

REPORT OF THE EXECUTIVE DIRECTOR

INTRODUCTION:

1. In 2009, we have witnessed another year of sustained growth in the responses to AIDS, TB and malaria, with expanding coverage of prevention and treatment and increasing evidence of impact. Further impressive results can be anticipated in the next two years as resources from Round 8 - the largest round in the history of the Global Fund - are implemented.
2. The sustained, high demand seen in Round 9 proposals this year reflects the remarkable work being done by countries and reminds us of the extraordinary hope that the Global Fund continues to generate for people around the world. It sends a strong message that countries are ready to further scale up disease programs and strengthen health and community systems. And it shows that, when sufficient resources are available, the Global Fund is a highly effective mechanism for rapidly transforming demand into increased coverage of interventions and lives saved.
3. However, because overall demand has been higher than anticipated in the funding scenario of the replenishment meeting in Berlin in 2007, the Global Fund faces a resource gap for the period 2009-10. The Board was able to fully fund Round 8 by requesting that efficiencies be achieved in the course of grant negotiations and by approving proposals in tranches; Italy and the US announced supplementary pledges to help close the gap. This year, the amount of funding recommended by the TRP for Round 9 and the first wave of National Strategy Applications (NSAs) again exceeds the resources available, while donor countries face a constrained economic environment. The Board therefore faces challenging decisions as it reviews a number of options to help close the current resource gap.
4. Notwithstanding the challenge of resource constraints, 2009 has been a year of tremendous activity in the Secretariat, including the negotiation and signing of Round 8; preparing for the implementation of the Affordable Medicines Facility for malaria; the launch of voluntary pooled procurement; the launch and review of Round 9 and the First Learning Wave of National Strategy Applications (NSAs); work to increase the number and quality of proposals that address gender and sexual orientation; initiatives to accelerate the scale up of PMTCT programming and increase coherence with partners on financing for health systems strengthening; the redesign of the grant architecture and continuing efforts to establish the Global Fund's own administrative systems. In anticipation of these many demands, the Board approved an increased budget and staffing levels at the end of last year, with the result that around 150 additional staff members have joined the Secretariat in 2009. At this meeting, the Board will review progress made in many of these areas of activity, and I reflect upon some of the lessons that have been learned from them in Parts 1 and 2 of this report.

5. Looking ahead to 2010, the Global Fund faces both major challenges and remarkable opportunities. Foremost among these are the Third Voluntary Replenishment of the Global Fund - which will be so critical in determining whether the health-related MDGs are met by 2015 - and the implementation of a new grant architecture. I discuss these and my other corporate priorities for 2010 in Part 4 of this report.

6. I am delighted that this meeting is taking place in Ethiopia and I warmly thank the government of Ethiopia and the new Chair of the Global Fund Board, Health Minister Tedros Adhanom Ghebreyesus of Ethiopia, for hosting the meeting in Addis Ababa.

7. The government of Ethiopia and its partners have demonstrated a strong commitment to tackling AIDS, TB and malaria in the country. Ethiopia is the largest recipient of Global Fund resources to date, with grants implemented by both government and non-government principal recipients. Some 150,000 people are now receiving antiretroviral treatment, more than 22 million insecticide-treated bed nets have been distributed and around 145,000 people receive DOTS annually. The Global Fund and PEPFAR have collaborated closely in the country, and together their resources have contributed to strengthening of the health system and the expansion of primary health care, including through the recruitment of tens of thousands of health extension workers and the renovation and construction of health centres.

8. These efforts have contributed to a decline in estimated adult HIV prevalence in Ethiopia from over 4 per cent in 2003 to around 2 per cent today. A recent study estimated that the roll-out of antiretroviral therapy has led to a decline in adult AIDS deaths of about 60 per cent in Addis Ababa in 2007¹. However, expanding HIV prevention - including programs to prevent mother-to-child transmission (PMTCT) programs - remains a challenge. Bed net coverage in Ethiopia has rapidly increased to around 70 per cent from only 2 per cent in 2005, while DOTS coverage in health facilities is now higher than 90 per cent.

9. I congratulate Minister Tedros on Ethiopia's accomplishments and take this opportunity to warmly welcome him to his first meeting as a member and Chair of the Global Fund Board. His experience scaling up national programs for the three diseases will be invaluable to the Board over the next two years.

10. I also welcome Ernest Loevinsohn of Canada in his new capacity as Vice-Chair of the Board. Ernest's history with and knowledge of the Global Fund since it was established in 2001 will serve the Board well.

11. As the election of the new Chair and Vice-Chair did not occur until July this year, the former Chair Rajat Gupta and former Vice-Chair Liz Mataka served somewhat extended terms, for which I thank them both. I especially thank Rajat for the insightful set of observations that he sent at the end of his term, and for organizing a retreat with the incoming Chair and Vice-Chair in New York in September 2009. I also sincerely thank the outgoing Committee Chairs and Vice-Chairs, all of whom have also served extended terms.

12. I warmly welcome the other new Board members, several of whom have served as alternate Board members in the past, or who have served the Global Fund in other roles. I am especially pleased to welcome Eric Goosby to his first Board meeting representing the US delegation, and I am confident that his participation in the Board will enable a continued strong collaboration

¹ Reniers G et al. Steep declines in population-level AIDS mortality following the introduction of antiretroviral therapy in Addis Ababa, Ethiopia. AIDS 2009 vol 3, number 4, pp 511-518

between the Global Fund, the US government and PEPFAR. I am also very pleased to welcome Jorge Bermudez from Unitaaid and Awa Coll-Seck from Roll Back Malaria as Board member and alternate in the new Board seat for the partners constituency.

13. I thank all other members of the Global Fund partnership for their contributions to the work of the Fund, including UNAIDS, WHO, the World Bank, the Stop TB Partnership, UNICEF, UNFPA, members of the Global Business Coalition, the private foundations, civil society groups and people living with the diseases. I wish to personally thank Michel Sidibé of UNAIDS for our very close collaboration throughout the year.

14. I extend my sincere appreciation to all members of the staff in the Global Fund Secretariat - including the Executive Management Team - for their continued hard work and support.

15. I warmly welcome Debrework Zewdie back to her home country to participate in this Board meeting as the incoming Deputy Executive Director of the Global Fund. Debrework is known to many of you from her previous role as Director of the World Bank's Multicounty AIDS Program, Board member representing the World Bank and acting Director of Operations at the Global Fund in 2007. I am sure Debrework will make an outstanding contribution to the senior leadership of the Global Fund and I am greatly looking forward to her joining the Secretariat on a full time basis in January 2010.

16. This report is structured as follows:

Part 1 provides an overview of the Global Fund's mid-year results and global progress against the three diseases, as well as the composition of the portfolio. It also addresses key operational issues and challenges for the Global Fund in 2009.

Part 2 describes progress made in and lessons learned from key initiatives that are presently being implemented by the Secretariat.

Part 3 provides an update on the Secretariat and progress made in building the Global Fund as a newly-autonomous international financing institution for health.

Part 4 discusses the five corporate priorities that I have set for the Secretariat in 2010.

PART 1: RESULTS AND OVERVIEW OF THE PORTFOLIO

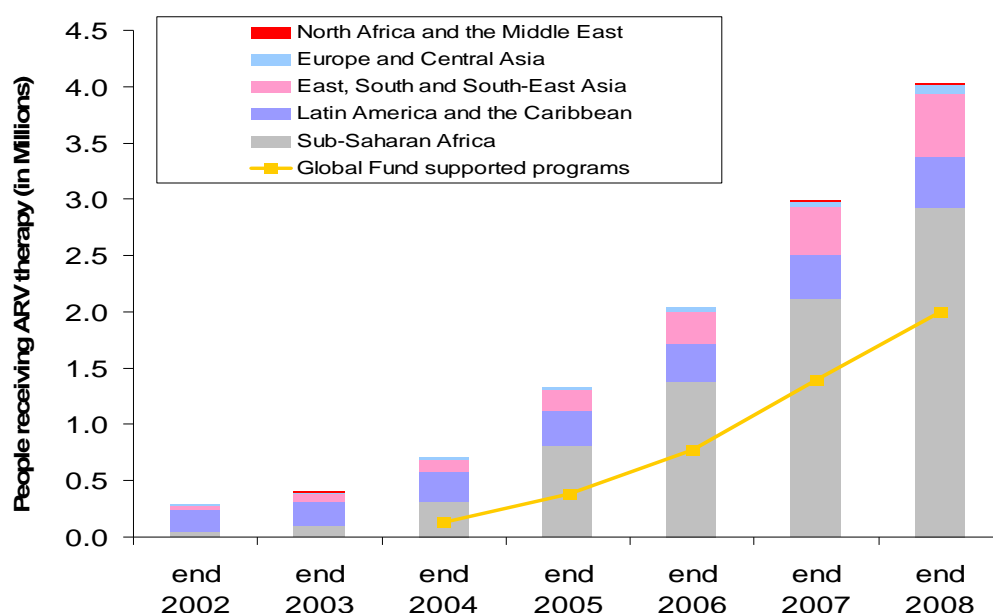
1.1 The Global Fund's results for mid-2009 show that countries have continued to scale up activities over the last year and that the Global Fund is likely to meet or exceed its end of year targets for the top three Key Performance Indicators (Table 1).

Table 1: Global Fund top 3 results indicators, June 2009

Indicator	Mid 2008	Mid 2009	% increase in last year	Global Fund target end 2009
HIV: People on ART	1.75 million	2.3 million	31%	2.4 million
TB: DOTS treatment	3.9 million	5.4 million	38%	5.8 million
Malaria: ITNs distributed	59 million	88 million	49%	100 million

1.2 Global Fund results showing sustained expansion of access to antiretroviral treatment (ART) were confirmed when WHO, UNAIDS and UNICEF reported in September 2009 that an additional one million people began ART globally in 2008², a significant increase over the previous year. Of these, the Global Fund was responsible for about 600 000 people commencing treatment last year. At the end of 2008, the Global Fund was financing around half of the four million people estimated to be on ART in low- and middle-income countries (Figure 1). Results for mid-2009 show that a further 300 000 people accessed ART in the first half of this year through Global Fund-supported programs.

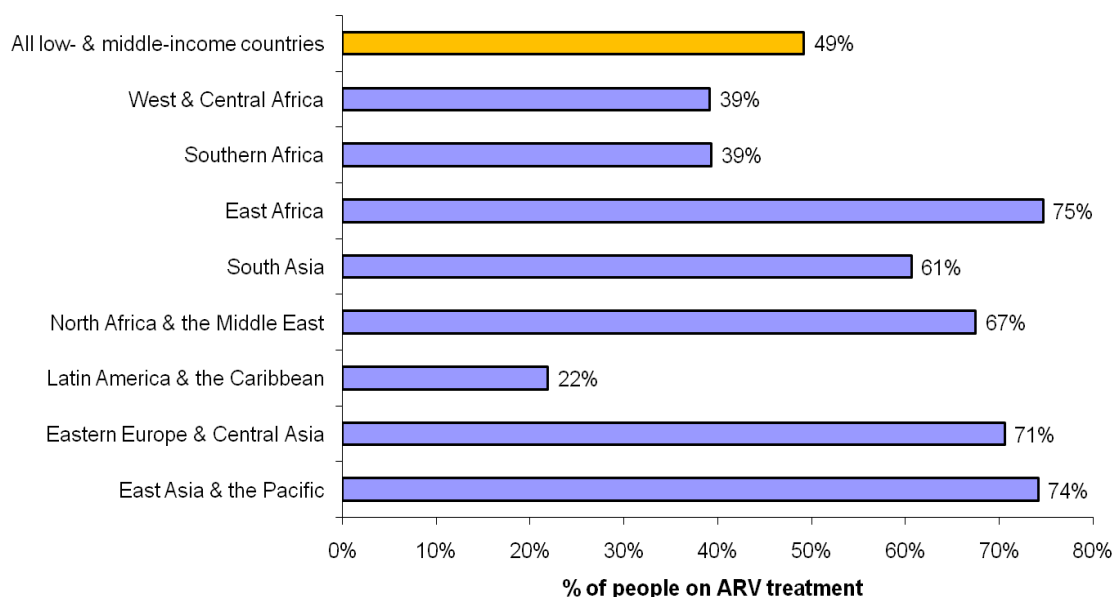
Figure 1: Total number of people receiving antiretroviral therapy in low- and middle-income countries, December 2008



² Towards universal access: Scaling-up priority interventions in the health sector. September 2009 Progress Report. WHO, UNAIDS, UNICEF. September 2009

1.3 The Global Fund is now supporting on average around half of the people receiving ART in sub-Saharan Africa, two-thirds of those on treatment in north Africa and the Middle East, around two thirds of those on treatment in Asia as a whole and more than 70 per cent of those on treatment in Eastern Europe and Central Asia (Figure 2).

Figure 2: Percentage of people on ART that are receiving treatment through Global Fund-supported programs, by Global Fund region, December 2008



1.4 Investments in HIV treatment are showing impact, with significant reductions in HIV-related mortality reported in several countries, including Botswana and Ethiopia. The CIPRA HT-001 study presented at the 5th International AIDS Society conference in Cape Town in July 2009 showed that earlier initiation of ART significantly reduces the incidence of tuberculosis in people with HIV³. Another study presented in Cape Town suggested that ART also plays a role in reducing malaria incidence⁴. The role of ART in HIV prevention is being increasingly discussed and is the subject of an international consultation hosted by WHO in early November 2009.

1.5 WHO, UNAIDS and UNICEF recently reported that the percentage of HIV-positive women who received ART to prevent transmission of HIV to their children increased from 35 per cent globally at the end of 2007 to 45 per cent at the end of 2008. Coverage in Eastern and Southern Africa has increased to nearly 60 per cent but remains low in Western and Central Africa, at only 16 per cent, particularly due to low coverage in the populous countries of Nigeria and Congo. The Global Fund mid-2009 results show that the Fund has supported access to PMTCT for an additional 92 000 women globally in the first half of this year and that the number of women accessing PMTCT through programs supported by the Fund almost doubled between mid-2008 and mid-2009 (Table 2). While the improved global coverage and rate of scale up of PMTCT programs is encouraging, coverage remains low in many of the countries with the highest need and nearly a third of women received single-dose nevirapine in 2007.

3 Fitzgerald D et al. When to start ART in developing countries. Abstract WESY201. IAS 2009

4 Kasirye R et al. Epidemiology of malaria in HIV-infected Ugandan patients on ART: a prospective cohort study. Abstract TUPDB104. IAS 2009

1.6 The Global Fund is now working closely with UNAIDS, UNICEF and WHO to accelerate the scale up of PMTCT programs and extend coverage to at least 60 per cent of women in need globally over the next 18 months. This includes a concerted effort to reprogram existing Global Fund resources so that within 18 months at least 80 per cent of PMTCT programs supported through Global Fund grants are using the most efficacious antiretroviral regimens.

1.7 Mid-year results for several other HIV prevention indicators are also quite encouraging. The total number of condoms distributed through Global Fund-supported programs increased by nearly 40 per cent to over 1.4 billion between mid-2008 and mid-2009, and the total number of people who had accessed HIV testing and counselling increased more than 70 per cent in the same period to 79 million (Table 2). The latter result is consistent with the significant global scale up of HIV testing and counselling reported by WHO/UNAIDS/UNICEF in September this year.

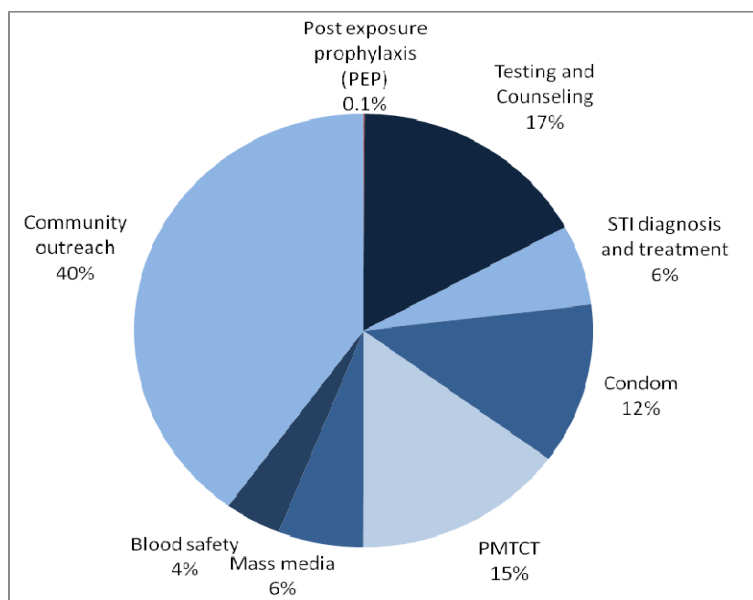
Table 2: Global Fund results for selected HIV prevention interventions, MID-2009

	Results* mid-2009	Increase in last 12 months	% increase
HIV counselling & testing	79 million people	33 million	72%
Behaviour change communications	91 million reached	39.3 million	76%
Condoms distributed	1,432 million	402 million	39%
Prevention of mother-to-child transmission of HIV	537,000 HIV+ pregnant women	265,000	97%

1.8 The mid-year results show that, of the 13.6 million people most-at-risk of acquiring HIV reached by Global Fund-supported prevention services, at least 800 000 were injecting drug users. The Fund is now the predominant funder of harm reduction programs in the world, with total investments of at least US\$180 million to date. But given that 30 per cent of new HIV infections outside sub-Saharan Africa occur through injecting drug use, harm reduction interventions are still not being brought to scale. That is why, since the Board meeting in Delhi last year, the Secretariat has begun working with partners such as the Open Society Institute, the International Harm Reduction Association and regional harm reduction networks to explore ways of further mobilizing demand at country level and providing support to Country Coordination Mechanisms (CCMs) to seek additional resources for harm reduction services.

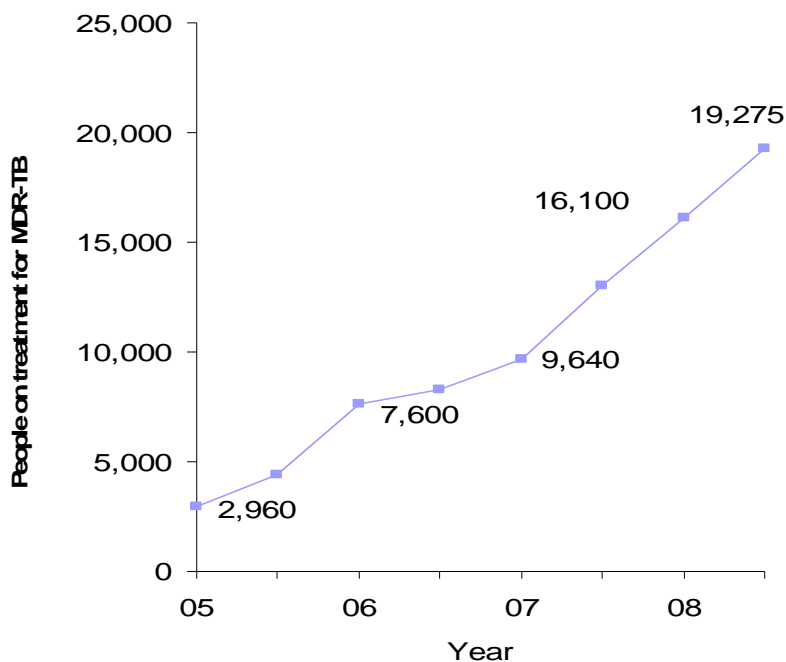
1.9 Overall, around US\$840 million - one third of Global Fund disbursements for AIDS - have been spent directly on HIV prevention activities, including testing and counselling. Just under half of funding has been for to behavioral change communication through community outreach and the mass media (Figure 3). PMTCT accounts for about 15 per cent of HIV prevention funding and HIV testing and counselling 17 per cent. Almost 12 per cent of the HIV prevention budget goes to condom procurement and distribution. New interventions like male circumcision are not captured by the current reporting system.

Figure 3: Proportion of Global Fund AIDS budget spent on selected HIV prevention interventions, mid-2009



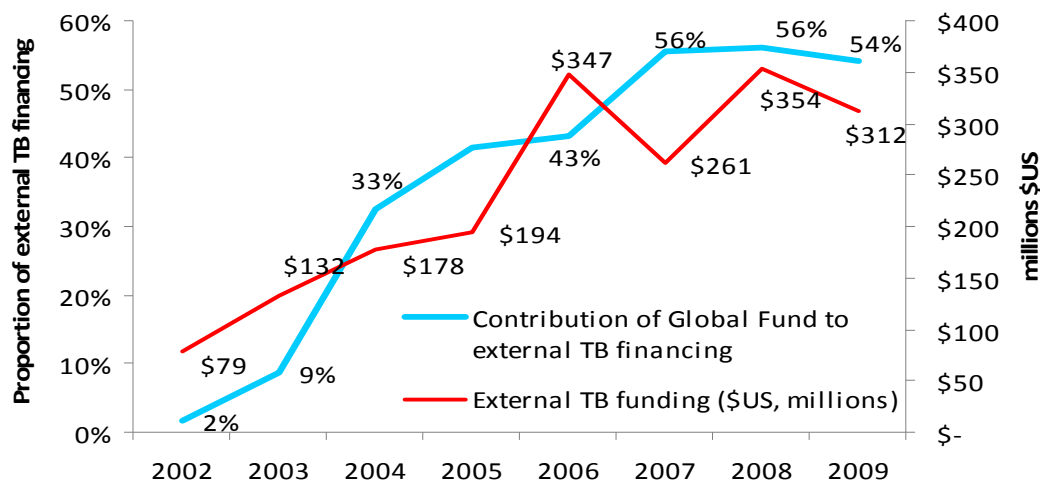
1.10 The number of people treated with DOTS for TB through Global Fund-supported programs rose by 1.5 million to 5.4 million in the 12 months to June 2009. The Fund's investments in MDR-TB control are also steadily increasing, with nearly 20 000 people receiving treatment for MDR-TB through Global Fund-supported programs by mid-2009 (Figure 4). These numbers are likely to increase as a result of recent investments in Central Europe and Central Asia, but they are still far short of estimated need for MDR-TB treatment. I note that eligibility of many countries in this region for long-term Global Fund financing will change unless it is reconsidered by the Board.

Figure 4: Number of people receiving treatment for MDR-TB through Global Fund-supported programs, June 2009



1.11 I am encouraged by the steady increase in TB approval rates over recent successive rounds and the fact that recommended funding for TB in Round 9 (including cross-cutting health systems strengthening) passed \$500 million for the first time. These results are consistent with the Board's decision last year to urge more aggressive scale-up of TB programs. While most financing for TB programs comes from domestic sources, the Global Fund's share of external financing for TB has increased significantly in the last few years (Figure 5).

Figure 5: Global Fund share of external (non-domestic) TB financing in high-burden countries*, 2002-09



*excluding South Africa

1.12 An additional 18 million insecticide-treated bed nets were distributed through Global Fund supported programs in the first half of 2009 (Figure 6) and the Secretariat estimates that an additional 12 million will be distributed before the end of the year, to reach a cumulative total of 100 million. The number of malaria cases treated in programs supported by the Global Fund continues to grow rapidly and had reached over 90 million by mid-2009. The vast majority of new malaria cases were being treated with ACTs. Through Rounds 1 to 8, the Board approved a remarkable US\$ 6.5 billion for malaria in a steadily growing number of countries (Figure 7).

Figure 6: Global Fund malaria results, June 2009

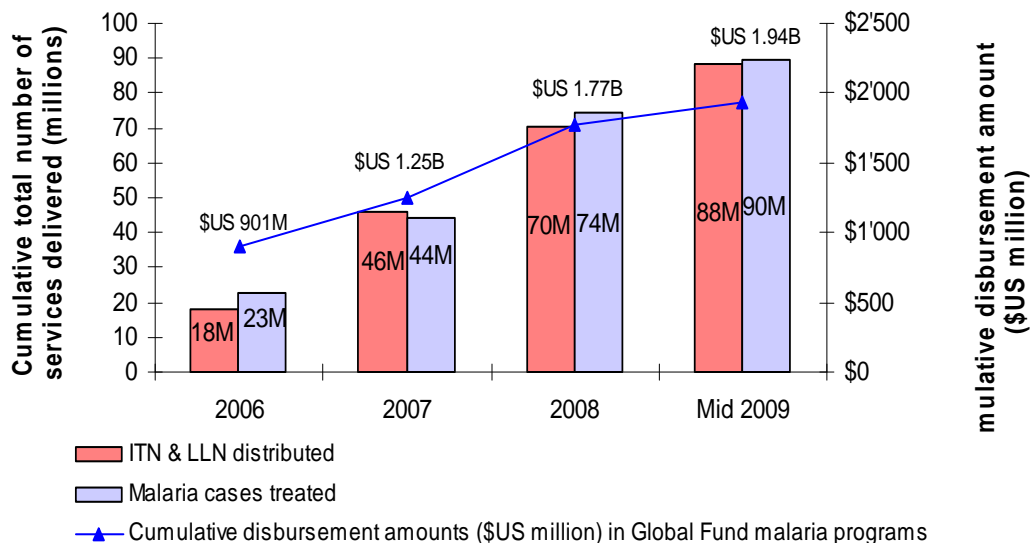
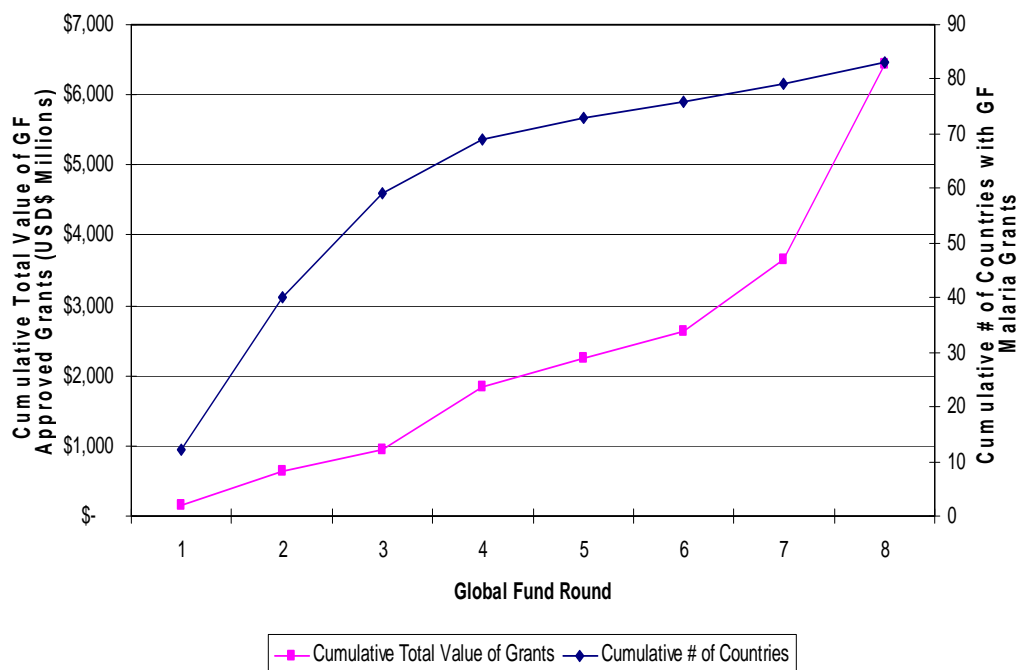
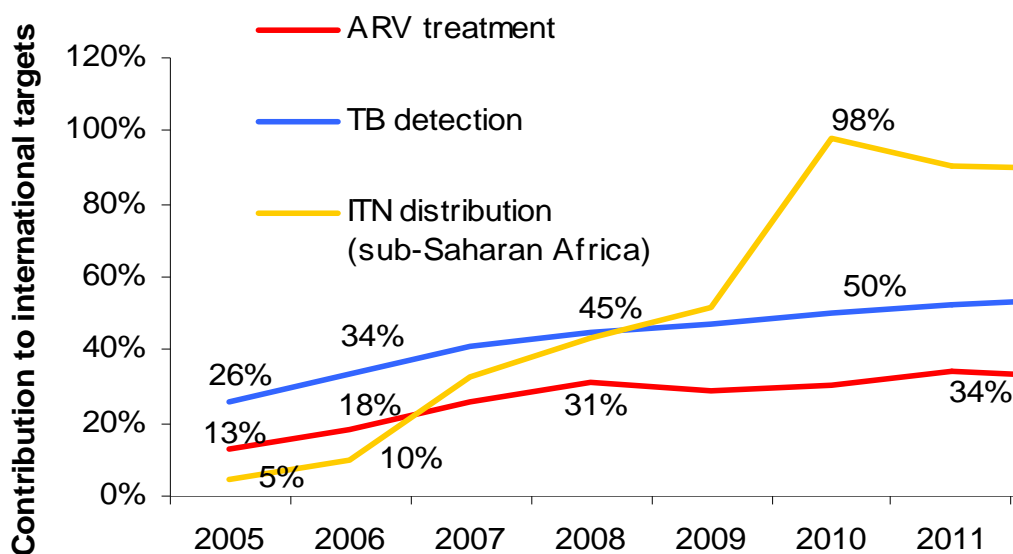


Figure 7: Total cumulative value of approved malaria grants, Rounds 1 to 8



1.13 By the time Round 8 resources begin to show results between 2010 and 2011, the Secretariat estimates that the Global Fund will be financing almost all the coverage of insecticide-treated nets in sub-Saharan Africa, around half of TB case detection globally and around a third of those on ART globally, relative to major international targets (Figure 8).

Figure 8: Contribution of Global Fund-supported programs to the achievement of international coverage targets for ART*, TB detection** and ITN distribution***



*ART: Phased scale-up approach to universal access by 2015 (UNAIDS 2007); ** TB: Case detection targets in the Global Plan to Stop TB 2006-2015; Malaria: *** 80% coverage of children under 5 years of age and pregnant women in malaria-endemic countries in sub-Saharan Africa: RBM Global Strategic Plan 2005-15

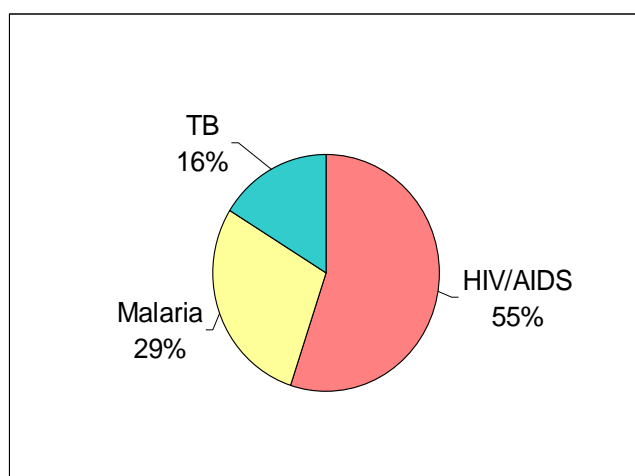
1.14 A special effort will be made to document impact in the next results report to be published prior to the first Global Fund replenishment meeting in March 2010, and to generate estimates on the number of years of life that Global Fund investments have saved, including projections of future benefits.

Portfolio overview

1.15 The portfolio continues to grow in size and complexity. By October 31, 2009, a cumulative total of US\$8.8 billion had been disbursed through more than 620 grants in 138 countries.

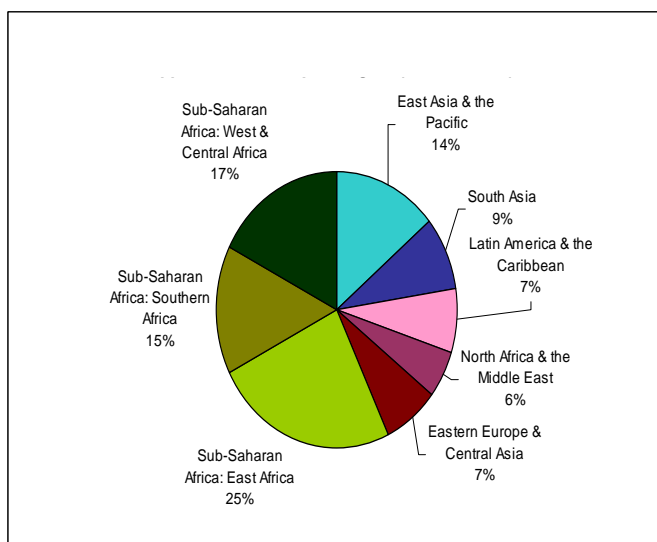
1.16 The proportions of funds approved for each of the three diseases have remained relatively stable over recent years despite significantly increased demand. Anticipating the Board's approval of Round 9, around 55 per cent the portfolio have been committed to AIDS programs, 29 per cent to malaria and 16 per cent to TB (Figure 9).

Figure 9: Anticipated composition of portfolio by disease component, Rounds 1 to 9



1.17 Anticipating Board approval of Round 9, regional distribution of the portfolio will have remained quite stable, with nearly 60 per cent of resources in Rounds 1 to 9 approved for sub-Saharan Africa (Figure 10). With Round 9, the proportion approved for West and Central Africa now exceeds Southern Africa for the first time.

Figure 10: Anticipated distribution of portfolio by region (sub-regions for sub-Saharan Africa), Rounds 1 to 9



Disbursements

1.18 The Global Fund set itself an ambitious target of \$2.9 billion for 2009, \$700 million more than it disbursed in 2008. The lower than expected volume of disbursements in the first semester of 2009 (56 per cent against a target of 90 per cent) was due in large part to delays in signing large and complex Round 8 grants for which a first disbursement was planned this year. This was notably the case for grants due to be signed in West and Central Africa and in the East Africa/Indian Ocean region, both of which have shown relatively slower disbursement rates this year compared to other regions (Table 3). However, disbursements for West and Central Africa significantly increased through the course of the year.

Table 3: 2009 disbursements by Global Fund region at November 2, 2009

Region	Amount disbursed by by November 3 (\$ million)	Minimum yearly target (\$ million)	Proportion of target met
East Asia - Pacific	307	365	84%
Eastern Africa - Indian Ocean	403	713	57%
Eastern Europe - Central Asia	167	194	86%
Latin America - Caribbean	123	170	72%
North Africa - Middle East	122	151	81%
South Asia	194	200	97%
Southern Africa	230	357	65%
West Central Africa	383	470	81%
Total	1930	2623	74%

1.19 As of November 3, \$1.93 billion had been disbursed in 2009, equivalent to 74 per cent of the minimum target for the year (\$2.6 billion). This compares with disbursement rates of 72 per cent, 78 per cent and 74 per cent of the total actual disbursements made at the same point in time in 2006, 2007 and 2008 respectively (Table 4).

Table 4: Global Fund disbursement history 2006-2009

Year	Amount disbursed by by November 3 (\$ million)	Proportion of total disbursements for the year	Total disbursed at end December (\$ million)
2006	947	72%	1,322
2007	1,342	78%	1,727
2008	1,676	74%	2,254
2009	1,930	74%	2,623 ⁵

1.20 As reported to the Policy and Strategy Committee (PSC) in September 2009, average processing time for disbursements in the first half of this year has been 42 days, against a KPI target of 21 days. Increased attention to risk mitigation in 2009 has been a high priority and is the major reason that this target has not been met. For example, the Secretariat no longer disburses funds in the absence of audit reports from Principal Recipients, or when Procurement or M&E Plans are not complete and up-to-date, as occurred in the past. The Secretariat has also improved its systematic follow-up of country level issues, in particular through now-mandatory Management Letters that are sent with each review of progress to inform implementers about issues that require resolution.

Round 8 grant signings

1.21 Round 8 was unprecedented in size. With 147 grants valued at US\$2.61 billion, it was 2.3 times larger and contained 60 per cent more grants than Round 7. Grant negotiations have therefore been significantly more complex, including a more extensive budget clarification process to achieve Board-mandated efficiency gains; increased numbers of, and many new principal recipients as a result of Dual Track Financing, and new elements such as pooled procurement arrangements. More than 30 of the 94 Round 8 proposals were from countries where the Local Fund Agent had changed as a result of the retendering process in 2008. In-depth analysis of the capacities of nominated principal recipients led to 15 principal recipients being rejected and the need to identify replacements. Other initiatives, such as the first wave of National Strategy Applications, the AMFm pilot and audits and investigations undertaken by the Office of the Inspector General (OIG) and the Secretariat, have added to the overall burden on countries and the Secretariat. A Round 8 Signings Task Force was established earlier this year to help address internal bottlenecks to grant signature.

1.22 At the time of writing, it was expected that a total of 101 grants (69 per cent) would be signed before November 8, 2009. Extensions have been sought for seven countries⁶, but will only be used for six. An additional 33 grants with deadlines later than November 8, 2009 will be signed on time.

1.23 Notwithstanding the challenges posed by the size and complexity of Round 8, the average time between approval and first disbursement in the Round is currently estimated at around 10 months.

⁵ Estimate based on reaching the minimum KPI target.

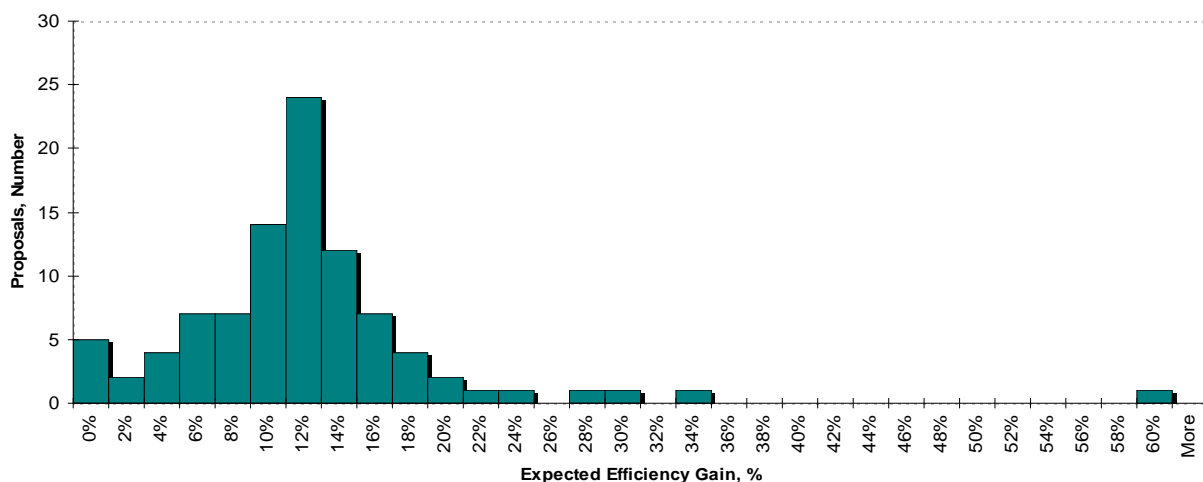
⁶ Central African Republic, Chad, Comoros, Democratic People's Republic of Korea, Democratic Republic of Congo, Mauritania and Zimbabwe.

Round 8 efficiency gains

1.24 In approving Round 8, the Board requested that the Secretariat achieve a round-wide efficiency gain of 10 per cent of the total amount recommended to the Board by the TRP and similar efficiencies in Phase 2 renewals and RCC grants through to the end of 2010.

1.25 By September 2009, countries were managing to achieve the 10 per cent overall adjustment in Round 8 grants with no cuts in targets to date. Adjustments vary across the portfolio, with efficiency gains of 2 - 20 per cent across most grants, five grants showing expected gains of 20 - 35 per cent and 1 grant with a 60 per cent gain (Figure 11). The Secretariat is confident that this part of the Board decision will be implemented in full and that all possible effort has been made to minimize adverse consequences to programs. Based on current signed grants and advanced negotiations on most Round 8 grants, a conservative estimate is that the overall efficiency gain for Round 8 Phase 1 will be 11.4 per cent.

Figure 11: Distribution of efficiency gains achieved in Round 8 grant negotiations, September 2009



1.26 A review of the portfolio shows that no clear patterns have emerged and that the efficiency gains achieved have been quite grant-specific. No one region was particularly disadvantaged: across the eight regions the average gain ranges from 8.9 per cent to 12.4 per cent. The size of the proposal did not appear to affect the magnitude of the gain, as both small and large grants have achieved similar gains.

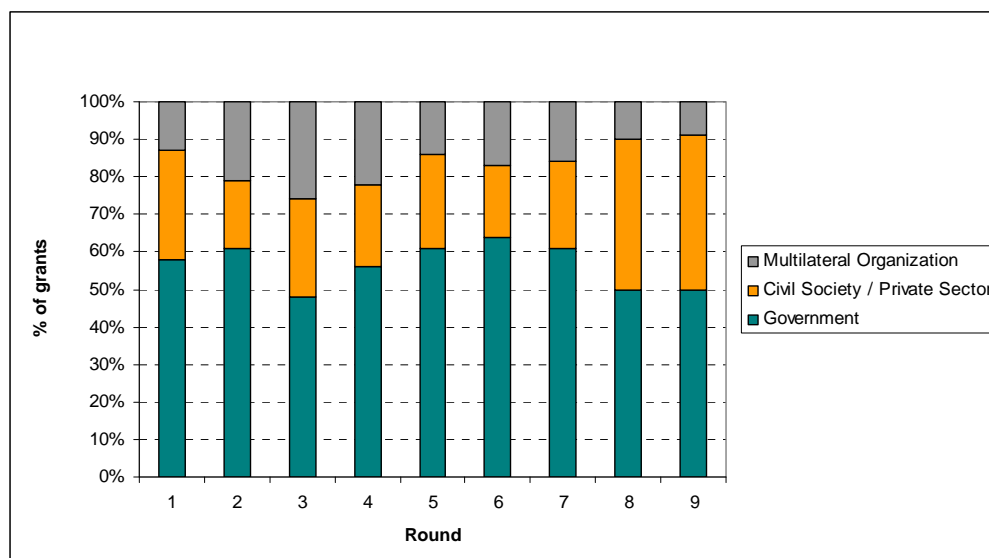
1.27 Efficiency gains achieved in Phase 2 grants approved by the Board between December 2008 and August 2009 have amounted to around 21 per cent of the original proposed Phase 2 amount. The 14 Rolling Continuation Channel (RCC) grants that were signed between November 2008 and August 2009 achieved efficiency savings of between 0 per cent (two grants, which had already been negotiated prior to the Delhi Board meeting) and 40 per cent, with an overall average efficiency gain of 11 per cent. It is too early to report on gains achieved in Phase 2 of Round 8 grants.

Dual track financing

1.28 Dual track financing is achieving its objective of increasing the number of civil society or private sector principal recipients. Anticipating Board approval of Round 9, these now average

around 40 per cent of principal recipients in Rounds 8 and 9, compared to 23 per cent across the previous seven rounds (Figure 12).

Figure 12: Type of principal recipient, Rounds 1 to 9 (pending Board approval)



Community systems strengthening

1.29 Round 8 was the first round to specifically include funding for community systems strengthening (CSS). Of the 170 Round 9 proposals received, 85 percent included CSS activities (compared to 80 percent in Round 8). As in Round 8, low- and low-middle income applicants often included CSS activities in their Round 9 proposals (86 percent). In addition, Round 9 HIV proposals included CSS activities more often than TB, malaria or cross-cutting health systems strengthening interventions. This year, the Global Fund, UNAIDS and a range of civil society partners have developed indicators to enable better monitoring of community systems strengthening activities.

Rolling continuation channel

1.30 The RCC funding stream was established to facilitate access to additional resources for well-performing grants. A total of 218 grants have been reviewed for RCC eligibility in Waves 1 to 8. Of these, 76 (35 per cent) qualified. Waves 1 to 6 have been completed; of the 56 grants that qualified, 39 (70 per cent) have been approved.

1.31 With the experience of seven RCC waves, the TRP has questioned whether the indicators used to “qualify” applicants for RCC are appropriate and whether applicants have shown adequate evidence of impact. The TRP has found that RCC proposals do not always demonstrate a highly strategic approach to scale-up or show how the funding requested complements previous grants. The fact that some applicants have submitted proposals simultaneously to RCC and in a Round shows how multiple funding channels can confuse countries and complicate the grant architecture. The TRP has therefore supported the Board’s decision to discontinue this funding channel. The current redesign of the grant architecture provides a useful opportunity to revisit this channel.

Phase 2 renewals

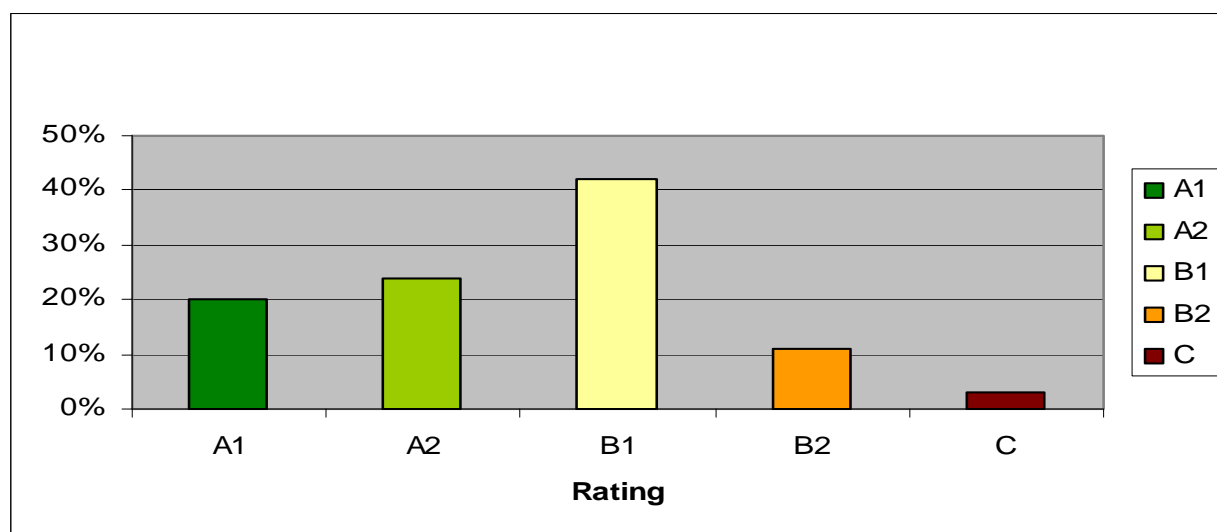
1.32 In 2008, 61 Phase 2 renewals were signed with a total value of US\$1.04 billion. By mid-October 2009, 46 Phase 2 renewals had been signed this year with a total value of US\$826 million.

1.33 Seventy grants have undergone Phase 2 review in 2009. Of these, 36 per cent received an A-rating, 56 per cent were rated B1, 7 per cent were rated B2 and only 1 per cent was rated C. Just under two-thirds of grants reviewed this year have received a "Go" rating while just over a third received a "Conditional Go" rating and there were no "No Go's". Increasingly, Phase 2 is seen as an opportunity for the Secretariat to improve aspects of aid effectiveness in a grant, such as alignment with country budget cycles, or to take advantage of opportunities for reprogramming in areas that require additional attention, such as gender-based interventions, PMTCT programming or interventions for most-at-risk populations.

Grant performance

1.34 Overall grant performance, as measured by the latest performance rating received by a grant at disbursement, is still very satisfactory following the introduction of a more objective, transparent and uniform rating methodology in February 2009. By mid-October, 86 per cent of grants had received an A1, A2 or B1 rating at the time of last disbursement (Figure 13).

Figure 13: Latest disbursement ratings for Global Fund grants, October 2009



Grant closure

1.35 To date, 46 grants have been formally closed, terminated or consolidated with other grants. About 165 other grants are in the process of being closed. The Secretariat has developed a new procedure on grant closure. Until now, savings under any program were only returned to the Global Fund once the grant had been closed, sometimes up to a year after the end of program activities. The new and simple procedure allows the Secretariat to free up resources as soon as a grant approaches its end date by modifying the Grant Agreement to only leave enough funds for the grant close out and a small buffer. Resources which can be foreseen as unused at the end of the grant's life can now be returned to the Trustee's account if they have already been disbursed by the Secretariat or de-committed if they are still in the Trustee's account. To date, the policy

change has enabled the freeing up of more than US\$50 million against a target for 2009 of US\$83 million. These amounts have helped to meet grant approval needs in 2009.

Grant suspensions

1.36 On the recommendation of the Country Programs Cluster, and in close collaboration with the Office of the Inspector General, I recently suspended all five of the Global Fund's grants to the Tropical Disease Foundation in the Philippines and the grant to the Executive Secretariat of the National AIDS Committee in Mauritania. The grants in the Philippines will continue under a new principal recipient to be recommended by the CCM. Continuity of services is being secured in Mauritania and a multi-agency mission led by UNAIDS was undertaken in late October to seek ways of resuming grant activities. I have asked for an independent evaluation of the consequences of these suspensions on access to treatment services in these two countries.

1.37 Disbursements to the Ministry of Health in Zambia other than for drugs and related costs are being withheld pending the results of an OIG audit of the grants.

1.38 Consistent with the agreement at the last Board meeting, the Inspector General and I jointly informed the Board and FAC leadership about restrictions and measures adopted as a result of OIG investigations in these three countries. The Inspector General will report in more detail directly to the Board.

Office of the Inspector General

1.39 The Inspector General has undertaken an extensive program of audits and investigations in 2009. I am pleased with his recent finding that the government of Uganda has demonstrated a renewed commitment to recovering misappropriated funds and that several convictions relating to misappropriations have now been obtained. I also welcome his recent report on lessons learned from past audits and reviews which highlights the need to strengthen the capacity of CCMs to perform grant oversight; raises issues relating to the forecasting and quantifying of drug stock-outs; emphasizes the need for more robust financial management and internal controls in some countries; raises concerns about salary "top-ups"; discusses the need for more effective M&E frameworks and recommends more effective follow-up on audit recommendations by Local Fund Agents.

Local Fund Agents

1.40 Following the completion of the LFA retendering process last year and the major LFA training exercise this year, the Secretariat will continually review the role of the LFA in light of Board decisions, changes in Secretariat practice, recommendations of the Inspector General and the Five-Year Evaluation and new developments such as the review of the grant architecture. This requires a great deal of flexibility from LFAs to ensure that they deliver services according to the Global Fund's evolving requirements and the specific grant and country contexts.

1.41 The numerous evaluations of the LFA model undertaken over the years highlight its strengths such as independence and its emphasis on results and accountability, and recommend that the model be retained. Areas for improvement identified include the need to broaden the LFA skill set - a major objective of the 2008 retendering process - and the need for systematic LFA performance management. An LFA performance rating tool was launched in early 2009 after 18 months of development and testing. The Secretariat is also performing in-country evaluation of LFA methodologies, quality assurance and communications practices and aims to systematically document the performance of each LFA between month 18 and 24 of its contract. The Secretariat

produces a wide variety of other tools to support LFA services. I was interested to learn that the new Global Fund technology platform is providing significantly more detail and opportunities for analysis with regard to LFA costs than was possible under the WHO system.

Preventing drug stock-outs and treatment disruptions in Global Fund grants

1.42 The economic crisis has highlighted concerns about potential drug stock-outs or disruptions to treatment supplies. Although the potential causes of such disruptions are numerous and may not be within the control of the Global Fund alone, the Secretariat has begun working with partners to explore preventive measures. An action plan with regard to the possible disruption of supplies of antiretroviral drugs purchased through Global Fund grants was developed by the Secretariat and reviewed by the Portfolio and Implementation Committee (PIC) in September 2009. The initial analysis is now being expanded to include TB and malaria drugs and will address potential procurement and supply systems challenges including warehousing, delivery systems and the need for buffer stocks, as well as the availability of relevant technical assistance. The PIC will again review the analysis at its next meeting and has agreed that stock-outs and treatment disruptions should be a standing agenda item for the committee.

Price and Quality Reporting (PQR)

1.43 The new PQR system was launched in February 2009. The PQR makes price and quality data publicly available to enable the analysis of market dynamics and inform procurement decisions by countries. An updated version of the system was released in September to further enhance its functionality, data quality and user friendliness, generate additional reports and broaden data analysis capabilities. The Secretariat, with the support of LFAs, continues to verify for completeness and accuracy all data entered into the PQR by principal recipients.

Quality Assurance Policy for Pharmaceutical Products

1.44 The revised Quality Assurance Policy for Pharmaceutical Products was launched in July 2009. With the support of WHO, the Expert Review Panel (ERP) is established and operational. The first reviews of submitted product dossiers were undertaken in May and October 2009. To ensure transparency, the Secretariat publishes on its website an up-to-date list of products that have been recommended by the ERP, together with relevant technical information. The Secretariat continues its dialogue with manufacturers so that products can be reviewed proactively and supply interruptions can be avoided.

Market Dynamics and Commodities Ad Hoc Committee (MDC)

1.45 I welcome the work of this new Committee which - under the leadership of Dai Ellis from CHAI and Shanelle Hall from UNICEF - is delivering its first report at this Board meeting. The MDC will assume from the PIC oversight of matters relating to price and quality reporting, quality assurance and pooled procurement services, and has already identified several priority areas for further study and action. These include ways to accelerate the development and uptake of new technologies; challenges experienced with the procurement of long-lasting insecticide-treated nets; monitoring markets for major health products, and strengthening the relationship between the Global Fund and UNITAID.

Country Coordinating Mechanisms

1.46 In September the PIC approved a revised funding policy that raises basic CCM funding to US\$50 000 per annum and enables CCMs to apply for additional resources based on a two-year work plan with measurable targets. This policy links CCM funding with performance and should allow CCMs to further develop their strategic focus on grant oversight, engagement of constituencies and alignment with other in-country coordination efforts national processes.

1.47 The US government has supported the development of a grant oversight tool for CCMs that has now been tested in seven countries and will be rolled out more broadly in November. The Secretariat has begun knowledge transfer about the use of the tool to UNAIDS, WHO and other partner organizations.

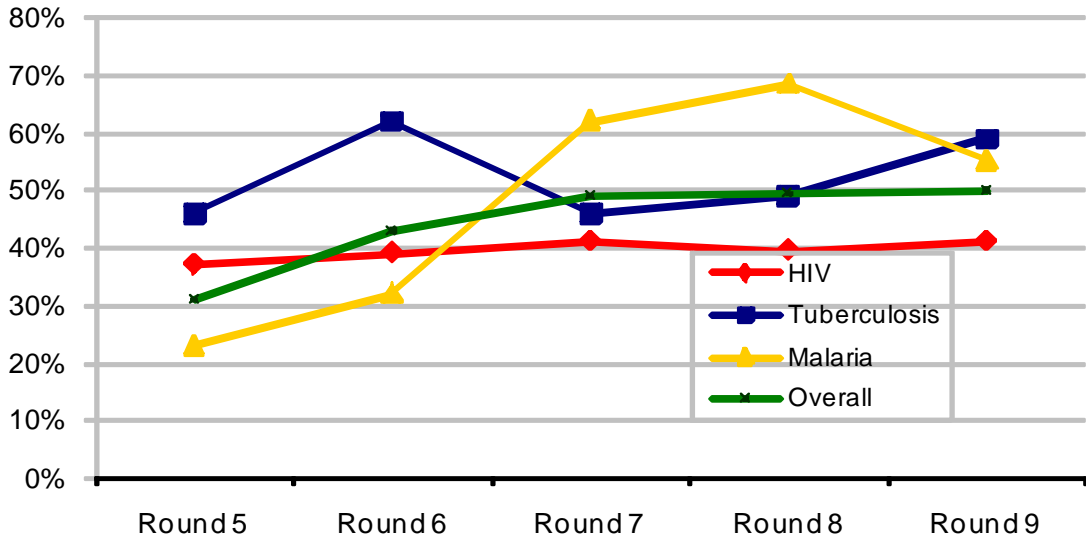
Round 9

1.48 As in Round 8, demand for resources from the Global Fund in Round 9 was significant. The TRP reviewed a combined two-year funding request of US\$ 4.8 billion, representing 159 disease components including 34 cross-cutting health systems strengthening requests.

1.49 The TRP is recommending 85 proposals for funding of 159 reviewed, an overall success rate of 53 per cent. The two-year amount recommended by the TRP was US\$ 2.21 billion. This is the second largest amount recommended by the TRP after Round 8. Funding was recommended for two new countries: Mexico (HIV) and Turkmenistan (TB). Four of twelve multi-country or regional proposals have been recommended, three for the first time.

1.50 Figure 14 shows that the TRP approval rates for HIV remain steady and consistently lower than the rates achieved by TB and malaria. There has been an upward trend in approval rates for TB since Round 7. The approval rate for malaria in Round 9 decreased from the very successful outcomes achieved in Round 8, but the TRP reports that malaria proposals were still of generally high quality in Round 9.

Figure 14: Proposal approval rates by disease, Rounds 5 to 9



1.51 As in Round 8, applicants in Round 9 could apply for health systems strengthening support either within a disease proposal or as a distinct cross-cutting section within a disease proposal (so-called section 4B/5B). The amount recommended by the TRP for cross-cutting health systems strengthening was US\$363 in Round 9 (Table 5).

Table 5: Cross-cutting HSS requests for Round 8, Round 9 and RCC Wave 7

Round	Recommended Phase 1 upper ceiling (million US\$)	Percentage of Phase 1 upper ceiling recommended for funding	Number of recommended cross-cutting HSS requests	Success rate of distinct cross-cutting HSS requests
Round 8	283	47%	24	53%
Round 9	363	54%	17	50%
RCC Wave 7	25	100%	1	100%

1.52 In its report to the Board, the TRP notes that it continued to benefit from having expert members who also serve on the GAVI Health Systems Strengthening Independent Review Committee. It benefited from the more rigorous financial analysis undertaken by a panel of experts in the case of proposals with lifetime budgets that exceeded US\$100 million.

1.53 I note the concerns expressed by the TRP about the often low quality of HIV prevention proposals. For example, the panel highlights the need for middle-income countries to more clearly demonstrate that their proposals focus on vulnerable populations; the need for better gender situational analyses and more concrete strategies and interventions to address gender inequalities; and the need for programming that is targeted at injecting drug users and men who have sex with men to more effectively address human rights issues and promote the development of supportive legal environments. As in previous rounds, the TRP has again highlighted the need for the more systematic inclusion of collaborative TB/HIV activities in proposals.

1.54 I have also noted the TRP's request for more Secretariat support in the clarifications process.

1.55 The overall size and quality of Round 9 provides further evidence of the success of the Global Fund's partnership model including the importance of support provided to applicants by the Stop TB and Roll Back Malaria partnerships, UNAIDS, WHO, bilaterals, NGOs and many other partners.

1.56 At this meeting, the Board will also consider the TRP recommendation to approve five proposals submitted in the First Learning Wave of National Strategy Applications, to which the Board has given the same priority as Round 9. These amount to a total two-year value of US\$433 million. Round 9 and the first wave of NSAs can only be fully financed if the Board adopts measures to address the Fund's current resource gap that have been recommended by the Working Group on Managing Tension between Demand and Supply in a Resource-Constrained Environment.

1.57 The TRP is also recommending to the Board 10 proposals submitted in the pilot phase of the Affordable Medicines Facility for malaria that will involve new funding of approximately US\$17 million once reprogramming of existing malaria grants is taken into account.

1.58 I congratulate Secretariat staff and all members of the TRP for managing another large and complex round in 2009 and for the substantial additional work associated with National Strategy Applications and AMFm proposals. I particularly thank the new TRP Chair, Bolanle Oyeledun, and his Vice-Chairs, Dr Shawn Baker and Dr George Gotsadze, for their leadership and hard work.

PART 2: PROGRESS ON KEY INITIATIVES

2.1 This section provides updates on five initiatives that have been implemented or substantially developed in 2009: voluntary pooled procurement; the Affordable Medicines Facility for malaria; National Strategy Applications; joint work with GAVI and the World Bank on financing and programming for health systems strengthening; and implementation of the strategies on gender and sexual orientation/gender identities. Each of these initiatives is an example of the Global Fund continuing to innovate and play a leadership role in global health.

Procurement Support Services

2.2 Voluntary pooled procurement and capacity building activities (collectively known as Procurement Support Services) are now operational. By November 2009, 26 countries (holding 46 grants between them) had applied for pooled procurement under Global Fund grants: ten from Africa, seven from Asia and eight from the MENA/LAC/EECA region. Between May and November 2009, pooled procurement orders with a total value of US\$225 million were placed. By far the largest expenditure to date - US\$ 213 million - has been for bed nets. A total of 4.6 million nets has already been purchased and dispatched to three recipient countries. In addition, orders for 39 million nets are currently being processed for Nigeria, Indonesia and Uganda with staggered deliveries in 2010 according to the countries' planned national campaigns.

2.3 Pooled procurement is already accelerating progress towards national and international malaria targets for 2010. The service has reduced timelines for the tendering and contracting of bed net suppliers and is enabling greater flexibility in the delivery of nets. It enables deliveries beyond a single port of entry - for example, in 19 districts in Nigeria and over 70 districts in Uganda - which greatly facilitates distribution in countries. In the case of Nigeria, the tendering and selection of a supplier was conducted while the negotiation of a Round 8 "mini-grant" was ongoing, with the result that the nets arrived at the Lagos port only 16 weeks after the grant was signed.

Affordable Medicines Facility for malaria (AMFm)

2.4 Thanks to the hard work of members of the RBM partnership, Secretariat staff and many others, significant progress has been made since the last Board meeting in moving towards implementation of the AMFm. All 12 eligible implementers submitted applications in the pilot phase and the TRP has recommended 10 proposals to the Board for approval. If approved, implementation of the grants will start in 2010. The result will be more people in malaria endemic countries with access to more affordable and more effective malaria drugs in all sectors, and quality-assured ACTs will start to displace the undesirable oral artemisinin monotherapies and ineffective treatments such as chloroquine.

2.5 A major success has been gaining the agreement of all eligible manufacturers to reduce their ACT sales prices for first-line private sector buyers to the same level as for public sector buyers. This is before AMFm makes a co-payment to further lower the prices to first-line buyers in all sectors. The final supply agreements, including maximum prices, co-payment amounts and terms and conditions of supply under AMFm are expected to be signed by manufacturers by early 2010.

2.6 The pilot phase of the AMFm will be assessed through an independent evaluation, the result of which will inform the Board's deliberations about the facility's future. The Secretariat has issued requests for proposals for the independent evaluator and data collection contractors to

perform the baseline assessment. Bids have already been assessed and the Secretariat was planning to begin negotiations with the selected bidders before this Board meeting.

2.7 I note that the TRP has drawn attention in its report to the Board to some challenges encountered in reviewing proposals in the pilot phase and that these will need to be addressed in any future phases.

2.8 I thank the AMFm Ad Hoc Committee for its oversight of the pilot phase, including Eytayo Lambo who has led the Committee with dedication and skill since the last Board Meeting.

2.9 I am also grateful to UNITAID, the UK government and the Bill and Melinda Gates Foundation for their financial support to the AMFm Co-payment Fund.

2.10 The pilot phase of the AMFm has provided a valuable opportunity to further explore the Global Fund's potential as a public-private partnership, not only in designing an initiative and identifying sources of financing, but also through its innovative use of both public and private channels for service delivery.

National Strategy Applications

2.11 National Strategy Applications involve using an existing, jointly assessed national strategy rather than a Global Fund-specific proposal form as the primary basis of an application for Global Fund financing. The introduction of NSAs this year is an important step in the evolution of the Global Fund towards providing financing that is more naturally and directly aligned to country strategies.

2.12 The NSA approach has been piloted in a limited number of countries so that lessons can be drawn to guide the potential, broader roll-out. This first wave was launched early in 2009 and the Board is being asked to approve the first NSAs at this meeting.

2.13 The first wave is already providing valuable lessons. By linking funding directly to national strategies, it has focused attention on the quality of these strategies, the technical support needed to strengthen them and the need to mobilize a broad set of national stakeholders for their development and implementation. As one country participant stated during the in-country review: "As a consequence of the NSA First Learning Wave we have improved our national strategy to international standard and have welcomed more stakeholders into the national strategy's development". Countries have also noted that the process of reviewing a national strategy encourages a more holistic view of the program and fosters coordination between disease programs and the health sector in general.

2.14 Lessons are also being drawn about the process of reviewing a national disease strategy in-country, such as the value of an interactive approach to the review and including national stakeholders - as well as external independent experts - in the process. The Global Fund especially welcomed the participation of PEPFAR as an observer in country visits to review national AIDS strategies.

2.15 The Fund has been an active member of the International Health Partnership (IHP+) working group on national strategies, and, in the process of reviewing the First Learning Wave, used an adapted version of the attributes of sound national strategies developed by that group.

Joint work with GAVI and the World Bank on financing and programming for health systems strengthening

2.16 The Global Fund and the GAVI Alliance have become two of the largest financiers of health systems in the world. To help ensure coherence, several of the same health systems experts are now members of both the GAVI Independent Review Committee and the Global Fund TRP. This year, the two organizations have been working with the World Bank and WHO to explore opportunities for closer collaboration on the health systems agenda.

2.17 In March, Julian Lob-Levyt, Chief Executive Officer of the GAVI Alliance and I wrote to the Chairs of the High Level Task Force on Innovative Financing for Health Systems Strengthening informing them of our intention to explore a joint financing platform for health systems strengthening. In June this year, the Global Fund, GAVI and the World Bank co-hosted a very productive technical workshop on health systems in Washington, DC. The workshop was attended by about 100 experts from the three organizations, WHO and the wider global health community, including implementing countries, multi- and bilateral agencies, civil society and academia. Discussions focused on common areas of technical work on health systems for the three organizations including conceptual frameworks for health systems and health systems strengthening, a common monitoring and evaluation framework and common appraisal of national strategies, as well as a joint classification system for health systems strengthening and a joint analytical framework to map health systems investments.

2.18 At the PSC meeting in September 2009, the Secretariat proposed two options for a joint financing platform: a single funding application for health systems strengthening, and/or funding based on jointly assessed national strategies. The PSC broadly welcomed the initiative and the Board is being asked at this meeting to approve a decision point regarding the next phase of work.

Global Fund strategies on gender and sexual orientation/gender identities

2.19 A wide range of activities is under way within the Secretariat and in partner organizations to further implementation of the Global Fund Gender Equality Strategy approved by the Board last year and the Sexual Orientation and Gender Identities (SOGI) Strategy approved by the Board in May 2009. These activities are led by an Internal Gender Task Team that has been established in the Secretariat.

2.20 The gender strategy implementation plan for 2009-2012 has been completed since the last Board meeting. The senior gender adviser has been closely engaged with CCM strengthening efforts, the development of a KPI on gender and the integration of gender issues into Round 9 guidelines and proposal forms and the grant performance scorecard. The TRP has five new gender experts and the TRP had a briefing on gender and SOGI issues prior to Round 9. A new gender technical officer joined the Secretariat in October 2009 to assist in monitoring gender equality and access to services across the Global Fund portfolio.

2.21 The Global Fund is closely involved in relevant partnership initiatives such as the Global Task Force on Women, Girls, Gender Equality and HIV, and has worked with UNAIDS to ensure that the gender strategy implementation plan is closely linked with UNAIDS' own action framework in this area.

2.22 Andy Seale joined the Secretariat as senior adviser on sexual orientation and gender identities in July and has begun work on implementation of the SOGI strategy. A global consultation was held in October with UN, civil society and community experts and partners to ensure that the Secretariat is aligned with key partners on issues for relevant populations including sex workers, men who have sex with men and transgender communities. There has also been considerable outreach to community, technical and academic partners around the SOGI strategy including participation by the Global Fund in several global and regional conferences.

2.23 Analysis of the SOGI components of Rounds 8 and 9 is being performed in order to inform future funding rounds. The first draft of a 2009-2012 work plan has been completed and a final version will be presented to the PIC in March 2010.

2.24 The Global Fund is working closely with UNAIDS and other partners to track and monitor counterproductive and harmful laws. An anti-homosexuality bill currently proposed in Uganda, for example, threatens the human rights of sexual minorities in Uganda and would undermine the national AIDS response. As was the case when Burundi proposed similar measures earlier this year, the Secretariat is committed to working sensitively and constructively in partnership with the government of Uganda, UN and civil society partners to secure a positive outcome in that country.

2.25 The SOGI Strategy calls for advocacy, outreach and discussion prior to any Board meeting in a country where same-sex sexual activity is illegal. The Global Fund will co-convene the 4th African Conference on Sexual Health and Rights in Addis Ababa in February 2010, the theme of which will be "Sexuality, HIV and AIDS in Africa". I am delighted that the Board Chair, Minister Tedros, will serve as Conference Patron, and that the conference will include discussion on the impact of punitive laws on the AIDS response.

PART 3: SECRETARIAT UPDATE

Operating expenses and efficiency gains

3.1 Operating expenses in 2009 are expected to be in line with the budget for 2009 and within the budget framework guideline ceiling of 6 per cent of total expenditure for the year.

3.2 Mindful of the constrained economic environment, obtaining efficiency gains and savings has been a major priority for the Secretariat in 2009. These efforts are described in detail in FAC paper GF/FAC13/06. A specific savings target of 10 per cent was set on the original travel budget for 2009. This involved changing the travel policy to restrict business class travel to journeys of nine or more hours and to require a minimum 10-day advance purchase for all airline tickets. The Secretariat is now piloting software that has the potential to greatly reduce international mobile telephony costs.

3.3 The total efficiency savings on travel achieved in the first eight months of this year is 15 per cent, comprising a 37 per cent reduction and an 11 per cent reduction in the price of short-haul and long-haul flights respectively. The Secretariat will continue to maintain a tight control over travel costs and expects to achieve an overall saving this year in the range of 10 to 15 per cent.

3.4 The termination of the Administrative Services Agreement with WHO is providing opportunities to seek additional efficiencies. For example, conservative estimates suggest that the Global Fund's new corporate procurement policies will save 2000 hours of staff time annually. Savings are also being sought in areas such as catering costs, decreasing the use of colour copying and promoting the use of a prefix that provides lower rates on international land-line calls.

2010 Budget

3.5 The Secretariat prepared the 2010 budget proposal with the goal of keeping operating expenses to a minimum while ensuring the effective functioning of the Global Fund. It included a request for limited (2 per cent) growth in staff including four positions for the OIG and eight positions in critical areas of need for the Secretariat, while anticipating that most additional activity in 2010 would be absorbed by existing staff. The overall budget was anticipated to increase by 11 per cent over 2009 due to the full year cost of new staff recruited during 2009, expansion of services by the Office of the Inspector General and Local Fund Agents and increased support for Country Coordinating Mechanisms.

3.6 The Secretariat appreciated the effort made by the FAC to closely review the budget request and ultimately to approve an operating budget for 2010 of US\$ 274 million. However, the fact that the FAC declined to approve eight additional positions sought for 2010 was a disappointment given that, at its September meeting, the FAC also endorsed the Global Fund's risk management framework in which it is implicit that one of the Board's major strategies for mitigating risk is to ensure adequate investment in the Secretariat.

3.7 Under the budget originally proposed by the Secretariat, operating expenses as a percentage of total expenditure (5.0 per cent) were lower than the Budget Framework guideline ceiling of 6 per cent, indicating that the operating expenses proposed were not excessive relative to the anticipated magnitude of grant activity in 2010 (Table 6). A second ratio presented by the Secretariat showed that the Fund would have had US\$ 8.8 million in grant commitments per employee under the proposed budget, consistent with the Framework guideline ceiling. This indicates that the staffing levels proposed by the Secretariat were the minimum needed to manage

anticipated grant commitments in 2010. The Secretariat asked the FAC to consider these ratios in light of a workload analysis undertaken over the summer showing that the Finance and Country Programs clusters were somewhat understaffed and that the other clusters in the Secretariat were about the right size, compared to other benchmarked organizations.

Table 6: Ratios identified in the Secretariat's 2010 budget request*

	2008	2009	2010	Guide per Framework
	Actual	Budget	Budget	
1. Operating Expenses as % of Total Expenditure	6.6%	4.8%	5.0%	<6%
2. Grant Commitments per Employee (FTE)	\$6.0m	\$9.4m	\$8.8m	<\$8.8m

*The figures shown for Ratios 1 and 2 in 2010 differ from the Board paper, where they are shown as 4.9% and \$8.9 m respectively due to the lower amount of the actual FAC-approved budget.

3.8 The Secretariat will explore the possibility of using unfilled posts for 2009 to ensure that all priority areas for 2010 are adequately staffed, and has requested an opportunity to revert to the FAC if this does not prove feasible.

Corporate Services

3.9 A full complement of Unit Directors is now on board in the Corporate Services Cluster. I extend a warm welcome to Will Ashby, who joined the Global Fund in July and brings more than 20 years' experience in the private sector to his role as Director of Corporate Procurement, and to Jose-Maria de Heredia, the new Director of Information Technology, who joined the Fund from Hewlett Packard in September.

3.10 A number of structural changes and improvements are being made in the four Units of the Corporate Services Cluster as the new Directors settle in and in light of the termination of the Administrative Services Agreement with WHO. A strategy team is being established in the IT Unit to significantly enhance IT support to grant management and identify likely needs under a new grant architecture. The Procurement Unit is being strengthened to improve the efficiency of procurement and supplier management practices, including for LFAs. Senior capacity is being increased in the Legal Unit to manage the increasing volume of grants and collaborate on designing a new grant architecture, while the Human Resources Unit has been substantially restructured to improve the level of service and better support organizational and staff development. Advisory boards with participation from across the Secretariat are now in operation to support IT and HR governance.

Recruitment

3.11 The Secretariat has expanded significantly in the last year. For 2009, the FAC approved 124 new positions, of which 79 had been filled by the end of October 2009, with the remainder expected to be filled by December. At the end of October 2009, the Secretariat had 551 full-time staff.

3.12 At the end of October 2009, women comprised 58 per cent of the Global Fund workforce and 29 per cent of staff members at Grade G6 or higher. Staff from under-represented regions comprise 14 per cent of the workforce, close to the KPI target of 15 per cent. The Secretariat is

becoming increasingly diverse, with around 20 per cent of staff recruited in 2009 coming from under-represented regions.

Human resources

3.13 Since the last Board meeting, work has continued on the development of policies in four areas that were identified as concerns in this year's staff survey: ensuring consistent and fair recruitment practices; establishing consistent pay structures and a process for grading positions; a promotions policy, and career development and planning including professional development, succession and retention planning. Action plans are being implemented in each cluster to follow up on other issues raised in the staff survey. The major policy priority for 2010, performance management, is discussed in Part 4 of this report.

3.14 The FAC approved two noteworthy new regulations in September. The new parental leave provision increases leave for the primary caregiver from 16 to 19 weeks, including a minimum leave of two weeks prior to delivery for employees who are giving birth. Secondary caregivers are entitled to four weeks' paid leave. A new definition of "domestic partner" extends benefits such as residency rights in Switzerland that were formerly available only to legally married partners to same-sex and unmarried partners of Global Fund staff. These changes respond to the Board's request that the Secretariat adopt family-friendly policies.

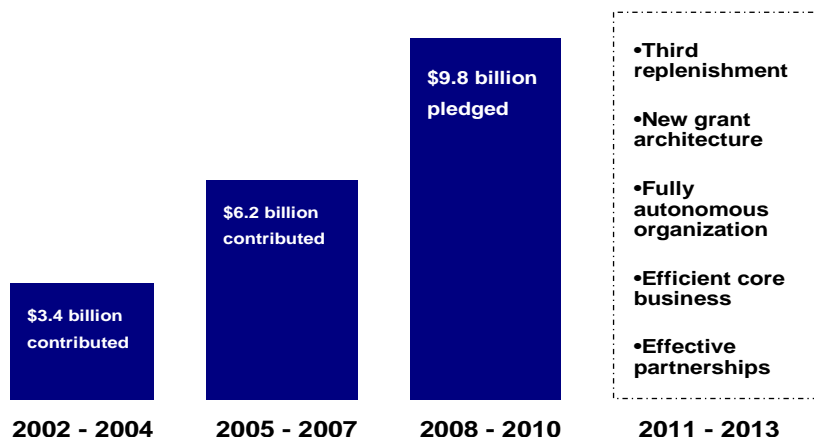
3.15 An occupational health and safety nurse is now available in the Secretariat two half-days a week. The nurse's main tasks are those formerly performed by the UN Joint Medical Service, such as providing medical kits and immunizations to travelling staff members.

3.16 Despite repeated requests, the United Nations Joint Staff Pension Fund has declined to grant a transfer agreement to the new Global Fund Provident Fund. The Secretariat is therefore asking Global Fund staff members to make a decision regarding withdrawal from the UNJSPF and will soon begun to process transition credits to individual staff member Provident Fund accounts. The Management Board of the Provident Fund has been developing its regulations and is presently working on a Provident Fund investment strategy.

PART 4: CORPORATE PRIORITIES FOR 2010

4.1 Since it was established in 2002, the Global Fund has evolved from an organization that mobilized US\$3.4 billion in its first three years of operation to more than US\$10 billion in the current triennium (Figure 15).

Figure 15: Evolution of the Global Fund



4.2 The size and shape of the Global Fund in the period 2011 to 2013 will depend on three key factors: demand from countries as they consolidate their strategies and seek to further scale up prevention and treatment; the outcomes of discussions that will take place with donors throughout the course of the forthcoming replenishment cycle of the Global Fund; and, ultimately, the outcome of the pledging conference of the Third Voluntary Replenishment of the Global Fund in October 2010.

4.3 The replenishment process is the most important corporate priority for the Secretariat in 2010. This section discusses that process and the other four corporate priorities that I have set for the Secretariat next year: implementation of a new grant architecture; completing the work needed for the Global Fund to become a fully autonomous organization; further strengthening the Global Fund partnership, and improving performance in the Global Fund's core business of negotiating and signing grants and disbursing funds.

2010: The year of the Third Voluntary Replenishment of the Global Fund

4.4 The replenishment of the Global Fund that will take place in 2010 is critical for the sustainability and further scale up of AIDS, TB and malaria programs around the world and will to a significant degree determine whether the health-related Millennium Development Goals and other global health targets are achieved by 2015. Because they are taking place in an uncertain economic environment, replenishments of both the Global Fund and World Bank IDA in 2010 will be important tests of donor sentiment and commitment to health, development and reducing global inequities.

4.5 The Fund will make its case to donors based on its strong record of performance, impressive results and growing evidence of impact. Communications and advocacy for the replenishment will emphasize that, in addition to fighting the diseases, the Fund is also helping to drive other aspects of the global health and development agenda, including health systems strengthening. The Fund's key approaches - country-ownership, inclusiveness, accountability and performance-based funding - are helping to set the standard in development financing today and are strongly aligned with aid effectiveness principles. We will also make the case that the Global Fund represents good value for money and is working with others in effective and practical partnerships.

4.6 I am delighted that UN Secretary-General Ban ki-Moon has agreed to serve as Chair of the Third Voluntary Replenishment, and that Richard Manning, former Chair of the OECD Development Assistance Committee, will serve as Vice-Chair.

4.7 As agreed at the mid-term review in Caceres earlier this year, two meetings are envisaged for the replenishment process itself. The first meeting will take place in March 2010, while the actual pledging conference will take place shortly after the MDG Summit in October. Between the two meetings, advocacy opportunities will be pursued at major events including the G8 and G20 meetings in Canada, the World Economic Forum, the FIFA World Cup football series in South Africa and the International AIDS Conference in Vienna. Building on the success of *Access to Life*, a new advocacy campaign is being developed in partnership with the Global Fund's ambassador for the prevention of HIV in women and children, Carla Bruni-Sarkozy.

4.8 Throughout autumn 2009, Richard Manning and senior Secretariat staff are undertaking a "listening tour" to obtain input from current and potential new donors as well as other stakeholders. The Secretariat is also working to mobilize implementing countries and key advocacy NGOs in support of the replenishment and to develop key documentation. This will include a new results report, with a particular emphasis on the impact of Global Fund investments, and resource need estimates for 2011-13 based on different demand scenarios. The forecasts will take into account the estimated costs of maintaining the current Global Fund-supported cohort of people on ART and the need to renew bed nets as they decay.

4.9 Innovative resource mobilization efforts will continue in parallel with the replenishment process, including the expansion of Debt2Health and further work on the development of an Exchange Traded Fund. Product RED will continue to expand; this year, Bugaboo became the first RED partner to donate a proportion of all its revenue to the Fund. The Global Fund has also been selected as beneficiary of all fundraising associated with the United Against Malaria (UAM) campaign, which will have its Africa launch in Addis Ababa before the Board meeting. UAM is a high-impact advocacy campaign tied to the 2010 FIFA World Cup in South Africa. The top-rated television program "Big Brother Africa", produced in South Africa and seen in more than 40 African countries, has agreed to support the Global Fund with 50 per cent of the revenue from mobile phone voting during the program in November. Finally, a "Philanthropic Giving" campaign targeting high-net worth individuals and foundations will be initiated in 2010 and will seek to exploit opportunities linked to the replenishment process.

4.10 The replenishment will involve a great deal of work throughout the coming year and needs to be an effort of the entire Secretariat and Global Fund partnership. I ask all Board members to be closely involved in mobilizing their constituencies and giving the process their maximum possible support, including, for donor constituencies, through active engagement with the donor reference group that will be established at this Board meeting.

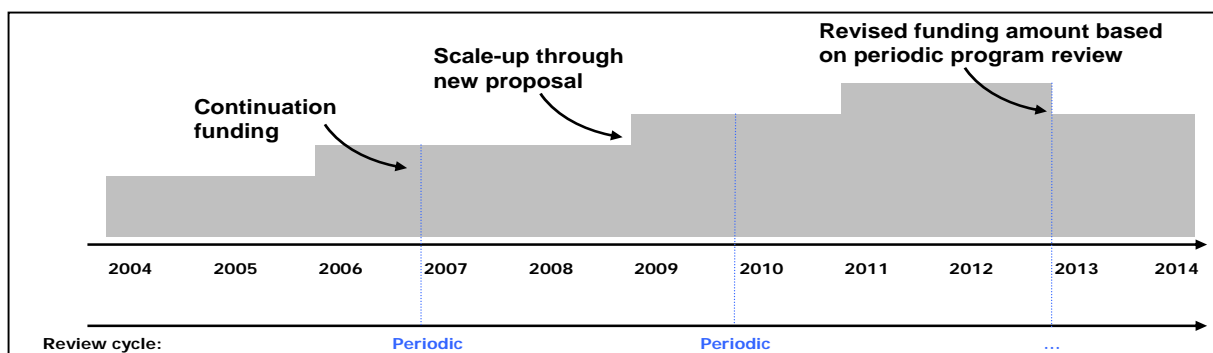
2010: The year for a new Global Fund architecture

4.11 The Global Fund's original systems and architecture have facilitated an unprecedented flow of funds to countries. Key operating principles embedded in the architecture have led to new types of participation in health governance and new ways of setting priorities and implementing programs. And yet, the current architecture has become increasingly complex as new elements have been added over the years and multiple grants accrue in the same country for the same disease, leading to duplication, misalignment, complicated management and transaction-heavy processes for implementers and the Secretariat.

4.12 The grant architecture review - begun initially as a review of the Rolling Continuation Channel and a process of grant consolidation - has been undertaken to address these challenges. It is an opportunity to redesign key Global Fund systems, informed by lessons learned from the Fund's first seven years and, most importantly, consultation with implementing countries and partners. It also takes account of changes in the global health and development landscape.

4.13 The proposed new architecture that the Board will review at this meeting features a "single stream of funding per principal recipient, per disease" (Figure 16). Under this model, the Global Fund will maintain one grant agreement for each principal recipient in a disease area, which will be updated each time a new proposal for funding is approved. This is in contrast to the current model, in which each newly-approved proposal results in a separate grant agreement, budget and indicators.

Figure 16: Schematic of single stream funding proposed in new Global Fund grant architecture



4.14 The "single stream of funding, per principal recipient, per disease" will more accurately reflect the long-term funding relationship that the Global Fund is maintaining with countries. Moving away from the current fragmented approach will enable a more holistic view of and approach to managing diseases, marking the Fund's progressive shift to program-based financing and contributing to improved harmonization and alignment. The new approach will also allow countries to time the submission of proposals according to their programmatic needs.

4.15 Periodic performance reviews will continue to inform future funding commitments but will reflect progress of the disease program as a whole rather than just an individual grant, and will include all principal recipients at the same time, with reviews and reporting better aligned to national program cycles.

4.16 If the new architecture is approved by the Board, the Secretariat intends to begin consolidation of grants into single funding streams as it negotiates Round 9 grants. This will be a major effort requiring everyone's support and participation, including CCMs, partners at country and global levels and all clusters and units in the Secretariat. I will be therefore asking the new Deputy Executive Director to coordinate implementation of the new architecture as one of her key responsibilities.

4.17 At its meeting in September, the PSC strongly approved of the new approach but also noted that the challenges of implementing the new architecture should not be underestimated. It recommended that a clear communications strategy should be developed to explain the benefits and timelines to countries and that every effort should be made to minimize the creation of additional burdens for countries during the transition phase.

4.18 As we enter the replenishment cycle in 2010, the move to a new grant architecture shows donors that the Global Fund remains a dynamic and learning organization ready to "retool" for the future. Once implemented, it will equip the Fund to better meet the needs of implementers as they strive to achieve the MDGs in the next five years.

2010: The year to complete the transition to a fully autonomous organization

4.19 Much work has been done in 2008 and 2009 to prepare and implement the systems needed for the Global Fund to operate outside the Administrative Services Agreement with WHO since January 1 this year. Basic systems such as payroll, health insurance, pension fund, salary structure, travel office and security services are now in place and operating effectively. As I note in Part 3 of this report, a focus of work this year has been to follow up on findings from the staff survey and develop related action plans at cluster level. To complete the Global Fund's transition to a fully autonomous organization, the Secretariat's information technology and human resources needs - notably the staff performance management framework - require significant further development in 2010.

4.20 The Global Fund has employed a piecemeal approach to information technology involving a cumulative total of more than 20 different systems with fragmented data, lack of clearly defined ownership and limited integration. The IT team will therefore undertake a major effort to create an integrated "end-to-end" system that meets all the Global Fund's administrative needs, ranging from payroll to performance data to daily grant management. Building on existing systems (rather than beginning from scratch), the platform will eventually enable more sophisticated data analysis capability by the Secretariat and improved external access to data for Global Fund stakeholders.

4.21 A key concern identified in this year's staff survey is the current staff performance management system. Because the Global Fund champions performance-based funding, many staff members feel that similar principles should be applied to the management of employee performance. A new system to be developed and proposed to the FAC in 2010 will therefore link individual employee objectives more closely to organizational performance. It will also provide a more structured process to enable staff and management to understand what is required to achieve a high level of individual and organizational performance and enhance dialogue and feedback on performance between employees, their managers and peers.

4.22 We are also working to improve and better coordinate internal communications in the Secretariat. An audit of internal communications needs has been undertaken with a view to strengthening tools such as the Global Fund intranet. This year I have initiated a monthly "OED Update" that provides staff with more information about my own activities and the role of the Fund on the global health landscape.

2010: The year to focus on in-country partnerships

4.23 Strengthening the Global Fund partnership continues to be one of my highest priorities. At this meeting, the Board will review the first partnership strategy for the Global Fund, the product of nearly two years' extensive consultation. The Global Fund partnership landscape was also a key focus of study in the recently-concluded Five Year Evaluation of the Global Fund.

4.24 The strategy identifies opportunities for strengthening the Global Fund partnership in six key areas: governance, representation and oversight; technical assistance; harmonization and alignment; resource mobilization; policy and advocacy; and communication and information-sharing. While it includes actions at the global and regional levels, the strategy emphasizes efforts needed at the country level, where the functioning of the partnership is still too ad hoc in many cases.

4.25 An innovative aspect of the strategy is its "partnership performance framework" that includes indicators to measure progress in implementation and promote mutual accountability within the Global Fund partnership.

4.26 If the Board approves the strategy, the Secretariat will develop a work plan to guide implementation in 2010.

4.27 I am delighted that in late October the General Committee and the 6th Committee of the UN General Assembly approved the request submitted by the Republic of Tanzania to grant observer status to the Global Fund in the General Assembly. I extend my sincere thanks to all Board members and countries, as the decision was reached by consensus. It now has to be voted on by the General Assembly itself later this month. UN observer status will enable the Global Fund to participate officially in the General Assembly and should create new opportunities in our relationships with all the UN agencies. This will be especially valuable in the lead up to the UN Millennium Summit in 2010 and the replenishment.

4.28 I hope that the Board will approve at this meeting a decision point relating to privileges and immunities, which the Global Fund and its staff lost outside Switzerland and the US following the termination of the Administrative Services Agreement with WHO. These are essential for the effective operation of the Global Fund, including for the protection of its assets, staff and data. The decision point will strengthen our partnership with donor and implementing countries alike by formally enabling the Secretariat to request that countries with appropriate domestic legislation grant the Global Fund privileges and immunities and/or sign on to a multilateral agreement.

4.29 As in previous years, the Global Fund has benefited in 2009 from opportunities for collaboration with partners and visibility at a diverse range of political, technical and scientific meetings and conferences. These have included the Stop TB Partners Forum in Rio de Janeiro in March; the international harm reduction conference in Bangkok in April; the H8 meeting of major health agency heads in Seattle in June; the UN Secretary-General's Forum on Advancing Health in the Face of Crisis in New York, also in June; the Asia Pacific regional AIDS conference in Bali in August; the Eastern Europe and Central Asia AIDS conference in Moscow in October, and the 8th

Pan-African National Malaria Control Programs Meeting in early November. At the UN General Assembly in September, the Fund co-hosted a very successful event with UNAIDS and UNICEF at which Carla Bruni-Sarkozy delivered a call to action on PMTCT. The Fund's participation in major events in 2010 will provide important advocacy opportunities for the replenishment and involve a continued strong focus on regional events to emphasize the importance of building the partnership at country level.

2010: The year to sign Round 9

4.30 A number of exceptional factors in 2009 contributed to Round 8 grant signing being especially complex and, in some cases, taking longer than the Secretariat would wish. These factors include the sheer size of the round; the need to achieve Board-mandated efficiencies; new LFAs; and more and new principal recipients. The large number of new initiatives emanating from the Board and the Secretariat has increased the overall burden on countries interacting with the Fund. Some inefficiencies within the Secretariat have also become apparent, including sub-optimal communications between Secretariat teams, insufficiently early planning and occasionally poor synergies between the Secretariat, LFAs, principal recipients and other partners.

4.31 As the Secretariat undertakes the additional major challenges posed by the replenishment and the new grant architecture, I wish everyone to appreciate the need to continually aim for peak performance in our core business: signing grants and distributing resources for the benefit of people in need. No single unit or cluster is alone responsible for grant signing and the timely disbursement of funds and signing of grants needs to be seen as a corporate responsibility.

4.32 The Secretariat is currently examining a range of potential measures to expedite the signing of grants in 2010, including the development of clear grant signing milestones with principal recipients, CCMs and partners.

4.33 The year that is drawing to a close has once again involved impressive results and extraordinary growth, change and innovation for the Global Fund. We have at times also experienced the limitations of the Fund's model, such as when our eligibility rules place at risk of collapse programs that are empowering civil society and serving extremely vulnerable populations; when the rejection of a proposal jeopardizes the tremendous gains made against malaria in an endemic country, or when political issues within a CCM lead a country's first ever HIV proposal to be screened out before it reaches the TRP. The Global Fund is constantly challenged to strike the right balance between its founding principles, its important systems of checks and balances and the imperfect world that it was created to serve.

4.34 As we enter the Fund's third replenishment cycle, 2010 offers us much hope of what more can be achieved in the fight against the three diseases. At the same time, the uncertain economic outlook raises the question whether the second decade of the 21st century will be one of continued optimism and progress in global health, or could instead be one of broken trust and promises.

4.35 I believe we need look no further than the host country of this meeting, Ethiopia, and its neighboring countries in the region, to know that the Global Fund is making a tremendous difference in the world and is an essential instrument for the future.

4.36 I wish the Board a productive twentieth meeting.

Michel D. Kazatchkine
Geneva, November 3, 2009

This document is part of an internal deliberative process of the Fund and as such cannot be made public. Please refer to the Global Fund's documents policy for further guidance.