariat has faced the significant challenges of implementing major decisions reached at the 15th Board meeting in April, supported the Organizational and Management Review and the Five Year Evaluation, and continued work on the transition from the Administrative Services Agreement with WHO.

Organizational and Management Review

11. A major focus of my effort in the last six months has been on undertaking an independent review of the structure, management and workflow of the Secretariat so that it can respond effectively to its expected growth and new challenges over the next three to five years.

12. The review process was requested at the 14th Board Meeting in September 2006, and began with the preparation of terms of reference by a Transition Team. The Team conducted over 160 interviews within the Secretariat and among external stakeholders to establish the priority areas for the review.

13. Booz Allen Hamilton was selected to carry out the Review. The project team combined expertise in organizational design and workload analysis with experience working with international organizations, including the Global Fund. The Review commenced in mid-July with the generous financial support of the UN Foundation. Keith Bezanson provided quality assurance oversight to the process.

14. The data analysis phase ran from early August rough to late September. The project team then returned to Geneva to conduct a number of focus groups and interviews to further evaluate key issues and to test hypotheses. An Executive Management Team retreat was held in early October to discuss the preliminary recommendations and comments were fed back to the project team. The Executive Summary of the final report of the Review is provided as an Annex to the Board papers (GF/B16/3 Annex 1). The overall findings of the Review were shared with the Executive Management Team and Secretariat staff on November 5.

Five Year Evaluation

15. The Organizational and Management Review coincided with data collection and analysis for Study Area 1 of the Five Year Evaluation of the Global Fund, which examined organizational efficiency and effectiveness. Considerable synergy between these two processes was achieved through communication between the evaluation consultants and the Management Review project team.

16. Board members received the report from the TERG in early October. Findings from the Organizational and Management Review and the TERG report on the Five Year Evaluation are reassuringly complementary, and are discussed in detail in Part 3 of this report.

Executive Management Team

17. As the new Executive Director I have endeavoured to develop a trusting and open relationship with the Executive Management Team in regular meetings with Unit Directors and weekly team meetings. In limiting routine participation in these meetings to senior managers, I have aimed to create a forum in which they feel as free as possible to discuss issues and raise concerns.

Global Fund Staff Survey

18. The Annual Staff Survey for 2007 highlighted a number of issues affecting staff morale and the stability of the Secretariat. These include increasing workloads, maintenance of work-life balance, lingering uncertainty about the Administrative Services Agreement process and some inevitable anxiety about the outcome of the Organizational and Management Review. I have focused considerable attention on communicating with and listening to staff on these issues, including through meetings with the Staff Council and in the four town hall meetings I have held since taking office.

19. The 2007 Staff Survey showed that the current level of collaboration within teams is viewed quite positively, but that better communication and collaboration is needed across the Secretariat. In their responses, more than 70% of staff rated the Global Fund work experience as the same or better than their previous job. Staff members anticipate improvements in organizational strategy and direction in the coming year, while also seeking greater opportunities to be consulted in decision-making. They have also expressed a desire for greater consistency across Units in work processes and methods, including in the way employee performance is assessed. I am paying close attention to the concerns expressed by staff in the Annual Survey and in the Management Review and Five Year Evaluation processes. Some of these will be addressed by the new Performance Management system, scheduled for implementation in January 2008, and the Leadership and Management Program, which aims to strengthen people management and professional skills across the Secretariat.

Global Fund Human Resources

20. The rate of staff turnover in 2007 (approximately 4%) is currently lower than in 2006 (8%). The diversity of Global Fund staff remains one of the organization's strengths. Just over 60% of Global Fund staff are women, although, at 1 October 2007, the percentage of women in senior positions (35% of all staff) remained slightly below target (40%). The Fund also represents a unique mix of professional backgrounds, with nearly a third of Global Fund staff coming from the private sector and around 40% from UN agencies.

21. The proportion of staff from Western Europe and North America remains high, at nearly 60%, but there is also quite substantial representation from sub-Saharan Africa (16%). In 2007, targets for the proportion of staff from Eastern Europe, Middle East/North Africa, East Asia/Pacific and Latin America/Caribbean are being met or exceeded. Further efforts are needed to attract staff from communities affected by the pandemics, including people living with HIV.

22. Earlier this year I imposed a freeze on recruitment for senior positions pending the outcome of the Organizational and Management Review. Nevertheless, since the last Board meeting, 179 selection processes have been conducted. These relate to posts moved from temporary to fixed-term, replacements after resignations, as well as new positions. The Human Resources Department has undertaken a series of initiatives to more expeditiously process recruitments, diversify the sources of candidates, enhance the quality of applications received and minimize the time taken to fill in positions.

23. Key personnel changes this year include the departures of Bernhard Schwartländer, Director of Performance Evaluation and Policy, who has become the UNAIDS representative in China, and Nosa Oboraton, Director of Operations, who has taken a senior position with the Health Metrics Network. I am very pleased that John Parsons will join us from UNESCO in January 2008 to assume the position of Inspector General, as Ken Langford returns to his full-time duties at WHO, having served as Global Fund Inspector General over the last year. I sincerely thank these senior colleagues for their service to the Fund, as well as WHO for allowing Ken Langford to devote a significant part of his time to the Fund. Pending recruitment to the vacant position, I am delighted that Debrework Zewdie, head of the World Bank's AIDS program, has agreed to serve as Interim Director of Operations for a time-limited period of up to six months. The willingness of the World Bank to make Debrework temporarily available to the Global Fund on a non-reimbursable loan basis is an excellent example of collaboration and sharing of expertise within the Global Fund partnership. Daniel Low-Beer will very capably serve as Interim Director of Performance Evaluation and Policy pending recruitment to this position.

Administrative Services Agreement (ASA)

24. I welcome the work of the Finance and Audit Committee this year to develop guiding principles for the transition from the ASA - such as ensuring that the interests of staff are protected - and to define the type of employer that the Global Fund should be in the future: performance-based, career-enhancing, and driven by teamwork. The projected costs of the transition are significant, as is the work required to implement human resources policies, administrative arrangements and new infrastructure by the proposed deadline of December 2008. I am nevertheless confident that, with the Board's support, the Global Fund Secretariat will enter 2009 as one of the most modern, dynamic and attractive workplaces in the field of global health.

Linguistic Diversity

25. I am working to promote greater linguistic diversity at the Global Fund. For example, documentation for the LFA retendering process was distributed in three languages, and decision points from this and subsequent Board meetings will be made available in all six UN languages. Such steps are needed to increase access to information about, and opportunities for interaction with, the Global Fund.

Building the Global Fund Partnership

26. Strong partnerships are essential if the Global Fund is to fulfill its primary mission as a financing instrument. It is important to remind ourselves that the Global Fund is not an entity that exists somehow separately from partners. It is a partnership, and all Board

constituencies have crucial roles to play both in Global Fund governance, generating demand and scaling up Global Fund-supported programs.

27. Since taking office, I have interacted extensively with Board and committee members and their constituency groups. I have been particularly concerned to strengthen working relationships between the Secretariat and the multilateral agencies. I am especially looking forward to further building the excellent relationship between the Global Fund and UNAIDS with a new Memorandum of Understanding that will increase our collaboration and accountability. UNICEF has requested discussions about the potential for a similar arrangement. Collaboration with WHO has also been strong, notably with the successful consultation on health systems strengthening hosted by WHO on behalf of the Global Fund in July. The new H8 group of multilateral agency heads plus the Gates Foundation and GAVI is providing additional opportunities for dialogue on the health systems and aid harmonization agendas, and this group is considering the development of a mutual accountability framework to strengthen joint advocacy and technical collaboration.

28. The Secretariat has invested significant time and resources in recent aid harmonization initiatives from bilaterals, such as the UK's International Health Partnership, the Norwegian Campaign for MDGs 4 and 5 and the German Providing for Health Initiative, and is working to develop clear criteria to guide Global Fund participation in SWAPs and similar mechanisms. A challenge in participating in these processes is to ensure that the Global Fund exhibits maximum flexibility for countries while also adhering to its core principles of being country-driven and ensuring accountability and performance.

29. A strong partnership with PEPFAR is particularly important for the Global Fund, especially at country level. The Global Fund and PEPFAR are harmonizing their efforts closely in Kenya, Ethiopia and Tanzania, and this year I have made joint visits with Ambassador Mark Dybul to Cote d'Ivoire, Rwanda and Haiti. I thank Mark for his support in building an excellent relationship between PEPFAR and the Global Fund, and look forward to working with him and other cosponsors on planning for the Implementers' Meeting in Kampala in 2008.

30. Work continues to maintain and build relationships with major global health partnerships. A Memorandum of Understanding has been concluded with Stop TB, and a similar arrangement could be expected with Roll Back Malaria in the future. The overall strengthening of the Roll Back Malaria partnership has been evident in our discussions about hosting the Affordable Medicines Facility for malaria (AMFm), and in the encouraging TRP recommendations with regard to malaria proposals that the Board will consider at this meeting.

31. I am very pleased that the Global Fund Secretariat is now in the final stages of concluding agreements with UNITAID for \$92 million worth of tuberculosis and malaria treatments to scale-up high performing Global Fund grants. We are also working to finalize the legal agreement for a UNITAID contribution of \$52.5 million towards medicine procurement for Round 6 recipients. Work continues to define a "roadmap" for longer term collaboration with Unitaid.

32. Friends of the Fund organizations continue to play a vital role in helping to mobilize both resources and demand for the Global Fund. In addition to the existing four Friends organizations in Japan, the US, Europe and Africa, three new Friends organizations are about to be launched in Australia/Pacific, the Middle East and South Asia. Several others are in the final planning stage. The growing Friends network provides new and exciting opportunities for cooperation across the continents.

33. I routinely engage in dialogue with civil society, NGOs and people living with the diseases in international fora and on a systematic basis when visiting countries, both in the context of CCMs and in separate meetings. These encounters are energizing, inform my thinking and consistently remind me of the reason that the Global Fund exists. Improving civil society participation in all aspects of the Global Fund's work has been a priority concern for me while reviewing the structure and operations of the Secretariat.

PART 3: SHAPING THE GLOBAL FUND FOR 2008-2010

Overview

1. The Organizational and Management Review focused on the structure and functioning of the Secretariat, and related workforce challenges. An Executive Summary of the Booz Allen Hamilton report is provided as an Annex to the Board papers for this meeting (GF/B16/3 Annex 1). The Executive Summary sets out the major building blocks of the new Secretariat structure as presented to staff on November 5. Refinements to the structure and processes proposed by Booz Allen Hamilton will be made in consultation with management and staff.

2. The report from the Review notes that the Global Fund has achieved a rate of financial growth unprecedented among international development organizations. It has grown from a start-up to an organization of over 300 staff in just five years. In light of this rapid growth, the Review found that the Secretariat is now characterized by a degree of fragmentation, with units too often operating in silos and individuals tending to focus on Unit - rather than Global Fund - priorities. Systems have been added onto other systems, often without time to build in the necessary synergies between Units or to undertake adequate planning.

3. The consultants also reported a general lack of clarity regarding roles and responsibilities, with a duplication of efforts in some areas and a multiplicity of operational approaches in others. For example, policy decisions are made and interpreted separately by multiple parts of the organization and efforts to create partnerships are spread throughout Units. The Review also highlighted tension between the need to ensure quality of grant agreements and the need to process grants quickly. The workforce analysis undertaken as part of the Review highlights the importance of developing a longer-term human resources strategy and workforce planning based on growth scenarios developed by the PSC and Board.

4. The TERG report to the Board on the Five Year Evaluation of the Global Fund highlights a number of similar issues and proposes six priority strategic and operational areas that the Global Fund needs to address to improve its efficiency and effectiveness.

5. The remainder of this report focuses on the implications of the Organizational and Management Review and the TERG Report over the next three years.

Secretariat Structure

6. The Secretariat structure that I have decided upon is based upon the recommendations made by Booz Allen Hamilton, quality assurance undertaken by Keith Bezanson during the Organizational and Management Review process and inputs from inside and outside the Global Fund, together with my own observation of the Secretariat during the last six months.

7. The new structure is that of a streamlined Secretariat with Clusters, Units and Teams that have clear vertical reporting lines and are scalable to accommodate future growth. It reduces the potential for duplication of effort in the Secretariat - for example, in the area of policy development - and should lead to simplification of and improved efficiency in critical processes such as grant negotiation, grant signing and risk management.

8. Collaboration across clusters will be promoted in key areas such as partnership development with civil society and the private sector at global and regional levels.

9. The structure comprises a new upper layer of five clusters that will be led by the senior managers reporting directly to the Office of the Executive Director. The clusters are:

- i. *Strategy, Policy and Performance Cluster:* This will expand the former Policy, Evaluation and Performance (PEP) Unit by adding to its components a strong Unit responsible for overall strategy and operational policies, bringing together staff formerly located in different parts of the Secretariat. This cluster will also house the TRP Team and a team of medical and scientific advisers in the three disease areas. Together, these units and teams will more effectively link strategy with the evidence base and performance.
- ii. *Country Programs Cluster:* The Operations Unit will be restructured to provide additional management support and enhanced with a Support Services Unit to assist Grant Teams in negotiation and management of grants. The new Regional Units within this cluster will also be strengthened to promote the development of partnerships with civil society and the private sector at country level.
- iii. *Partnerships, Communications and Resource Mobilization Cluster:* This cluster is oriented towards consolidating and building partnerships across the Secretariat, with constituencies in developing countries, and with multilaterals, bilaterals, civil society and the private sector at the global level. It will also lead the Secretariat's efforts in resource and demand mobilization at the global level, and house the Communications Unit.
- iv. *Administration Cluster:* This will comprise human resources, administrative functions, information systems and technology, and the Legal Unit. The Legal Counsel, however, will report directly to the Executive Director.

- v. *Finance and Procurement Cluster*: This cluster will include the current functions of the Chief Financial Officer, with the addition of the Procurement Unit, and, if approved by the Board, will include the Affordable Medicines Facility for malaria.

10. As the Management Review makes clear, the primary role of the Executive Director is to serve as the leading ambassador for the Global Fund, building and strengthening its political constituency and resource base and guiding the development and implementation of organizational strategy. The Deputy Executive Director is responsible for the day-to-day management of the Secretariat, promoting collaboration between teams, making sure that processes and initiatives are implemented and function efficiently and acting in the absence of the Executive Director. The Office of the Executive Director will be structured in line with this division of labour, with appropriate administrative and advisory support, and will be overseen by a Chief of Staff. The Chief of Staff will also serve as a link between the Executive Director and the Chair of the Board.

11. I am confident that this revised structure will help to address many of the concerns that have been raised in the Organizational and Management Review, the TERG Report and Staff Surveys, and look forward to the support of the Board in its implementation.

Global Fund Strategy and Portfolio

12. In its report to this Board meeting, the TERG identifies a number of “inherent tensions” in the Fund’s founding principles, notably a tension as to whether the Global Fund should take a more proactive role in shaping its portfolio, including the types of interventions that are supported. The TERG recommends that the Global Fund develops a “coherent vision and mission statement” based on “prioritized and supplemented guiding principles, as a framework for a future business plan”.

13. In considering these proposals, Board members will recall that the recently completed Global Fund strategy³ approved at the 16th Board Meeting states that the founding principles set out in the Framework Document have stood the test of time, although the existing Global Fund architecture requires some modification. The strategy includes several such modifications, the objectives of which are for the Fund to grow to meet demand, adapt to country realities and innovate for greater impact.

14. I concur with the view expressed in the strategy that the Global Fund’s founding principles stand the test of time, including the existing purpose of the Fund set out in the Framework Document. In the course of developing the strategy, the PSC and Board recently concluded that, based on evidence assembled by the TERG, the Global Fund’s demand-driven model is operating in a balanced manner across different regions and diseases⁴. I am concerned that the TERG’s recommendations could lead to the revisiting of fundamental principles which have allowed the Fund to impact upon the three diseases on an unprecedented scale in the last five years and that have introduced significant innovations in health and development. The development of additional products and plans could distract the Secretariat from refining its policies within the adopted strategic framework. Furthermore, it would potentially absolve partners of their

³ *Accelerating the Effort to Save Lives*, Global Fund to Fight AIDS, TB and Malaria, 2007

⁴ Funding the Right Things (GF/PSC7/02)

responsibilities to support the scale-up of country programs that are financed by the Global Fund.

15. The question whether the Global Fund should focus primarily or exclusively on the poorest countries with the highest burden of disease should be linked to any Board discussions about the balance and shape of the portfolio. I am concerned by any approach to fighting the three diseases that does not consider the truly global nature of the epidemics. Cessation of support to a number of countries in, for example, Eastern Europe and Latin America/Caribbean, would unquestionably reduce the global impact of the Global Fund, particularly in the area on MDR-TB and HIV prevention. This could also cause real damage in countries where Global Fund resources not only support the scale up of public sector programs, but often form the foundation of civil society responses, as well.

16. I believe that the Global Fund needs to become more “people-centered” in its model and approaches. The Fund needs to more systematically consider whether its resources are being effectively used to reach those most in need: the poor, women and girls in many regions of Africa and the most vulnerable, including injection drug users and men who have sex with men. Consistent with a more “people-centered” approach, I reiterate the commitment I made at the Replenishment Meeting to give greater attention to gender issues as a whole in the Secretariat, including through the appointment of a gender focal point and implementing other gender-focused initiatives that are described in a separate paper to the Board⁵.

17. My final observation in relation to strategic issues for the Global Fund concerns the decision that will take place at this meeting in relation to health systems strengthening. The debate about “vertical” and “horizontal” funding has dominated the international health agenda for much of the year, at times giving rise to false dichotomies and a rather abstract and ideologically-biased discussion. In reaching a decision about the best operational mechanism to pursue, the Board needs to be clear that, while the Global Fund seeks to maximize health system-wide benefits, its principal means of doing so will continue to be through the scale-up of interventions against AIDS, TB and malaria.

Partnerships

18. The Management Review and the Five Year Evaluation consistently highlight the need for a more strategic and results-oriented Global Fund approach to partnerships, notably with civil society and the private sector, and in technical support for proposal development and grant implementation.

19. A solid analysis of the Global Fund partnership environment will become available early in 2008 through Study Area 2 of the Five Year Evaluation. This will inform a comprehensive partnership strategy that is now in the preliminary stages of development by the Secretariat. The strategy will need to comprehensively assess the respective responsibilities and contributions of different partners at different points in the Global Fund grant cycle.

⁵ Scaling Up a Gender Sensitive Response to HIV/AIDS, Tuberculosis and Malaria by the Global Fund (GF/B16/13)

20. In the meantime, partnership development does not stand still. The initiatives already underway and described in Part 2 of this report - including the development of a mutual accountability framework by the "H8" group of agency heads and the exploration of MoUs with key technical agencies - are all part of an encouraging trend towards greater collaboration between multilaterals and better alignment with country programs.

21. In the area of health systems strengthening, the Global Fund's disease-focused approach to health systems strengthening and the efforts of the World Bank and other donors must be well-coordinated.

22. The restructuring of the Secretariat is intended to strengthen the development of the Global Fund partnership at country level by enhancing the support available to Regional Units in the areas of civil society and private sector partnerships, and strengthening CCMs. The indispensable role of civil society in the response has already been mentioned in this report. The Global Fund must try harder to engage the private sector as major service providers in many high-burden countries. Strengthening the support provided to CCMs is also crucial, as their potential contribution to health and democracy-building becomes increasingly apparent.

23. The high success rate of TRP approval of TB and malaria proposals in Rounds 6 and 7 respectively demonstrates the remarkable support that has been provided to countries by partners in recent years, including the Stop TB and Roll Back Malaria partnerships. A focused international effort is needed to increase the quality and ambition of HIV proposals and overcome bottlenecks to the further scale-up of AIDS programs.

24. Another outcome of stronger engagement between the Global Fund and the Roll Back Malaria partnership is the potential hosting of the Affordable Medicines Facility for malaria at the Global Fund Secretariat. The work conducted to assess how the Global Fund and the AMFm can collaborate examined the potential synergies and challenges between the subsidy concept and the Global Fund's model, and successfully involved all RBM stakeholders, including the World Bank, the US President's Malaria Initiative, WHO, the Gates Foundation and UNICEF.

25. Partnerships are also key to building demand. I hope in the years ahead to see a stronger appreciation of the fact that being a Global Fund recipient is not a passive or neutral act, but a form of political partnership and co-ownership with the international community, involving responsibilities and commitments. These include commitments to understanding and acknowledging the nature of local epidemics, implementing the necessary evidence-based interventions, and serving and empowering those who are most vulnerable to the diseases.

Accommodating Future Growth

26. The Five Year Evaluation noted that fears of the Global Secretariat becoming unduly bureaucratic are overplayed. In fact, chronic understaffing of the Secretariat poses significant risks to the overall functioning of the Global Fund and management of the grant portfolio. The 2008 Budget being presented to the Board at this meeting reflects the findings of both the Evaluation of the Management Review that the current level of staffing in the Secretariat is not compatible with growth projections for the Global

Fund in the next three years. Accordingly, the proposed Budget includes a significant increase in staff numbers, while also ensuring that projected ratios of Secretariat operating expenses to overall Global Fund expenditure and to the value of active grants are still well below the thresholds established in the 2007 Key Performance Indicators.

27. It is also clear that arbitrary caps on staff numbers and ad hoc recruitment processes have not comprised a strategic approach to human resources planning. The 2008 Budget aims to provide the Executive Director and the Management Team with the necessary flexibility to make personnel decisions based on a well-defined human resources plan, as recommended by the TERG. The development of such a plan is essential for the effective implementation of the new organizational structure and for addressing the numerous challenges associated with the transition from the WHO Administrative Services Agreement.

28. Additional staff will be readily accommodated by the recent expansion of the Secretariat to two additional floors in its current premises in Geneva. Plans currently being developed for these floors will be adapted to the new Secretariat structure, with the objective of creating a modern and interactive working environment.

Streamlining Global Fund Processes

29. As the Global Fund has evolved, its processes and “architecture” have become increasingly complex. Although a certain level of complexity is inevitable in a diverse and growing portfolio, it is becoming apparent that many countries find the Global Fund’s processes increasingly burdensome and confusing. A few recipient countries report that engaging with the Global Fund is as much a cause of frustration and bewilderment as it is a source of encouragement and hope. In addition, the experience with the Rolling Continuation Channel has shown how, if not coherently implemented, a process that was intended to facilitate access to Global Fund resources for high-performing countries might have resulted in the discontinuation of programs for many thousands of people who depend upon them.

30. It is clear that the growing complexity of the Global Fund’s processes is creating further distance between the Secretariat and recipients. This poses risks to the Fund’s hard-won reputation as a lean, flexible, country-owned mechanism that provides financing rapidly, reliably and in a sustainable manner.

31. Rather than building new processes on top of old ones and continually applying Band-Aids to the current architecture, it is now time to stop, take stock and systematically assess opportunities to simplify the way that the Global Fund works. Accordingly, the Secretariat has commenced a review process, beginning with the Rounds system, Phase 2 Review and the Rolling Continuation Channel. The Operational Policy Management Framework also needs to be reviewed. The objective of this process will be to present options to the Policy and Strategy Committee at its meeting in March 2008.

32. To date, most of the initiatives to modify the Global Fund architecture have involved simplified or expedited processes for well performing grants. However, both the Board and the Secretariat also need to focus in the coming months on how the less well-performing grants can be encouraged within the Global Fund architecture.

Resource Mobilization

33. The successful conclusion of the Replenishment Meeting is by no means the end of current resource mobilization efforts. Additional contributions - particularly from new donors and from existing donors who have the potential to give more – will be needed if demand and Global Fund capacity are to reach the projected range of US\$ 12-18 billion for 2008-10. In Berlin, donors agreed to hold a mid-term meeting in 2009 as part of an ongoing process to review the performance of the Global Fund and to consider additional funding based on an updated demand estimate. Planning will also begin at that meeting for the Third Replenishment for the period 2011 and beyond.

34. The Global Fund is still heavily reliant on Official Development Assistance, with about 90% of resources provided by public sector contributions from OECD DAC countries. Continued attention is needed to diversify the number of such donors, including from the rapidly growing economies, Gulf states and new EU Member States states. Regional contributions should also be explored. As the TERG has noted, the private sector can still be engaged to a larger extent by expanding the range and types of contributions it makes, including through co-investment and non-monetary contributions. Meanwhile, further innovation in financing must be encouraged, for example, through the work on innovative financing of the Group of 43.

35. The current requirements of the Comprehensive Funding Policy mean that the liquidity of the Global Fund continues to increase, and some donors face difficulties in justifying additional funding when the Fund appears to have large amounts of cash on hand. The Secretariat is working with donors to examine the potential for expanded use of promissory notes or similar instruments. I hope greater use of these can be made of such instruments in the coming years, and I look forward to working with the Board on developing solutions to the challenge of the cash reserves.

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36. Having served as Chair of the Technical Review Panel, and now as Executive Director, I am more conscious than ever that the work of the Global Fund must encompass and reconcile a clinical micro-narrative - focusing on the needs of the individual – and an economic and political macro-narrative that confronts the big questions of global health and development. This places all of us in a position of unique privilege and responsibility. I wish the Board well in its deliberations at its 16th meeting, and look forward to working with all Board members and their constituencies in the year ahead.

M.D. Kazatchkine
November, 2007