36th Board Meeting

Review of the Global Fund Business Model

GF/B36/28

16-17 November 2016, Montreux, Switzerland

Board Discussion

Purpose of the paper:
This paper presents the findings from a study of the Global Fund business model. It outlines how the current business model operates, the benefits and challenges with the current model and potential options to strengthen the current model. It then presents possible options for the evolution of the business model for review and discussion by the Board.

The Global Fund

TABLE OF CONTENTS

1. Decision Point

1. This paper is for discussion purposes and does not propose any decision points.

2. Relevant Past Decisions

2. The following summary of relevant past Board and Committee decision points is submitted to contextualize the decision point proposed in Section I above.

Relevant past Decision Point	Summary and Impact
GF/B35/DP03: Response to Office of the Inspector General 2015 Annual Opinion and Risk Management Report and Assurance Statement (April 2016)[1]	In the context of the Differentiation Initiative, the Board called on the Secretariat to review the business model in high-risk countries and present possible options to the Board after review by the Standing Committees in October 2016.

3. Action Required

3. The Board is asked to take note of the next steps emerging from the review of the Business Model in high risk countries as summarized in section 7: Next Steps.

[1] http://www.theglobalfund.org/Knowledge/Decisions/GF/B35/DP03/

4. Executive Summary

4. **The Board requested a review of the Global Fund's business model**. During the April 2016 Global Fund Board meeting in Abidjan, Côte d'Ivoire, a decision was taken to "review the Global Fund business model in high-risk countries and assess possible alternative options for further discussion during the second Board meeting of 2016".

5. **The Secretariat recognizes the need to ensure that its business model can appropriately address risks, especially in high risk countries, that may stand in the way of delivering impact.** The Global Fund operates in a dynamic environment where its strategy, its partners, the situation in countries, and the risks it encounters are constantly evolving. As a result, the Secretariat is committed to reviewing its business model regularly to assess how well the model responds to the changing environment. For example, a number of new initiatives recently were launched to address key risks and adapt to the new strategy. No options that can demonstrably reduce risks or deliver more impact in a cost-effective manner will be excluded for consideration. As a first step, the Secretariat invested over 1,500 hours (approximately one full time equivalent for a year), including focus groups with country team members, a survey answered by over 800 in-country stakeholders, interviews with approximately 50 Board members, Standing Committee and constituency members and a detailed costing model of potential options. It is our hope that the review of business model will help the Global Fund support risk identification, mitigation, prevention and assurance and therefore maximize impact by:

   - Highlighting the importance of rolling out the risk & assurance framework in all high risk countries as a key intervention at the country level to identify, mitigate and get assurance over risks;
   - Reflecting on the good practices and areas for improvement in risk management within the current model;
   - Identifying ways to catalyse and strengthen partnership to deliver greater results, including through CCMs;
   - Ensuring the Global Fund operates with efficiency, thus maximizing the funds to programs where they can deliver impact; and
   - Proposing changes to the business model that will lead to improved risk management.

6. **The Global Fund's business model continues to evolve to strengthen its ability to address risk and better work with partners to deliver impact.** The Global Fund was launched as an innovative multi-stakeholder partnership for financing the fight against the three diseases.[2] Within this business model, the Global Fund's approach to grant management and fiduciary risk has evolved. In 2012 the Global Fund created multi-functional country teams, High Impact departments with more staff focused on highest burden countries, a Secretariat-wide risk management function and an operational risk

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[2] The Global Fund's status as a financing entity is legally prescribed by the Framework Document; United Nations General Assembly Resolution A/RES/S-26/2; see also 22 U.S. Code § 7622 (d)(5)(I) and (J).

management approach.[3] The Global Fund strengthened partnership by including partners in the discussion of the Secretariat's Grant Approval Committee. In 2016, the Global Fund continued to evolve by further focusing staff resources on High Impact[4], Challenging Operating Environments[5] and transitioning countries[6]. The Risk Management function was further embedded in operations and a second-line system of controls was strengthened. The Implementation Through Partnership (ITP) project increased technical cooperation among partners through results-oriented support to countries, however, the evolution of the project needs to be defined and rolled out. In addition, a number of other changes are currently underway and are described in the Prioritized Action Plan shared with the Board, such as high risk and impact countries portfolio management, in-country capacity building projects in finance, procurement and supply chain and finally strengthening integrated assurance planning in high impact and core countries. After they are rolled-out, the impact of these changes need to be assessed to see how effectively they help the Global Fund to manage key risks based to its risk appetite.

7. **Stakeholders highlighted strong advantages of the current model**. The current business model facilitates *country ownership* and accountability among countries. It encourages *multi-stakeholder partnership* fostered by the Country Coordinating Mechanisms (CCMs) in country and ensures the Global Fund *leverages the expertise of partners*, rather than trying to solve issues alone. It re-enforces the Global Fund's *neutrality* and *convening power* as an external financing partner while ensuring responsibility for implementation of programs clearly resides with the Principal Recipients (PRs). It allows the Global Fund to rapidly and continually *evolve its approach* and offers a high level of *adaptability of risk mitigation and assurance measures*. Finally, the Global Fund has a *lean and efficient organization* based in a single location that encourages *consistency and knowledge sharing* and *enhances swift internal decision making*.

8. **Challenges were identified in three areas.** Interviews with stakeholders, survey results and the Global Fund's own analysis highlighted three main challenges related to the Global Fund's business model: 1) partner engagement and portfolio management, 2) risk management and 3) country coordinating mechanisms.

   i. **Partner engagement and portfolio management.** Some stakeholders noted that the Global Fund business model may make it difficult to ensure an appropriate level of technical support in countries with an *absence or limited presence of bilateral or multilateral partners*, to *optimize coordination and relationship building* in high risk and high burden portfolios where many partners operate, to *respond rapidly* to issues or crises in country and to have *up-to-date knowledge of country context*, risks and political dynamics.

   ii. **Risk management.** Stakeholders raised concerns about the *lack of synergies between risk actors* in country that could be leading to, duplication of work between

[3] GF/B25/DP06 approved the Consolidated Transformation Plan as set forth in GF/B25/4.
[4] The Grant Management Division launched the Differentiation for Impact project in October 2015 to better prioritize and focus Global Fund resources to achieve maximum impact while managing risk globally.
[5] GF/B35/DP09 approved the Challenging Operating Environments Policy as set forth in GF/B35/03.
[6] GF/B35/DP08 approved the Sustainability, Transition and Co-financing Policy as set forth in GF/B35/04 – Revision 1.

the Local Fund Agents (LFAs), Fiscal Agents and auditors, the *uneven performance of existing assurance providers* across countries, including from LFAs, and potentially *insufficient specialization of assurance providers* to provide assurance in highly technical areas such as program quality and procurement / supply chain management. Emerging from a Financial Control Environment Review commissioned by the Secretariat in Nigeria, the Secretariat highlighted *insufficient alignment in risk assessment tools*, the *lack of a consolidated view of controls* of the PR in especially high risk grants and *limited focus on the prevention of fraud*, as opposed to the detection of fraud, as key additional areas for improvement.

iii. **Country Coordinating Mechanisms (CCMs).** Stakeholders reiterated some of the key challenges CCMs face that were identified in the OIG audit[7]: *insufficient CCM involvement in oversight* of grants, *variable engagement and empowerment of civil society and key populations* on CCMs and *inappropriate linkages with key actors* in country, whether this is due to lack of effective ties with key governance bodies within the country or having ties that create conflict of interest situations within the CCM.

9. **The Global Fund model compares well to that of partners with country presence.** While the Global Fund certainly can improve important elements of its model, there is little evidence emerging from this review that the business models of organizations with country presence would better address some of the key concerns facing the Global Fund. An analysis of 836 survey responses from CCM members, LFAs and PRs, showed that compared to organizations with country presence, the Global Fund model *encouraged stronger partnership and coordination with key partners* in country (82% of PR and 83% of CCM respondents), *enabled more meaningful engagement with affected communities* (80% of CCM respondents), *helped identify and mitigate risks better* when implementing grants (88% of LFA and 79% of PR respondents), *enabled a stronger oversight of implementation* of grants (80% of CCM respondents), and helped the grants *achieve more sustainable results* (77% of PRs and CCM respondents). It should be noted that survey results may reflect a survey bias since the respondents, CCM members, LFAs and PRs, may have better knowledge of the Global Fund business model. However, these positive comparative results were confirmed in a report by AidData (2015) in which the Global Fund ranked highly in Partner Communication and Performance[8].

10. **Improvements to the current model could address many challenges, however time is needed to embed and assess the effectiveness of the changes.** While noting the favorable comparison with partners, there is undoubtedly room for further improvements. Work is underway on a number of enhancements, including many of those described below.

i. **Partner engagement and portfolio management**. The Global Fund should *leverage effective partners and contractors more*, including through the *mainstreaming of the implementation through partnership* project, *encourage longer country visits* by staff during key moments in the grant lifecycle or when issues emerge,

[7] GF-OIG-16-004, 25 February 2016.
[8] AidData report on Listening to Leaders: Which Development Partners Do They Prefer and Why

tailor the skillsets further to align with the new strategy (this work has already started through the Differentiation for Impact project), and *strengthen monitoring, training and knowledge sharing* of country teams to ensure ongoing improvements. Already there are cases of the Global Fund using such flexibilities, for example to place contractors in Nigeria.

ii. **Risk management**. Within the overall framework of the Global Fund's new Risk and Assurance framework, the Global Fund should continue to *streamline assurance provision and risk mitigation measures*, *improve performance of service providers* through stronger training for country teams on the management of service providers, *expand in-country assurance to new actors* in technical areas such as programmatic quality and procurement and supply chain management. Highlighted in the Financial Control Environment Review were the following actions: *streamline risk assessment tools* and embed their use into the new grant operational system at key points in the grant lifecycle, *improve the quality of financial audits, enhance financial risk and assurance guidelines*, and *strengthen ethics and compliance training as well as provider and implementer due diligence* to prevent fraud in portfolios with high fraud risk. To accomplish these goals, the Secretariat may *contract a financial controls expert* to support the implementation of these measures in high risk countries on a time-limited basis.

iii. **Country Coordinating Mechanisms.** To begin, the Global Fund should strengthen knowledge of appropriate behavior among CCM members by *ensuring signature and implementation of the code of conduct for CCM members*, *introducing systematic new member inductions*, and *conducting workshops to improve CCM performance* in areas where reform is most needed. *Performance-based CCM funding* should be used to encourage CCMs to undertake needed reform. Finally, the Global Fund should ensure that those who are well positioned to influence CCMs, such as FPMs and development partners, are encouraged by *identifying 'champions', sharing best practices, and receiving training*.

11. **Opinions varied about options to evolve the model, but over 70% preferred to first focus on improving the current model.** In interviews with Board and Committee members, stakeholders shared their opinions about options ranging from improving the current model (71% in favor), placing liaisons in a subset of countries (10% in favor), moving a sub-set of country teams in-country (10% in favor), establishing regional hubs (6% in favor), and moving all country teams in-country (0% in favor). A costing model estimated that the costs of each options, except having country teams in all countries, would be between US$ 3.82 million to US$ 8.40 million to implement, however detailed work should be undertaken to confirm the costs. The majority of stakeholders in favor of improving the current model explained their rationale by saying that it was too soon to change the business model before seeing if the challenges could be addressed with recent reforms and new initiatives. In addition, they believe that the Global Fund needs to respond flexibly to the wide variety of situations it faces, which the current model could do more easily and efficiently than a rigid staffing structure, while maintaining clarity about the Global Fund's role as a funding institution rather than an implementer. Finally, several stakeholders highlighted

that if the Global Fund aims to end the epidemics and empower countries to drive their own responses, it makes sense that, within the bounds of appropriate risk mitigation and oversight, "the Global Fund doesn't put the problem into the Global Fund's hands, it puts the problem in the [country's] hands".

12. Based on this feedback, the Secretariat recommends that the Global Fund focus near-term efforts on implementing the proposed improvements described in Section 6.2: Improvements to the Current Model while maintaining its long-term commitment to continuously assessing and adapting the business model.
    i. In January, the Secretariat will develop 1) a draft plan that describes the key milestones and timelines to implement the improvements and 2) draft assessment criteria and timeline for measuring the level of baseline risk and residual risk after the proposed changes have been put in place. A teleconference will be held with Committee members to discuss the draft plan.
    ii. By March, the Global Fund will perform additional analysis of similar organizations with country presence to understand how these organizations manage common in-country risks and what good practices the Global Fund may learn from them. The findings from these analyses will be incorporated into the implementation plan.
    iii. At the March/April cycle of Committee and Board meetings, the Secretariat will report back to the Standing Committees with an implementation plan and provide an update on progress on ongoing initiatives related to improving the business model.
    iv. At subsequent Committee and Board meetings, the Secretariat will provide regular updates on progress against the implementation plan, on the results of the assessment of how effective the improvements are at addressing residual risks and consider whether any additional changes to the business model are required.

5. Background

12. During the April 2016 Global Fund Board Committee meeting in Abidjan, Côte d'Ivoire, a decision was taken to "review the Global Fund business model in high-risk countries and assess possible alternative options for further discussion during the second Board meeting of 2016". During the intervening months, the Secretariat has invested over 1,500 hours (approximately one full time equivalent for a year) in a robust analysis of the Global Fund business model, including focus groups with country team members, a survey answered by over 800 in-country stakeholders, interviews with approximately 50 Board members, Committee and constituency members and a detailed costing model of potential options. This paper shares the results from the analysis.

5.1. Evolution of the Global Fund's Business Model

13. The Global Fund was set up "to attract, manage and disburse additional resources mitigating the impact caused by HIV/ AIDS, tuberculosis and malaria" [9]. Amongst its founding

[9] Core Global Fund Framework Document (2001)

principles is to act as a "financial instrument, not an implementing entity"[10] that bases "its work on programs that reflect national ownership and respect country-led formulation and implementation processes"[11]. As such, the current business model is composed of staff located at the Secretariat and the Office of the Inspector General in Geneva, Switzerland. While staff within the Grant Management Division are organized by country teams, the current model does not include staff or offices in country.

14. Recent reviews, for example the 2011 High Level Panel Report and the 2015 Partnership Forums which included the contributions of 1500 stakeholders, did not recommend that the Global Fund change its business model, although they highlighted the importance of enhancing the way the Global Fund operates. As a result, historically, the Global Fund has responded to reviews and partner inputs by adapting, rather than changing, its business model.

15. In 2012, the Global Fund undertook a transformation following the recommendations of the 2011 High Level Panel Report. This included reallocating Secretariat resources into front-line country teams and strengthening their decision making by embedding multi-functional expertise and sufficient resources to increase time spent in country. The transformation also included the creation of further-strengthened teams to manage grants in countries with the highest disease burden, and the creation of a Secretariat-wide risk management function and an operational risk management approach. The partnership model of the Global Fund was bolstered by including partners in the discussion of the Secretariat's Grant Approval Committee and its grant funding recommendations to the Board.

16. In 2016, the Global Fund further enhanced the business model by tailoring investments and processes to specific characteristics of a country portfolio. The Differentiation for Impact project resulted in resources being focused further on High Impact, Challenging Operating Environment (COE) and transitioning countries. The partnership approach was further strengthened through the Implementation Through Partnership (ITP) project between countries, partners and the Global Fund aimed at removing bottlenecks to effective and efficient implementation. ITP in collaboration with partners, created an opportunity for increased technical cooperation through results-oriented support. The Risk Management function was further embedded in operations and a second-line system of controls was strengthened.

5.2. Overview of the Current Business Model

17. The Global Fund disburses grants to countries around the world relying on a network of implementers, Country Coordinating Mechanisms (CCMs), risk management mechanisms (such as the fiscal agents and procurement agents), and third party assurance providers (such as Local Fund Agents (LFAs) and external auditors) to operate and monitor in these countries. As a financial institution, the Global Fund does not implement programs but collaborates with in-country actors, Country Coordination Mechanisms, bilateral and

[10] Core Global Fund Framework Document (2001)
[11] Core Global Fund Framework Document (2001)

multilateral partners and Principal Recipients (PRs) to coordinate applications and implement programs.

18. Please see Figure 1 that illustrates the current model and shows how the different in-country actors interact and work with the Global Fund country teams:

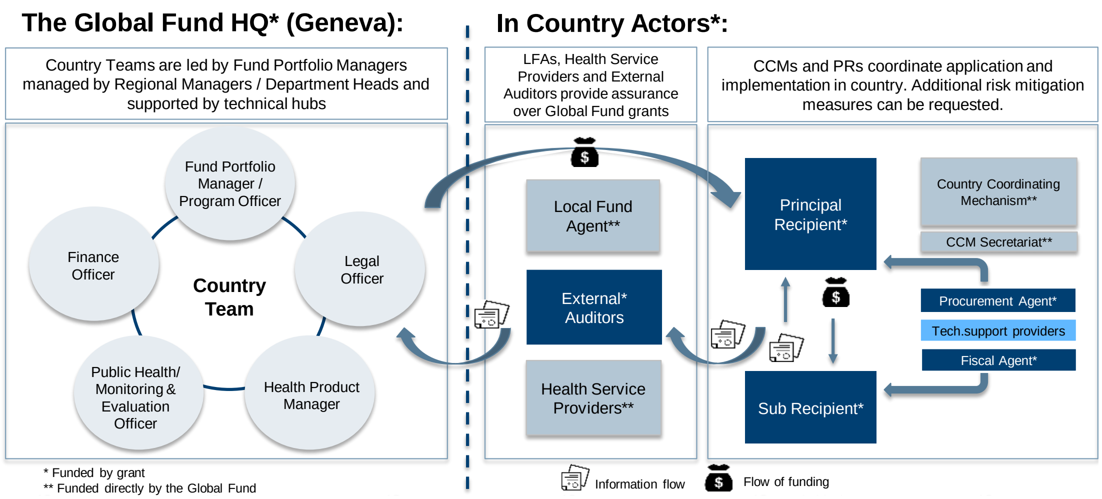


Figure 1: The current Global Fund business model

The Global Fund Secretariat Country Teams

18. The Global Fund Secretariat is composed of roughly 750 staff members, of which 335 work directly on countries programs as country teams. This is comprised of 281 staff working in Grant Management (including Department Heads and Regional Managers), 44 staff in Finance (including Regional Finance Managers) and 10 staff in Legal. A substantial portion of the remaining staff directly support country teams in their work with implementers. All staff are based at the headquarters, although country team staff working directly with countries frequently travel to country. Country teams are typically composed of a Program Officer, a Finance Officer, a Health Product Management Specialist, a Legal Officer, and a Public Health / Monitoring & Evaluation Officer under the guidance of the Fund Portfolio Manager. The country team is responsible for the overall management of all country or multi-country / regional grants in their portfolio. For more information about the roles of the country team, please see Annex 1: The Global Fund Geneva-based and in-country actors.

19. As part of the Differentiation for Impact initiative described in Section 5.1, the Secretariat has categorized the grant portfolio into *focused, core and high impact* categories based on disease burden, size of grant portfolio and impact to the Global Fund mission.

- **Focused:** smaller portfolios, lower disease burden and lower mission risk
- **Core:** larger portfolios, higher disease burden, and high risk
- **High Impact:** very large portfolios, highest disease burden critical to Global Fund mission

20. In addition, special categorizations were developed for countries nearing *transition* from Global Fund financing and for countries with *challenging operating environments*. Differentiated grant management approaches have been defined for each portfolio category. In particular, the Global Fund adapted country teams to better achieve impact and manage risks, shifting resources to high impact and high risk portfolios and introducing specialized roles. Some of the key changes include the following:

- **State and Province Fund Managers (new roles)** joined the largest high impact countries where achieving progress will require the Global Fund to successfully implement programs in states or provinces that are often larger than other countries. They will focus on the highest burden areas within countries.
- **Disease Managers (new role)** will drive strategic change in the disease portfolios of the highest impact countries; ensure closer support to PRs and timely follow up of grant conditions; manage partnerships at the disease level; and provide hands-on risk management.
- **Fund Portfolio Managers** in Focused countries (countries with lower disease burden and smaller grants) will simplify the routine grant management tasks they undertake to focus more on key strategic areas for each country.
- **Program Officers** have been added to Core portfolios in Challenging Operating Environments to provide greater support to handle the complexities and risks that face the Global Fund programs in these countries.
- **Transition Officers (new role)** were added to departments with a significant number of countries that would be transitioning away from Global Fund support. Transition Officers will support the design of tailored engagement plans based on country specific contexts and factors that affect the sustainability of programs.

21. In total, these changes will shift 18 additional staff into High Impact portfolios and increase the level of support to Core portfolios in Challenging Operating Environments from 54 to 64

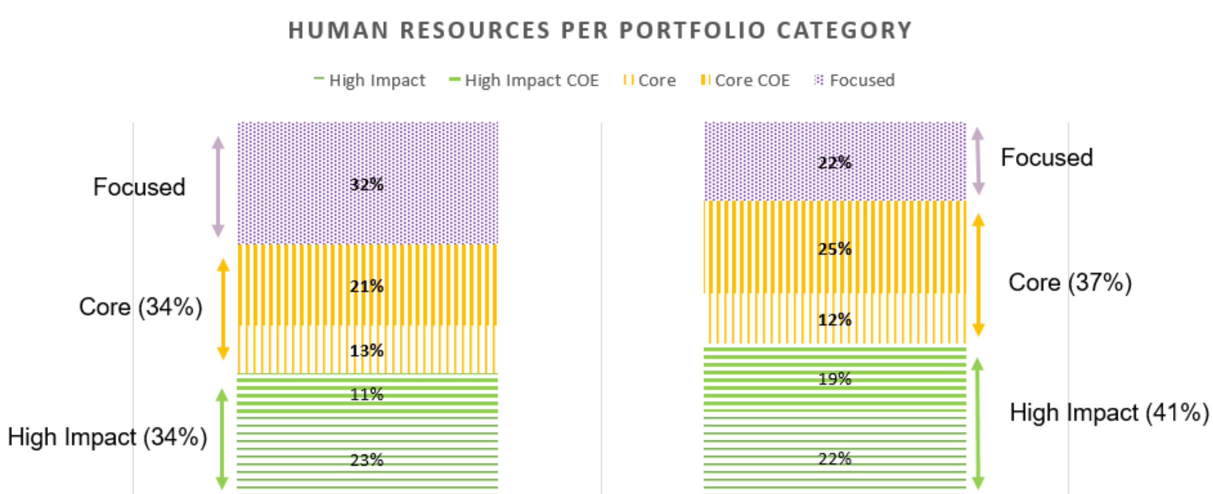


Figure 2: Shift in resources due to Differentiation for Impact

staff. Implementation of these changes are in progress and the majority should be completed in December 2016. See Figure 2 below illustrating changes.

Risk management

22. A key responsibility of country teams is to manage risks within the risk appetite of the Global Fund. Country teams undertake capacity assessments of new Principal Recipients (PRs) to ensure they are capable of managing Global Fund grants, identify and prioritize the risks in existing programs, work with PRs to devise ways to mitigate the risks, and plan the assurance to see whether the mitigation measures are working and need to be reviewed. As part of the increased focus on assurance planning, country teams for the 30 high impact and high risk countries will undertake comprehensive assurance planning each year to identify the key risks and plan how to mitigate these risks. This will flow into assurance planning for LFA work, as well as other stakeholders. Figure 3 summarizes the key risk management activities undertaken by the Global Fund at different phases of the grant lifecycle.

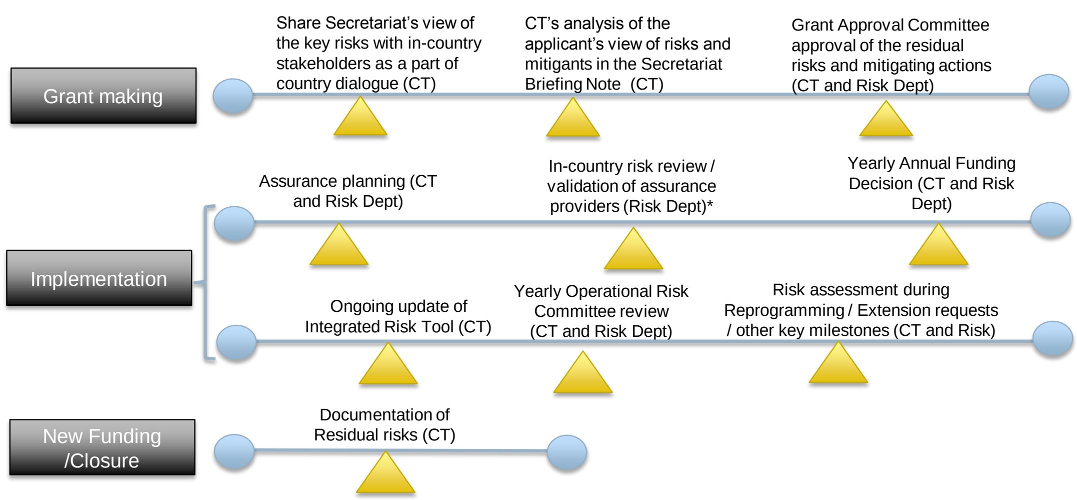


Figure 3: Overview of key risk management activities across the grant lifecycle

23. The country teams are supported by their managers and the Global Fund's risk department to manage grants within the Global Fund's risk tolerance. Through its Operational Risk Committee and Enterprise Risk Committee, the Global Fund debates how much risk it is comfortable accepting and ensures a consistent and logical approach is followed across the portfolio. This allows country teams to define the appropriate risk tolerance for each situation to balance the need to achieve impact with the need to ensure appropriate controls are in place.

24. Based on a register of risks, the most common risks in Global Fund grants can be grouped into 4 areas: financial, procurement and supply chain, programmatic and governance. Below is a short summary of how the Global Fund manages each type of risk.

i. **Financial risks**. For financial risks, the Global Fund has a framework[12] that allows it to mitigate against financial risks, such as putting in place a fiscal agent, requiring the use of an external auditor or adapting the reviews of the LFA (see below for further description of each actor). Recent reviews of financial controls in key grants highlighted that the use of available mechanisms within this framework may need to be refined. Some of these key improvements are proposed in Section 6.2.

ii. **Procurement and supply chain risks.** For procurement and supply chain risks, current work is underway to strengthen the supply chain assurance approach, including using a broader array of providers, which should help the Global Fund identify and mitigate risks more effectively. Also, PRs can use the Global Fund's Pooled Procurement Mechanism (PPM), including the PPM's electronic portal of Wambo.org, to order goods or introduce procurement agents if needed to outsource key elements of the procurement process, although this approach is not centrally managed within the Secretariat. All of these actors are described in more detail below. Furthermore, the recruitment of a Head of Supply Chain and the creation of a Supply Chain Department in the Secretariat will ensure that there is greater ability to standardize approaches, such as use of procurement agents, and roll out good practices across teams. Finally, the Secretariat is increasing the pace of supply chain transformation work starting with Nigeria, Ghana and Malawi and making plans for the next wave of countries.

iii. **Programmatic risks**. In high risk countries, programmatic risks are a major concern. The Secretariat is currently strengthening its approach to programmatic risk but much of the work is at an early stage, inevitably as many agencies and implementers are struggling with this issue. There are three main elements of this work. The first, introducing health facility assessments, program quality reviews or data quality reviews in all high impact and core countries every 2 years, is being rolled out in Q4 2016 and early 2017. Second, every program must undertake an evaluation every three years to assess the effectiveness of the program and inform shifts that are needed for any future grant. Finally, with the new head of the Technical Advice and Partnership (TAP) Department joining in August, the TAP Department is launching a significant initiative to embed program quality and efficiency as a core part of the Global Fund grant lifecycle.

iv. **Governance risks**. In many high risk countries, the dual aims of ensuring sustainability by working through government agencies and having implementers with strong program management expertise and capacity has been difficult to achieve. The Global Fund assesses the capacity of principal recipients to manage its grants and reviews implementation arrangements, including the major flow of funds and goods. However, in many high risk settings, country teams struggle to find effective implementation arrangements. In some cases, country teams ensure that the grants fund program management units (PMU) either in the principal recipient or even within

[12] Guidelines for Annual Audits of Global Fund Grant Program Financial Statements, Guidelines for Grant Budgeting and Annual Financial Reporting, Guidelines for Financial Assurance Planning as well as the financial requirements provided for in the Grant Regulations and conditions included in Grant Agreements which can be tailored to PR and program needs

a Ministry of Health to oversee the programs across diseases. The PMUs support the routine program management for Global Fund grants and some other donors while also building capacity and gradually transitioning management to national structures.

25. To address these risks, country teams rely on a variety of internal and external assurance providers to oversee programs and ensure impact is delivered.

   i. **Local Fund Agents**. Competitively selected LFAs provide independent assessment, verification, advice and recommendations to the Global Fund on implementers' capabilities to manage/implement programs; implementers' compliance with the respective grant agreements during grant implementation; and risks that will impact the programs' ability to meet their objectives. LFAs provide services to the Global Fund at various stages of the grant lifecycle: before grant signing, during grant implementation and when a grant reaches the end of its life cycle or is terminated. LFA performance is assessed each year by the country teams and underperforming LFAs can be replaced. Based on the most recent assessments by country teams, 96% of LFAs were rated as meeting or exceeding expectations (based on the volume of services). To date, LFAs have provided assurance over activities related to financial, governance, programmatic, and procurement and supply chain risks. Increasingly, the Global Fund is exploring the use of other service providers to augment the work of LFAs, especially in areas related to programmatic and supply chain risks. For example, to assess programmatic risks, competitively selected public health professionals (called Health Service Providers) will undertake health facility assessments for high impact and core countries to understand how well programs are delivered at health facilities.

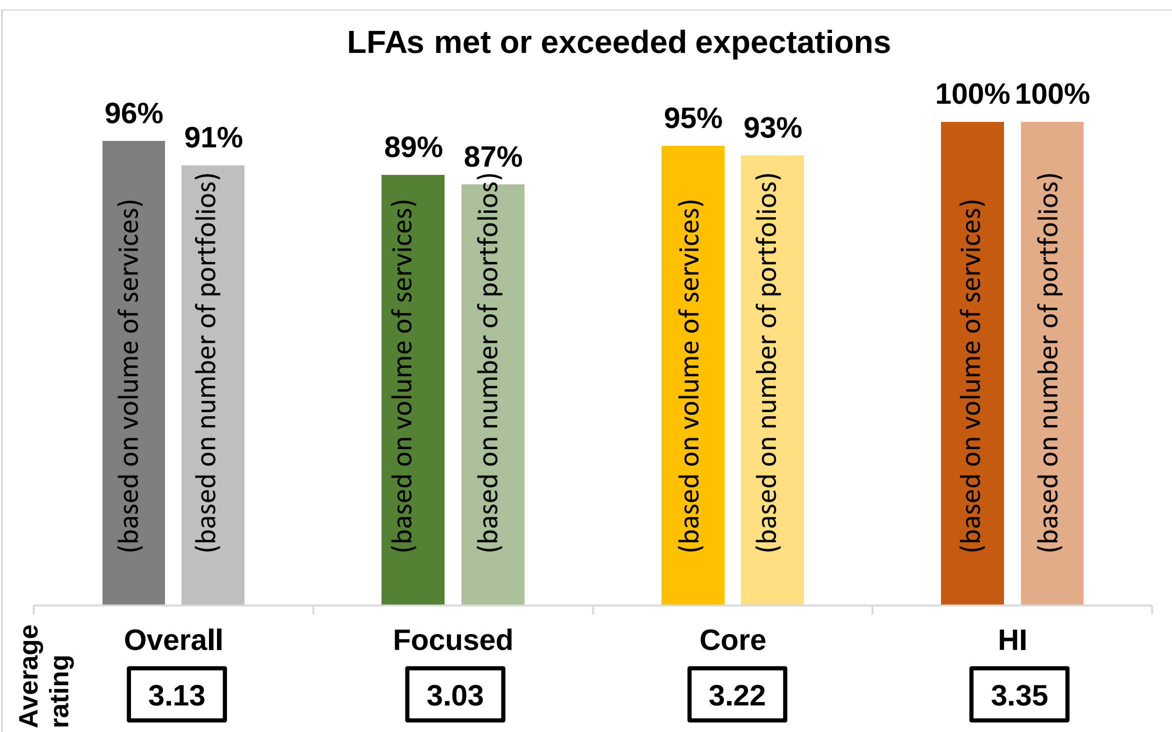


Figure 4: Results from 2015 LFA Performance Evaluations

ii. **External Auditors.** A core component of the Global Fund's compliance controls is the annual financial audit of the grant. In accordance with the Grant Agreement, the transactions and balances of all Principal Recipient and Sub-recipients have to be audited annually as well as at the closure of the grant. The audits are primarily intended to provide the Global Fund with assurance, in accordance with applicable legal requirements and accounting and auditing standards, that disbursed funds were used for the intended purposes in accordance with the Grant Regulations, and that the Financial Statements fairly represent the financial transactions and balances of the Grant. Selection of the audit firm may be managed by the Principal Recipient, with approval from the country team. In some cases (lack of capacity of Principal Recipient or recurring poor quality from local firms), the Global Fund Secretariat, through the country team, may directly recruit the audit firm through a competitive bidding process. A pilot is underway to expand this to all focus countries to increase the quality and value of audits. In all cases, the country team will closely monitor the submission and review of the audit report, the implementation of audit recommendations by the Principal Recipient and review of auditor's performance.

iii. **Internal auditors.** In some instances, the Global Fund places reliance on the internal audit function of the implementer. The internal audit provides independent assurance that, in accordance with applicable requirements such as the Financial Regulations and Rules of the relevant public international organization, an organization's risk management, governance and internal control processes are operating effectively. An effective internal audit function should provide management with a level of comfort that risks are being addressed and in turn provide Global Fund with these same assurances. The internal audit function is embedded in the Principal Recipient's organizational structure.

iv. **Office of the Inspector General**. The Global Fund is mandated to have a strong, independent audit and investigations team housed in the Office of the Inspector General (OIG) that reports directly to the Board (through the Audit and Finance Committee). The findings of these audits and investigations significantly enhance the ability of the country teams to 'course correct' during implementation, or to learn lessons from previous grant management.

26. In order to respond to identified risk, the Global Fund has several tools at its disposal, which it can introduce into its in-country operations.

i. **Additional Safeguard Policy**. The Additional Safeguard Policy can be "invoked by the Secretariat when the existing systems to ensure the accountable use of Global Fund financing reveal conditions that suggest that Global Fund monies could be placed in jeopardy without the use of such additional measures". Examples of additional measures the Global Fund may invoke under the Additional Safeguard Policy include selection of PRs or SRs in consultation with other development partners, more detailed capacity or risk assessments by LFA or other entities, direct payment to contractors / vendors, participation in currency exchange rate baskets to manage exchange rate risks. 23 countries are currently managed under the Additional Safeguard Policy.

ii. **Fiscal Agent**. To mitigate the risk of fraud or misuse of grant funds and minimize ineligible expenditures and uses of grant funds, the Additional Safeguard Policy also enables the Global Fund to install a Fiscal Agent as a fraud preventive mechanism. The Fiscal Agent is an entity contracted directly by the Global Fund, funded with grant funds and embedded within the Principal Recipient at an operational level, to support the Principal Recipients and/or Sub Recipients in complying with all financial requirements of the Global Fund, as well as ensuring the appropriate use of grant funds. 20 countries have fiscal agents in place.

Country	Date Additional Safeguard Policy invoked	Date of Fiscal Agent's first work order
1. Angola	-	October 2016
2. Benin	-	April 2013
3. Burkina Faso	-	September 2012
4. Burundi	-	August 2014
5. Cambodia	-	January 2013
6. CAR	January 2014	March 2013. Removing in 2014 due to change of PR.
7. Chad	January 2009	December 2012
8. Congo	-	February 2015
9. Cote D'Ivoire	December 2010. In February 2016 ASP status was removed due to risk management measures in place; military and civilian crisis of 2011 no longer prevails.	August 2013
10. Djibouti	December 2010	-
11. DRC	August 2011	December 2014
12. Egypt	February 2014	September 2016. Installation results from an AMA from an OIG investigation. The PR (MoH) has yet to approve FA mandate. Selection has already been done, pending approval by PR.
13. Georgia	-	June 2013. Removed in 2014.
14. Guatemala	-	January 2014. Removed in August 2016.
15. Guinea	August 2013	January 2013
16. Guinea Bissau	July 2012	January 2013
17. Haiti	April 2010	-
18. Indonesia	-	July 2015, Removed in December 2015 due to change of PR.
19. Iran	2008	-
20. Iraq	Not formally invoked	-
21. Liberia	-	June 2014
22. Madagascar		October 2016
23. Malawi	-	June 2013
24. Mali	December 2010	-
25. Mauritania	December 2010	September 2016
26. Myanmar	November 2009. In October 2012 ASP status revoked in line with loosening of sanctions on Myanmar by major Global Fund donors and recognizing reforms implemented by the Government.	-
27. Nepal	June 2015	-
28. Niger	July 2012	January 2013
29. Nigeria	April 2016	May 2015

Country	Date Additional Safeguard Policy invoked	Date of Fiscal Agent's first work order
30. North Korea	February 2010	-
31. Papua New Guinea	December 2010	-
32. Sierra Leone	-	January 2013
33. Somalia	August 2016	
34. South Sudan	2015	-
35. Sudan	2005	February 2016
36.Swaziland		September 2013. Removed in October 2014.
37. Syria	2011 invoked	-
38. Timor-Leste	-	February 2016
39. West-Bank & Gaza	2008	-
40. Yemen	December 2013	-
41. Zimbabwe	November 2008	-

Figure 5: Countries with Additional Safeguard Policy and\or Fiscal Agent

iii. **Procurement Agent**. The Procurement Agent is an entity contracted either directly by the Global Fund (under the Additional Safeguards Policy) or by the Principal Recipient to provide procurement services relating to sourcing and supply management. The role of the procurement services provider is to support the PRs/SRs in meeting all Global Fund requirements and comply with acceptable procurement procedures. It is also to ensure the efficient, effective and economic (value for money) use of grant funds as well as avoiding all other financial risks attached to procurement.

iv. **Pooled procurement mechanism and Wambo.org**. In addition to saving the US$ 600 million in procurement-related costs over the past 3 years, the Global Fund's Pooled Procurement Mechanism (PPM) created in 2009[13] and its electronic portal, Wambo.org, are also important risk mitigation tools. By directly selecting, contracting and paying suppliers according to PR requests through PPM, the Global Fund eliminates opportunities for fraud or diversion of funds. The wider leverage created by pooling procurement has greatly reduced stock-outs and lead-times. Currently approximately US$ 1.2 billion of procurement for key products occurs through PPM. In addition, by developing an online platform that allows buyers to search, compare and purchase products, Wambo.org facilitates greater transparency of PPM purchases. Wambo.org records all actions undertaken in an order, resulting in a complete audit trail, which notably includes in-country approvals and decision process.

Country Coordinating Mechanisms and Partners

27. Country Coordinating Mechanisms (CCMs) are country-level multi-stakeholder platforms which can be built upon existing national structures. Country Coordinating Mechanisms include representatives from both the public and private sectors, including governments,

[13] GF/B13/DP05 and GF/B15/DP15. The PPM was launched as a key tool for implementing the Global Fund Market Shaping Strategy and associated health sourcing strategies.

multilateral or bilateral agencies, non-governmental organizations, academic institutions, private businesses, and people living with the diseases as well as "key populations" representatives. As such, the CCMs are in-country partnership platforms.

28. Each CCM has five core functions:

    1. Coordinate the development and submission of national request for funding.
    2. For each grant, nominate one or more organization to serve as Principal Recipients.
    3. Oversee implementation of the approved grant.
    4. Approve any reprogramming requests.
    5. Ensure linkages and consistency between Global Fund grants and other national health and development programs.

29. In order to fulfil their responsibilities, Global Fund provides funds to support the CCM's oversight function, encourage partner engagement for country dialogue and concept note development and to fund CCM Secretariat salaries (on average, 2.3 positions per CCM, which often include an Executive Secretary, an Oversight Officer and a Finance Officer).

30. CCM performance is assessed either annually or bi-annually by the GF Secretariat. In September 2016, the Global Fund introduced performance-based funding for CCMs, which will tie CCM disbursements to the CCM Performance (mostly regarding their oversight role), including the CCM Secretariat Performance. This gives the Global Fund a new way to encourage CCMs to reform and allows the Global Fund to remove funding from CCMs that are not fulfilling their core duties.

31. In extreme cases, such as a conflict setting, a country without a legitimate government, a natural disaster or strong evidence that a CCM will not act in a way that aligns with the needs of the people living in the country, the Global Fund Secretariat can accept a Concept Note under the 'Non-CCM' modalities. There are only 5 countries with non-CCMs (South Sudan, Democratic People's Republic of Korea, Nepal, Palestine and Somalia).

5.3. Example of Global Fund Business Model in a high risk country

32. To illustrate how flexibilities of the Global Fund's current business model can be used, the section below summarizes recent adaptations to the business model in Nigeria to address risks in one of the Global Fund's most challenging environments. Annex 2: Overview of existing arrangements in high risk and high impact countries describes the high level arrangements in place in 14 additional high risk and impact countries.

33. This annex describes an instance where the Global Fund Secretariat has refined and adjusted its business model using existing flexibilities to suit the needs of a high risk environment. An adapted business model has been employed in Nigeria to have a greater impact on the three diseases, to address critical risks, to enhance partnership at all levels and in an effort to address Nigeria's unique context.

34. Nigeria has extremely high levels of disease burden, including 24 percent of the world's cases of malaria, largest in the world; 9 percent of HIV disease burden, second-largest in the world;

and 7 percent of the world's TB burden. Despite a great deal of progress over the years, Nigeria has lagged in many areas of health, including these three diseases. A politically complex nation with a federal-state structure, it presents enduring challenges for financial and program management.

35. Over the years, the Global Fund has taken strong actions to improve risk management and outcomes in Nigeria and has been constantly looking at enhanced ways of managing the portfolio and engaging with country stakeholders:

- Strengthening management of the Nigeria portfolio including increased presence on the ground through greater time on mission and in-country contractors;
- Improving impact through a decentralized grant management approach;
- Ensuring effectiveness of financial management through a financial risk review;
- Improving the supply chain in Nigeria;
- Reconfiguring implementation arrangements.

36. **Strengthening portfolio management and in-country presence.** From 2010 to 2012, the Global Fund adopted a country team approach to strengthen the management of its portfolio and refocused grant management staff resources to portfolios with highest disease burden which includes Nigeria. The country team, who travel frequently to Nigeria, has been progressively expanded to provide additional attention to the portfolio and to implement a decentralized grant management approach. As a result of the Differentiation for Impact Project, the size of the country team has almost doubled to 17.9 FTEs (previously at 9.9 FTEs). To support the country team in overseeing the Nigeria portfolio, the Global Fund currently has 74 contractors on the ground in Nigeria. The total number of contractors and staff working on Nigeria will then be around 92. Additionally, the Global Fund has hired a contractor to act as a Risk and Assurance Agent who will complement existing risk and assurance functions via a direct in-country presence based in Abuja, Nigeria.

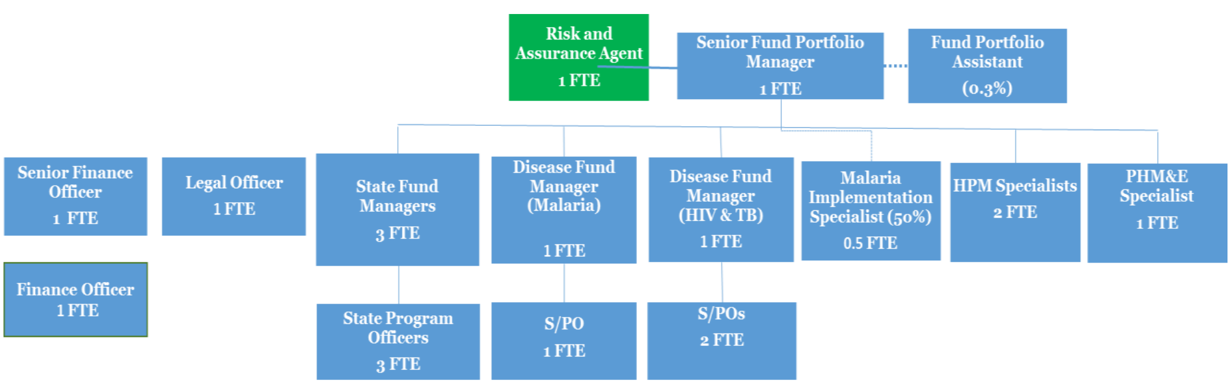


Figure 6: Structure of Global Fund country team

37. **Decentralized grant management approach**. In 2015, the Secretariat decided to directly engage at sub-national level in order to: (i) address specific challenges of selected high burden states whilst increasing impact on the three diseases through ownership from the state governments; and (ii) mobilizing internally generated revenues towards health in addition to existing co-financing commitments. The move towards a sewlect number of grants at the sub-national level with key states is a core element of the adapted business

model in Nigeria. The State Government of Lagos was the pilot state with which discussions were held and a grant is being negotiated. It is anticipated that the grant, which will be implemented starting January 2017, will be signed in November. Further discussions are ongoing to identify and confirm additional states for state-level engagement. In engaging the States themselves, the country team is not only able to ensure that States are taking greater ownership over the disease response at their level, but are also able to get much closer to the issues at the heart of state-level implementation and to have greater visibility on challenges and risks.

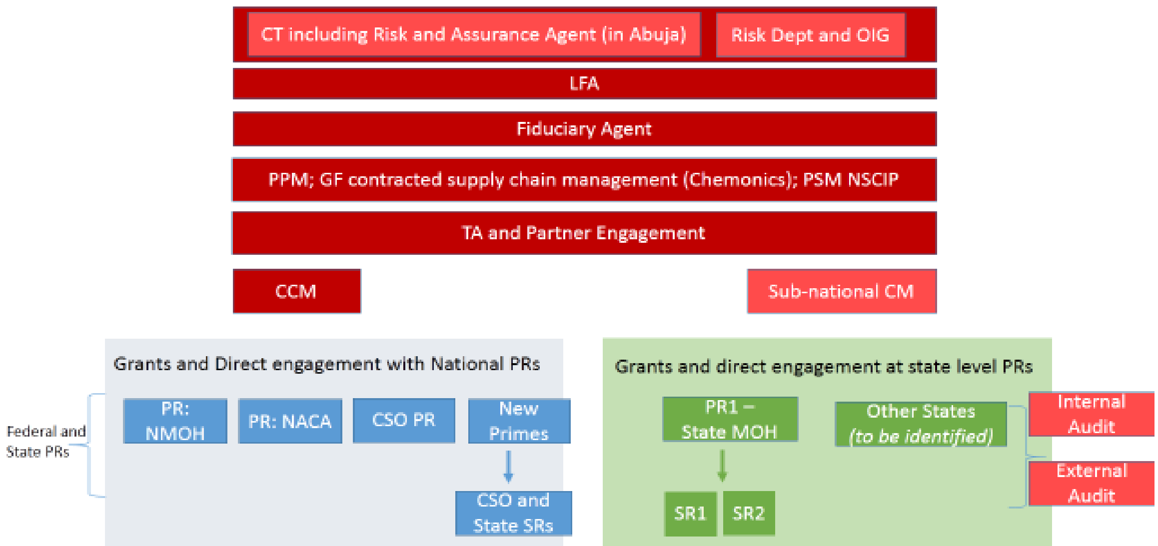


Figure 7: Overview of implementation arrangements and risk management approach for Nigeria programs

38. **Strengthening financial controls and assurance.** Significant work has been undertaken to strengthen financial controls and assurance on the Nigeria portfolio. This has included the appointment of a fiscal agent team to work with high risk Principal Recipients and Sub-recipients, and the replacement of Principal Recipients external auditors with an international standard "big four" firm. An additional financial audit of the high risk Principal Recipients and Sub-recipients covering the period from the end of July 2015 to end April 2016 was also undertaken, providing a formal opinion on the effectiveness of the financial controls that have been put in place in dealing with the high risk items reported by the Office of the Inspector General. Following this audit a more fundamental review of the effectiveness and design of the financial control environment was completed through a Financial Control Environment Review.[14]

39. **Strengthening Procurement and Supply Chain management.** The center piece of the supply chain work to reform the Nigerian health supply chain has been the Supply Chain Integration Project, working in close collaboration with the Department for International Development (DFID), the US government (USAID) and the Bill and Melinda Gates Foundation. This work has been ongoing since 2015, and has recently resulted in the

[14] A Financial Control Environment Review may be completed in two other countries. The Secretariat will identify Agreed Management Actions so that the learnings from the reviews will be applied to strengthen the controls across high risk portfolios.

adoption of a new national supply chain policy by the National Council for Health, and in the finalization of construction of the first “warehouse in a box” in Abuja.

40. To address procurement and supply chain management challenges in the short term, the procurement of health commodities has been shifted to the Global Fund Pooled Procurement Mechanism, and a new supply chain management service provider (Chemonics) has been appointed to provide warehousing and distribution services for HIV and Malaria grants until the end of 2017 (at which point the structures built through the Supply Chain Integration Project are expected to be operational). The Country Team is working closely with Chemonics, the US government, and the Global Fund’s National supply chain integration project partners to ensure a smooth transitioning of services from the previous arrangements to the new ones. To this end, country team members have been in frequent contact with Chemonics and other partners since the contract was signed and starts to be operationalized. The first round of distribution under this new arrangement is expected to take place in October 2016. The country team continue to stress the importance of Principal Recipients and Sub-recipients submitting the most relevant and accurate information to Chemonics to allow this arrangement to be optimal. Combined with the Pooled Procurement Mechanism, contracting Chemonics to oversee the supply chain has meant that a significant risk-mitigation measure is now in place over the majority of the procurement and supply chain system.

41. Reconfiguring Implementation Arrangements. In April 2016, the Global Fund invoked the Additional Safeguard Policy for the Nigeria portfolio and suspended all disbursements to Government Principal Recipients to address financial risks identified through the OIG audit and investigation. A critical ASP measure was for the Secretariat to establish alternative implementation arrangements to protect Global Fund investments while ensuring the continuation of Global Fund support to the three diseases. This included the contracting of Chemonics as a supply chain management service provider as described above as well as identifying alternative Principal Recipients that will take over the role of the Government PRs. A tender process to appoint new Principal Recipients for Nigeria Grants was launched in early September, and proposals are expected from applicants by late-September. The grant management division is working to establish the Technical Evaluation Committee and decisions on Principal Recipients are expected to be finalised in early November. These are critical steps to better manage risks in the portfolio in the short term and greater impact overall as stronger Principal Recipients are identified and brought on board.

42. In addition, the Minister of Finance has committed for the Government to repay the recoverable amount identified from the May 2016 OIG audit[15] as well as prior outstanding recoverable amounts equalling US$ 5,798,831. There are also ongoing investigation of Government officials that were involved in the fraudulent activities. The country team has also worked to complete all currently due agreed management actions related to OIG audit.

[15] GF-OIG-16-014 Audit Report – Global Fund Grants to the Federal Republic of Nigeria; GF-OIG-16-015 Investigation Report – Global Fund Grants to Nigeria

43. The existing flexibilities in the current business model enabled the Global Fund to adapt and strengthen the approach for managing portfolio risks and changing context in Nigeria.

6. Discussion

41. To respond to the Board's request to review the current business model and identify options to strengthen the Global Fund's risk management and mitigation capabilities within the riskiest countries, the Secretariat collected input from Global Fund management team (via interviews), country team members (via focus groups), the Office of the Inspector General (OIG), Board and Committee members (via interviews), Principal Recipients, CCM members and Local Fund Agents (via survey with 836 respondents). Feedback was used to describe the strengths and challenges of the current model that must be addressed through improvements to the business model.

6.1. Review of the Current Business Model in high risk countries

42. Many key stakeholders expressed a high level of appreciation for the uniqueness and adaptability of the Global Fund's business model while acknowledging that there was room for further improvements.

Positive attributes

43. Positive attributes of the Global Fund's business model include:

i. **Country ownership.** A common theme expressed by CCMs, PRs, country teams and board and committee members was that the current model facilitates country ownership and accountability among countries. The funding model encourages countries to define their own needs and oversee the implementation of their own programs. The model gives implementers in country the flexibility to adapt based upon the country's understanding of what does and does not work in the particular country or region. As one PR states: the Global Fund "takes into account the country's need… This differentiates it from other donors who very often impose an agenda."

ii. **Multi-stakeholder partnership fostered by CCM model**. Many stakeholders highlighted the importance of the in-country partnership fostered by the Global Fund, often through CCMs, as a key advantage of the Global Fund. The requirement that there is a country-led dialogue that involves stakeholders from all sectors (for example, government, academia, civil society, key populations, private sector, multi-lateral and bi-lateral partners to name a few) was seen as a significant advantages of the current business model.

iii. **Evolving approach:** There is wide recognition that the current model has evolved significantly overtime. Improvements to bolster front line teams, with multi-disciplinary expertise and with resources to engage in partnership work, have had led to significant improvements in the effectiveness of country teams.

iv. **Leveraging the expertise of partners**. Rather than the Global Fund trying to solve issues it faces in country, the size and structure of the Global Fund's business model ensures that the Global Fund, consistent with its mandate, must leverage its partners to support implementation in country. A number of stakeholders expressed high levels of appreciation for this attribute as it ensures strong coordination between partners supporting implementers in country.

v. **Lean and efficient organization**. The Global Fund is able to manage resourcing across portfolios relatively easily since all staff are all co-located. This allows for staff to be placed efficiently within the areas of greatest need with flexibilities for rapid re-deployment for unanticipated issues, or emergencies and for the centralized teams to share support and administrative staff. The Global Fund also aims to avoid duplication of in-country work by relying on existing actors and in-country partnerships to do the work.

vi. **Adaptability of risk mitigation and assurance measures**. Many stakeholders highlighted Local Fund Agents as an important part of the assurance provision and appreciated the way that the level of effort of LFAs can be adapted to the risks within the portfolio as needed by the country teams. They also appreciated the flexibility to introduce additional actors such as fiscal agents, procurement agents, or external auditors as needed to enhance the risk mitigation measures and strengthen assurance mechanisms.

vii. **Neutrality**. Emphasized by some was the benefit that distance from the country brought to decision making. It allows the Global Fund to stay impartial and make appropriate decisions without any potential external pressure. As one staff member stated "I often have stakeholders ask me to raise challenging issues at meetings as they don't feel that they can say these things within the current environment." Furthermore, as the Secretariat is not regularly present in countries, the role of the Global Fund as financing agency remains clear and the management for implementation of programs clearly resides with the PR.

viii. **Convening power**. One point emphasized is the leverage that external financing partners can have in convening relevant stakeholders. There are many examples of the Global Fund missions attracting the attention of high level officials, which for some in-country key stakeholders, might have otherwise been challenging.

ix. **Consistency and knowledge sharing**. Having a single hub also facilitates knowledge exchange and an interchange of ideas and experiences. Furthermore, it enhances the likelihood of achieving consistency in messaging and facilitating communication.

x. **Rapid *internal* decision making**. With all key staff in one site, decision making by the Secretariat between teams can happen more rapidly. It improves coordination and decision making to have staff in one location.

44. While there is significant positive feedback on the current business model, there are opportunities to improve the current model, especially in the high risk countries. As interviewees from the Board and Committees have pointed out, the Board did not articulate the problem statement that the review of the business model and assessment of alternatives

should address. Based on feedback from stakeholders, however, a consensus around the problem statement for the current model in high risk settings is emerging. In particular, three main themes were highlighted and are described below: 1) partner engagement and portfolio management, 2) risk management and 3) country coordinating mechanisms.

Challenges related to partner engagement and portfolio management

45. Challenges related to partner engagement and portfolio management were identified as amongst the key concerns with the current model.

i. **Lack of partners in high risk settings**. While many countries have significant partner presence, stakeholders noted that the absence or limited presence of bilateral or multilateral partners on the ground – particularly in lower burden / middle income countries or some challenging operating environments - makes it difficult to ensure countries have sufficient technical support for their programs. In these cases, the Global Fund model of relying on partners to support technical aspects of the Global Fund grants becomes more challenging.

ii. **Optimizing coordination and relationship building**. In high risk and high burden portfolios where many partners operate, some stakeholders pointed out the challenge of ensuring adequate coordination and engagement with and between partners and making sure that initiatives are aligned and working towards common goals. Based on concerns that communication are impacted by distance and time zones, several interviewees suggested that it was harder for country teams to build relationships at the country level, with governments, civil society and bilateral and multilaterals organizations. Survey results from both PRs and CCMs, however, showed that the majority of PRs and CCMs were satisfied with the level of communication and coordination with country teams, which indicates that the issue highlighted by Board and Committee members may be related to weak performance in some areas rather than a limitation of the model itself.

iii. **Weaker knowledge of country context**. Some stakeholders also worried that not having country teams' full time in-country could limit day-to-day contact with partners in-country, with implications for up-to-date knowledge of country context, risks and political dynamics. There is concern that distance from countries means that FPMs and country teams are not always up-to-date about the local context. The view from PRs and CCMs on this topic was mixed. Some PRs and CCMs echoed these concerns in their comments, while others praised country teams for their level of engagement and knowledge.

iv. **Slower response time**. A common concern cited by some stakeholders was that it can be difficult to oversee grants from headquarters in Geneva. It is difficult to make quick and informed decisions and be proactive when country teams are not on the ground. Concerns were also raised in interviews about the ability of the country teams to quickly and efficiently respond to issues or crises in countries. This point was also highlighted in the PR survey which showed concerns with the number of iterations related to grant management.

v. **Skills mismatch with new strategy**. The ability and skillsets of country teams to support specialized needs of countries was also discussed, especially as it relates to the new strategy. For example, as several countries are moving towards transitioning from Global Fund support, it is perceived that country teams may need additional expertise during this process. One or two stakeholders highlighted the need to increase the technical expertise of the country teams. To date, the Global Fund has been strongly encouraged to limit the number of technical staff because of the model, which relies on technical partners to provide technical input for countries, in accordance with its founding documents.

Challenges related to risk management

46. Additionally, in high risk countries, stakeholders raised concerns about the effectiveness of the Global Fund's approach to risk management but frequently did not articulate specific areas to change. Below we highlight three issues raised by stakeholders (better management of service providers, synergies between actors in country and specialized actors as LFAs) and as well as areas for improvement identified during recent reviews of the LFA model and of the controls environment in high risk countries.

i. **Lack of synergies between risk actors in country**. With LFAs, external auditors and potentially fiscal agents operating in high risk countries, there could potentially be some overlaps between them. Stakeholders also highlighted times when the communication between different assurance providers and control mechanisms (LFAs, external auditors and fiscal agents) may not be effective. Several in-country stakeholders in the PR and CCM surveys mentioned that the LFA mandate and the boundaries of the LFA role are not always fully understood by implementers or partners in country (e.g. asking the LFAs to share their reports with in-country stakeholders, requesting LFAs to provide technical assistance to implementers) which can cause challenges for LFAs to undertake their work. Several partners raised concerns that possible synergies with other partners working in the countries may not always be utilized to a full potential, while acknowledging that this had improved in recent years. Country teams may need to evaluate how to better lever the relationships with other partners and tailor the work of different providers to ensure that there is clarity of roles and are no overlaps.

ii. **Uneven performance of service providers**. Several stakeholders highlighted the need to improve LFA performance. However, while assurance providers can play a key role in risk assessment and assurance, their effectiveness is dependent on the guidance they receive from country teams. Country teams may need more guidance on how to manage LFAs and other service providers. For example, country teams need to ensure they adapt the LFAs tasks to the identified risks in their portfolios, plan the intervention of each assurance provider to avoid duplication and review and remove fiscal agents and ASP status as appropriate. Enhanced guidance from the Secretariat is likely needed to provide a stronger framework to CTs in these areas. Interestingly, the LFAs themselves did not view this as an area of weakness for the

Global Fund with 87% of LFA respondents agreeing that the Global Fund Secretariat provides adequate guidance to LFAs to tailor their work to identified risks.

iii. **Inadequate specialization of assurance providers**. Several stakeholders suggested that certain types of work may be better performed by specialized institutions. For example if some complex programmatic tasks are requested, an institution which specializes in such tasks may be better placed in terms of experience and resources than an LFA. Currently, LFAs often contract with specialists in areas of procurement and supply chain or monitoring and evaluation as needed to undertake specialized tasks. There are strict criteria for these experts and the contracting of specialists is reviewed by the country team, a central LFA team, and relevant topic-area experts within the Global Fund.

47. In addition to the points above raised by stakeholders, several opportunities for improvements have emerged from the recent Financial Control Environment Review (FCER) commissioned by the Secretariat for the Nigeria portfolio, the latter two of which are relatively new areas of focus for the Secretariat.

i. **Unaligned risk assessment tools**. The risk assessments performed by country teams uses two separate existing tools (a capacity assessment tool (CAT) to assess implementer capacity and a Qualitative Risk Assessment Tool (QUART) to assess risks in grant management). As part of the Accelerated Integration Management (AIM) project, these tools are currently being streamlined and combined to have one comprehensive way of assessing risks and will be ready for country team use in Q2 2017.

ii. **Lack of consolidated view of controls**. It was noted that a consolidated view of controls is maintained neither by the country teams nor by the assurance providers. Such a view would provide a holistic overview of the PRs' control environment and activities. This makes it difficult to ensure comprehensive controls are in place to manage the grant and that the work of assurance providers is aligned around it.

iii. **Limited focus on prevention of fraud**. The Global Fund has a zero-tolerance policy with respect to dealing with identified fraud. In reviewing controls in a high risk countries, the measures and approach to detect fraud at the country team level seem to be well developed and closely tied with the Office of the Inspector General. However, fraud prevention may not have the same level of focus as fraud detection. For example, by their nature, LFAs may identify fraud as part of their routine reviews of programs. Fiscal Agents, while requested to design appropriate tools and interventions that prevent fraud, may not be optimally resourced with fraud expertise. To improve this situation, the Global Fund recently hired an Ethics Officer who is working closely with the Grant Management Division to further strengthen its approach to due diligence of key parties across multiple areas, including implementers.

48. Please note that the Office of the Inspector General (OIG), as part of its 2016 audit plan, is currently conducting an audit of "Grants in Risky Environments" which will review the way the Global Fund manages grants in high risk countries and "Risk Management" which will

assess the Secretariat's approach to risk management. The Secretariat will update the challenges based on audit findings of where risk management can be strengthened.

Challenges related to Country Coordinating Mechanisms

49. Finally, while many stakeholders emphasized on the importance of CCMs as a central element of the Global Fund's business model, it was recognized that the performance across CCMs is variable and especially challenging in lower income settings which often correlates to higher risk. For example, one third of the CCMs in countries classified by the World Bank as low income are rated as not functioning (versus less than 5% in other categories) based on their performance on the Global Fund's Eligibility and Performance Assessment Tool.

50. The recent OIG audit of CCMs confirmed that CCMs are a key part of the Global Fund's model, but improvements are needed. Some of the key challenges highlighted by the OIG report and stakeholders are:

    i. **CCM involvement in oversight of grants.** A consistent message from the interviews was the need to strengthen CCMs to provide oversight of grants. Stakeholders also highlighted the need for closer involvement of PRs and SRs with CCMs.

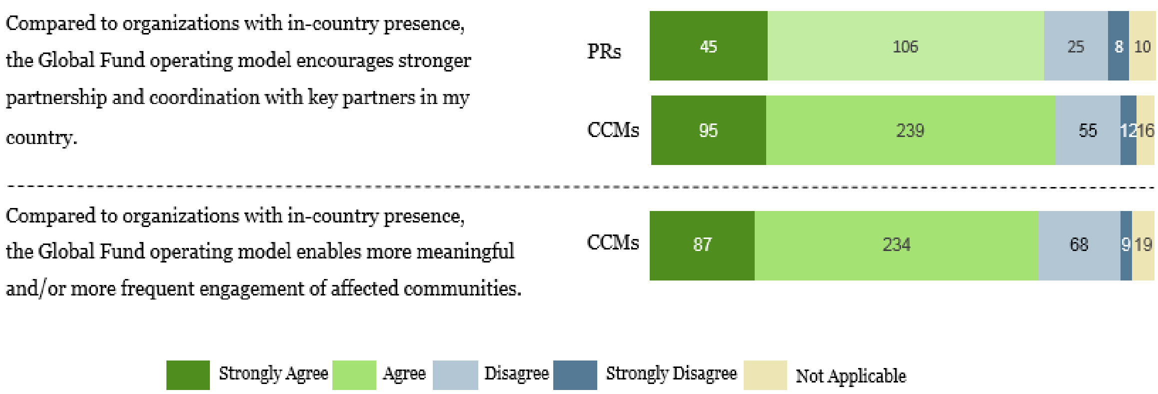
    ii. **Engagement and empowerment of CSOs on CCMs**. Despite significant efforts, the engagement of and communication to Civil Society and Key Populations remains variable and focused on concept note development without often extending into grant implementation.

    iii. **Ensuring appropriate linkages with key actors**. CCMs often struggle with either having a lack of effective ties with key governance bodies within the country or having ties that are too strong and create conflict of interest situations within the CCM. Both extremes are problematic and are the focus of current work within the Secretariat to enhance the training program for CCMs so as to address these issues.

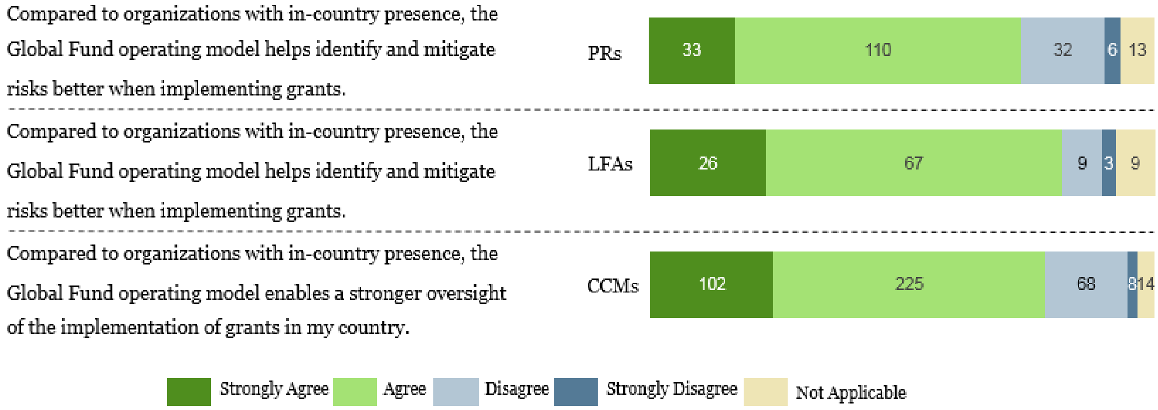
The Global Fund business model in comparison

51. While these challenges with the Global Fund's current business model are significant, it is important to consider whether other organizations, especially those with country presence, are more successful in addressing these challenges. An analysis of 836 survey responses from CCMs members, LFAs and PRs showed that **over 75% of respondents felt favorably about the Global Fund business model compared to organizations with country presence** in all areas where they were queried. Of the 84 comments received around operating model, only 3 comments suggested the Global Fund should change its operating model. In the words of one PR, "The Global Fund model is one of the best models compared to the other partners working in my country." See Annex 4 for a full summary of the CCM, PR and LFA survey results. Below we summarize the results in the areas of partnership and engagement, risk management, and sustainability.

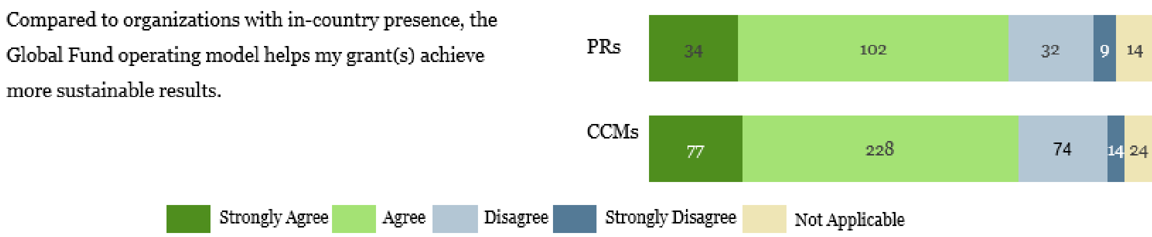
i. **Partnership and engagement**. The Global Fund model was also seen to encourage stronger partnership and coordination with key partners in country than organizations with country presence according to 84% of CCM respondents and 82% of PR respondents, and enable more meaningful engagement with affected communities by 80% of CCM respondents. As one PR notes "it is a dynamic model that allows multiple stakeholders to operate under the country leadership." This is seconded by another PR who says "it is true that the GFATM has built a stronger partnership within the country among stakeholders and government" but goes on to emphasize the downside that "the CCM mechanism may not be effective if the key members are not really serious about their roles and responsibilities." This point is emphasized by other commenters, who highlight while the model is strong, key elements such as the CCM need strengthening.



ii. **Risk management**. 89% of LFA and 79% of PR respondents agreed or strongly agreed that the Global Fund business model helps identify and mitigate risks better when implementing grants than organizations with country presence, while 80% of CCM respondents agreed that the Global Fund model enables a stronger oversight of implementation of grants in their countries. According to a PR: "The GF model, compared to others, has more stringent procedures and requirements hence, ensuring that risks are minimized." Or as an LFA says: "Other international organizations don't seem to pay as much attention to risk mitigation and assurance compared to the GF, even when present in country." Another LFA remarked that "I think all grants whether [an organization is] in country or not have had the same issues and risks."



iii. **Sustainability**. 78% of CCM respondents and 77% of PRs believe the Global Fund model helps the grants achieve more sustainable results than those achieved by organizations with country presence. As a PR from a transitioning country stated "The Global Fund operating model supports the country to plan for sustainability" but also points out that "the process by CCM might not support for CSO grant management".



52. Furthermore, a report published in October 2015 by AidData analyzed the attributes of multilaterals and other organizations on what contributes most positively in development, such as constructive agenda-setting influence and helpfulness in reform implementation: **the Global Fund ranks highly in major categories.** The Global Fund is recognized for innovation and for aligning well with country priorities and communicating frequently with governments. As seen below in Figure 8: Snapshot of Top 10 Development Partner Communication and Performance, the Global Fund consistently ranked in the top 10 for each criteria in Partner Communication and Performance[16].

[16] AidData report on Listening to Leaders: Which Development Partners Do They Prefer and Why

Frequency of Communication (1-6)	Usefulness of Advice (1-5)	Agenda Setting Influence (0-5)	Helpfulness in Reform Implementation (0-5)
1. Global Fund	1. GAVI	1. World Bank	1. Ireland
2. Ireland	2. CDB	2. IADB	2. GAVI
3. UNDP	3. Global Fund	3. IMF	3. IMF
4. GAVI	4. Finland	4. EU	4. Global Fund
5. UN	5. World Bank	5. GAVI	5. World Bank
6. IFAD	6. Luxembourg	6. AsDB	6. AsDB
7. UNICEF	7. IMF	7. Global Fund	7. IFAD
8. IADB	8. Austria	8. GEF	8. GEF
9. World Bank	9. UNDP	9. UNDP	9. IADB
10. Denmark	10. UNICEF	10. UNICEF	10. New Zealand

Figure 8: Snapshot of Top 10 Development Partner Communication and Performance

53. Based on these findings, it seems clear that while the Global Fund certainly can improve important elements of its model, there is little evidence that the business models of organizations with country presence would better address some of the key concerns facing the Global Fund.

6.2. Improvements to the Current Model

54. Many stakeholders from the Board and Committees as well as countries highlighted the fact that the current business model is under constant reform and has significant potential for refinement. While noting that recent initiatives, such as those summarized in the Prioritized Action Plan (PAP), have recently been undertaken and should be given time to see the impact of the changes, additional adaptations to the current model were proposed. Improvements to address the challenges outlined in Section 6.1 are described below, including ongoing work in the PAP.

Partner engagement and portfolio management

55. While noting that the Global Fund seems already to communicate and coordinate effectively with partners based on internal and external surveys, there is undoubtedly room for further improvements. To enhance partner engagement and portfolio management, stakeholders suggested several adaptations to the way country teams worked with countries and partners.

    i. **Leverage effective partners or hire contractors.** Since the situation at country level is very fluid with significant turnover of staff among government and partners, the Global Fund needs people who understand the situation and can react quickly and evenly to leverage the investment. As travel is costly, an alternative option is to make arrangements with effective partners and / or contractors in key countries. However, this would need to be selectively used depending on whether an appropriate partner or contractor can be found for each country. In some countries, the Global Fund has found limited presence of partners that can effectively address challenges to grant implementation success.

ii. **Mainstream Implementation Through Partnership (in the PAP).** Another mechanism to strengthen coordination and engagement of partners at all levels (country, regional and international) is the next phase of the Implementation Through Partnership (ITP) project. Through ITP, the Global Fund, together with bilateral and multi-lateral partners, could continue to coordinate funding and technical support to priority countries to address critical bottlenecks in their grants. This effort could also help the Global Fund better manage its risks as many of the bottlenecks identified relate to critical risks within its portfolios.

iii. **Encourage longer country visits.** The Global Fund could encourage staff to use the existing flexibility to travel in-country for longer periods (e.g. 1 month or more) when significant issues arise. These staff could address specific problems within a country over a defined period, such as ensuring the development of adequate financial controls within the principal recipient or catalyzing government and partner alignment around a project for the national supply chain system transformation. This approach would build the knowledge of country team members while also giving the Global Fund the flexibility to situate staff temporarily in-country depending on the challenges faced.

iv. **Tailor skillsets to country needs (in the PAP).** While country team members have a wide range of skills, there are sometimes when the skills are not adapted to the needs of their countries. Some stakeholders suggested that country teams could be strengthened by specialized knowledge for the particular context. This change could be a further expansion of the additional roles established in Nigeria, DRC and India via the Differentiation for Impact initiative (e.g. country-specific disease managers and a malaria expert) described in the PAP.

v. **Strengthen performance monitoring and learning.** To ensure ongoing improvement, the Global Fund could formalize an annual survey of Grant Management performance around key areas, such as communication, collaboration, efficiency and risk management, to see how well country teams are performing. Based on findings, the Global Fund could adapt its training program to target specific areas of concern for particular country teams and update good practice guidelines. In addition, the Global Fund should strengthen support to country teams in aligning communication messaging from the Secretariat to the in-country actors by developing a communication strategy for how country teams share information with key stakeholders.

vi. **Strengthen knowledge-sharing.** The Global Fund could increase the effectiveness of country teams by providing forums for information sharing between country teams and potentially between implementers. This could include developing a learning platform for country teams to share best practices and practical tools that helps them manage their grants more effectively, making additional information available on the website in the local language, facilitating annual review meetings across countries, additional coordination with other in-country development partners, and providing training and capacity building (for subjects such as Global Fund processes and tools and country-specific guidance).

Risk management

56. While the Global Fund has a range of risk mitigation measures and assurance assessments at its disposal, there are a number of enhancements the Global Fund can make to strengthen assurance assessments and link them more closely to the deployment of mitigating actions. Work to incorporate many of these enhancements is ongoing and summarized in the Prioritized Action Plan shared with the Board. In addition to work described in the PAP, several other improvements are recommended.

    i. **Streamline assurance provision and risk mitigation measures (in the PAP)**. As described in the PAP, the Global Fund is rolling out a comprehensive approach to assurance planning in high risk and impact portfolios that requires country teams to take a comprehensive look at the risks within their portfolio and how they are designing mitigation and assurance measures to address them. Through this work, country teams will tailor the work of assurance providers and other actors in country. During meetings of the Operational Risk Committee, the Secretariat will ensure that risk owners from the second line of defense closely review the proposed actions and mitigation measures and help the country team to define the appropriate level of risk tolerance for their programs.

    ii. **Improve performance of service providers**. As mentioned above, LFAs themselves seem to have appropriate skills in the majority of cases to undertake the tasks requested by country team. In addition to streamlining the tools and use of assurance assessments, the Global Fund could develop training for country teams on 1) strengthening the linkage between reportable findings and management action, and 2) enhancing communication to and management of assurance providers and relevant in-country partners to ensure consistent management and monitoring of these points.

    iii. **Expand in-country assurance to new actors (in the PAP).** Elements of this work are described in the PAP in the sections around program and data quality and in the supply chain assurance section, as well as summarized above. In both areas, work is ongoing to identify and expand the types of services the Global Fund can use to review programs. The Global Fund will monitor how well these new actors are performing and continue to adapt the assurance model as needed.

    iv. **Streamline risk assessment tools**. Currently work is ongoing to simplify and integrate both the Capacity Assessment Tool and the QUART Tool and embed their use into the new Grant Operational System at key points in the grant lifecycle; the new tool will be ready for country team use in Q1 2017. For example, the actions emerging from the assessments will be tracked and progress reviewed before country teams make their annual funding decisions. This will ensure that there is an integrated way of reviewing risk and that the risk mitigation actions are tracked and reviewed as appropriate along the grant lifecycle. These improvements would allow the tools to be used in a preventative fashion instead of as detective tools.

v. **Improve the quality of financial audits**. The Global Fund is working toward improving the quality of external auditors working with implementers. In that respect, three main initiatives are ongoing: (i) the signing of a Memorandum of Understanding (MoU) with the World Bank through which both entities will assess the external auditors of countries where they operate to define a list of auditors meeting required standards; (ii) coordinating with International NGO Principal Recipients to improve the quality of external audits by using their corporate auditor for effectiveness and efficiency; (iii) an initiative to identify regional auditors that can be sourced directly by the Global Fund for all grants in a region. This would improve the interaction with the auditor throughout the audit process and improve audit planning through an enhanced risk-based approach. (iv) Finally, the Terms of Reference for external auditors in risky environments will be focused on developing independent assessments of the implementers' internal controls environment.

vi. **Develop and roll-out financial risk and assurance guidelines.** The Global Fund acknowledges the importance of having guidelines that specify a financial risk framework for mitigating measures. The framework should clarify the conditions under which each measure could be used, the risks it mitigates, the monitoring mechanism and the condition to remove a measure. In addition, it is important to provide guidance on how controls and mitigating measures could be assured and on the necessary level of interaction between assurance providers. Currently such guidelines are being developed for country teams and implementers.

vii. **Strengthen measures to prevent fraud in portfolios with high fraud risk**. Fraud prevention processes such as ethics and compliance training and due diligence on PR employees and third parties, should be further developed and implemented. The Global Fund is commencing a cross-divisional project to strengthen due diligence in Q4 2016. The project will be implemented throughout in 2017. This should strengthen the Global Fund's ability to identify individuals or entities that represent a high fraud risk and take appropriate action.

viii. **Contract experts to work with high risk countries**. If needed, the Secretariat may contract experts to support implementers in improving the quality of their controls to prevent risks. Several areas where such technical support might be needed are described in the bullet points above.

CCM strengthening

57. To address the challenges highlighted by stakeholders and identified in the recent OIG audit, the Global Fund has identified the following adaptations.

1. **Strengthen engagement with CCMs.** Fund Portfolio Managers can play a vital role in enhancing the performance of CCMs by the way they engage and the guidance

they give. Across FPMs, there is variation in how effectively they engage with CCMs, with some FPMs able to achieve reforms in a CCM when they transfer to a new portfolio and others limiting their engagement with CCMs. By capturing the effective approaches that some FPMs use, the Global Fund can develop a 'Good practices guide' and work with FPMs and their Regional Managers to discuss specific plans for how they can strengthen engagement with CCMs using these practices. For example, these would include ways to strengthen civil society and key population engagement, to strengthen linkages with (and potentially integration into) existing governance structures.

2. **Use performance based funding to encourage reform.** With the introduction of performance-based funding for CCMs over the remainder of 2016, the Global Fund will have stronger leverage to encourage needed reforms of CCMs by tying funding to improvement in key indicators identified for each CCM. Since CCM Secretariat staff is funded directly by the Global Fund, this should provide a strong incentive to encourage the needed reform of their CCMs.

3. **Clarify knowledge of appropriate behavior of CCM Members** by:

    i. Ensuring they all sign and implement the "Code of Conduct for CCM Members". Regular checks will be done to ensure compliance.
    ii. Introducing systematic new member inductions on CCM Members' roles to newly elected CCM Members to ensure a minimum level of knowledge by each and every CCM member.
    iii. Conduct dedicated regional workshops to improve CCM Performance in a targeted way, provided financial resources allow for it.

4. **Identify "Champions" amongst the development partners' groups.** This activity will (1) identify partners that are showing extra-commitment towards the CCM model in each country and (2) promote their work as CCM Members during Regional Workshops. Their organizations would be informed about their outstanding commitment so that this can properly integrate into performance appraisals.

6.3. Assessment of potential alternative options

58. Via consultations with the Global Fund and external stakeholders and an assessment of the business models of similar organizations, a number of potential alternative business models were identified. The options range from moving entire country teams in country to adapting the current model.

    i. **Option 1 – Improve the current model**. The Global Fund maintains its current model with offices and country teams based at HQ in Geneva. However, it would work to improve the existing model per the adaptations described in Section *6.2: Improvements to the Current Model.*

    ii. **Option 2 – Place liaisons in a subset of countries.** With option 2, the Global Fund would relocate \ recruit a small number of staff (1 to 2 per country) or identify partners who could act as liaisons for a subset of countries. These resources would be responsible for coordinating with partners and supporting PRs via project management of Global Fund grants.

iii. **Option 3 – Move a sub-set of country teams in-country.** Option 3 allows for a targeted shift of resources from the Secretariat to in-country offices. The Global Fund would open offices and place country teams in countries based on risk, impact and strategic importance.

iv. **Option 4 – Establish Regional Hubs.** The Global Fund would use regional hubs to cover the main working regions in the organization. It would place all country teams working in the region in the hub, as well as the Regional Manager to oversee staff.

v. **Option 5 – Move all country teams in-country.** Option 5 proposes a global shift, moving all Grant Management Division country teams from the Geneva Secretariat to local offices in the respective countries they serve.

59. In interviews with Board and Committee members, stakeholders shared their opinions about how the Global Fund should evolve its business model, including adaptations to the current model. Across the interviewees, there were a diversity of views, with the majority preferring to adapt the current model and no stakeholder recommending that the Global Fund move country teams into all countries (*reference Figure 9 below*).

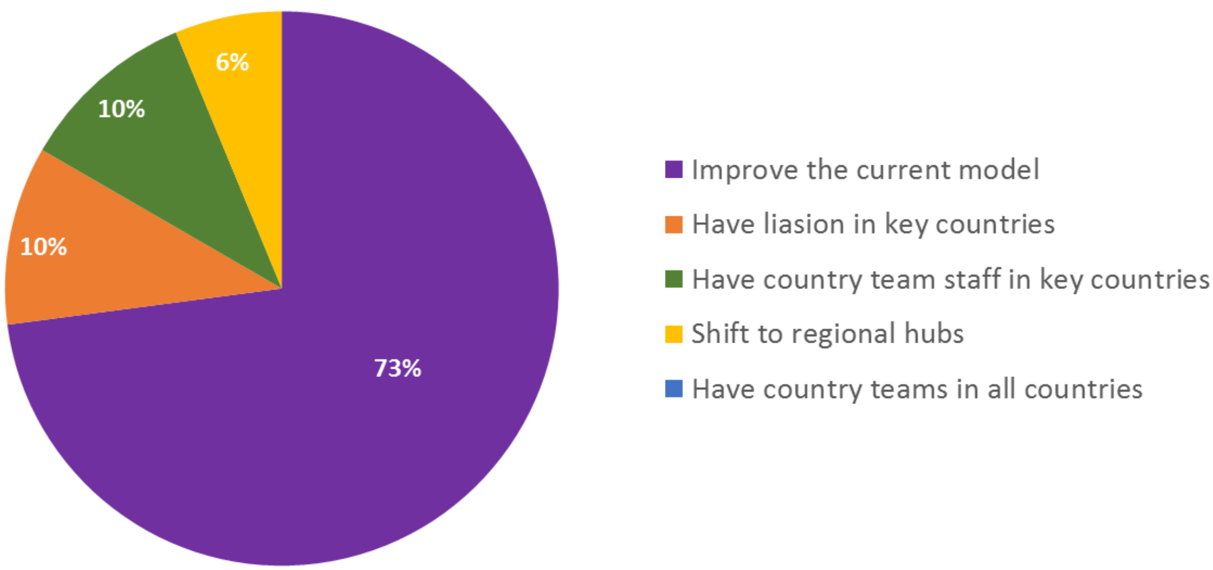


Figure 9: Board and Committee member preferences for potential alternative business models

60. Below is an assessment of each option, in order of stakeholder preference. For options 2 – 5, an estimate of additional costs is provided. See Annex 5: Cost Implications of Business Model Options for more details.

61. **Option 1 – Improve the current model**. Over 70% of stakeholders interviewed preferred to improve the current model. See Section *6.1: Review of the Current Business Model in high risk countries* for an overview of the main advantages and challenges

highlighted by stakeholder about the current model. Section *6.2: Adaptations to the Current Model* summarizes the improvements proposed to address the challenges of the current model.

62. In addition to reiterating the advantages from Section 6.1, a common theme raised by stakeholders who recommended improvements to the current model was that they felt the recent reforms by the Global Fund, summarized in the Prioritized Action Plan, had promise and it was too soon to change the business model before seeing if the challenges could be addressed with such initiatives. Furthermore, while recognizing the challenges, many stakeholders reiterated support for the existing structures, such as Local Fund Agents, Country Coordinating Mechanisms and Fiscal Agents, and felt that the Global Fund needed to do more to enhance the performance of these structures than radically change its approach.

63. Furthermore, many stakeholders were skeptical that moving staff into country would address challenges. In the words of one stakeholder: "if there is good country coordination, country presence adds little. If everything is broken down, then country presence doesn't add any value." Instead, there was a sense that the Global Fund needed to respond flexibly to the wide variety of situations it faces, which the current model could be adapted to offer, rather than employ country presence. For example, if a country was struggling with procurement and supply chain challenges, having a generic liaison officer would be less helpful than an expert in procurement and supply chain management issue or having the country team member with expertise in procurement and supply chain stay in country for several months to initiative work with country stakeholders. In the words of one stakeholder "this wouldn't require country presence, just presence when issues are discussed" or as another said "country presence does not mean staff."

64. One further benefit of staying with the current model was emphasized by many stakeholders: as the Global Fund aims to end the epidemics and empower countries to drive their own responses, it makes sense that "the Global Fund doesn't put the problem into the Global Fund's hands, it puts the problem in the government's hands". Since the Global Fund hopes to see a day when its funds are not needed, investing in country presence seems to several stakeholders to send the opposite message.

65. The cost of improving the current business model can be covered within the current budget. The costs could be absorbed over time into the operating expenses, since there would not be the high one-time setup costs such as those associated with opening new offices.

66. **Option 2 – Place liaisons in a subset of countries & Option 3 – Move a sub-set of country teams in-country.** Interviewees often discussed option 2 and option 3 together as variations on how the Global Fund could be present in country. Many stakeholders stated that their preferred option was a hybrid where the Global Fund had presence in select countries but adapted the size and scope to the needs of the country. 20% of all interviewees selected either of these options as their preferred model.

67. Stakeholders often highlighted the importance of flexibility and the fact that no one size could fit all situations even in high risk countries. They felt that presence in country, if needed, should be tailored to the specific challenge and period of time during which a challenge might

occur. For example, in some instances the Global Fund could benefit from having a team in country that might vary in size based on the need. In other instances, the Global Fund could have a designated representative in country, like a lead partner or hired contractor, who undertakes project management and partner coordination work. Alternatively, it could second one or more country team members from Geneva to work in country for several months at a time. Interestingly, many of the proposed alternatives suggested by stakeholders can be accommodated within the existing model, short of having staff permanently based in countries. Given that the challenges would shift over time even within the same country, many stakeholders emphasized the need to remain nimble in how the Global Fund responded and avoid creating a rigid structure unable to adapt.

68. Moving country teams to countries could enhance communication and relationships by having country teams within the same time zones, allowing for more face to face interactions, better understanding of the country context and knowledge of the ways to influence change. However, the Global Fund has observed that country presence alone does not necessarily lead to these improvements, as indicated by the surveys in Section 6.1. Instead, country teams and key stakeholders expressed concern that being in country could make it more difficult for the Global Fund to retain its independence and neutrality from national interests. In the words of one stakeholder: "initially [country teams] can make the system better but then they become part of the system. There are still advantages in having people who are less captured."

69. Another benefit often cited by stakeholders is that being in country makes it easier for country teams to actively manage their grants. They can personally follow how well grants are progressing and respond rapidly to emerging challenges. While this certainly is true, the limited size of the country teams, whether in country or in Geneva, means that even with country presence, the Global Fund will still need to rely on partners and its local fund agents to follow-up on work. In addition, one of the key concerns cited by stakeholders was that the Global Fund would struggle to remain in its role as funding agency and would stray into being an implementer if based in country. This could have negative implications for empowering countries to manage their programs, thus compromising country ownership. Furthermore, several stakeholders were concerned that the Global Fund might cease to rely on partners and instead try to undertake work itself, thus compromising the partnership model that is at the core of the Global Fund. Finally, the Global Fund's status as a financing organization, not an implementer, is legally founded not only in the Framework Document and UNGA/RES/S-26/2 but also as a condition of US appropriations[17]. If the Global Fund moved away from its financing role, the implications on funding from the United States would need to be assessed.

70. In addition, there was concern that the introduction of Global Fund staff in country, even light and tailored as a liaison officer role could be, might open the door in the future to greater levels of Global Fund country presence. Certainly, the experience of the Asian Development Bank (AsDB) illustrates that initially limited presence in country seems to expand to greater levels of staff in country overtime. AsDB started with a role similar to liaison officers and then expanded the size of offices in a differentiated way over time. While the justification for each

[17] cf. 22 U.S. Code § 7622 (d)(5)(I) and (J)

country was undoubtedly sound, the overall impact has resulted in a substantial shift to AsDB's model.

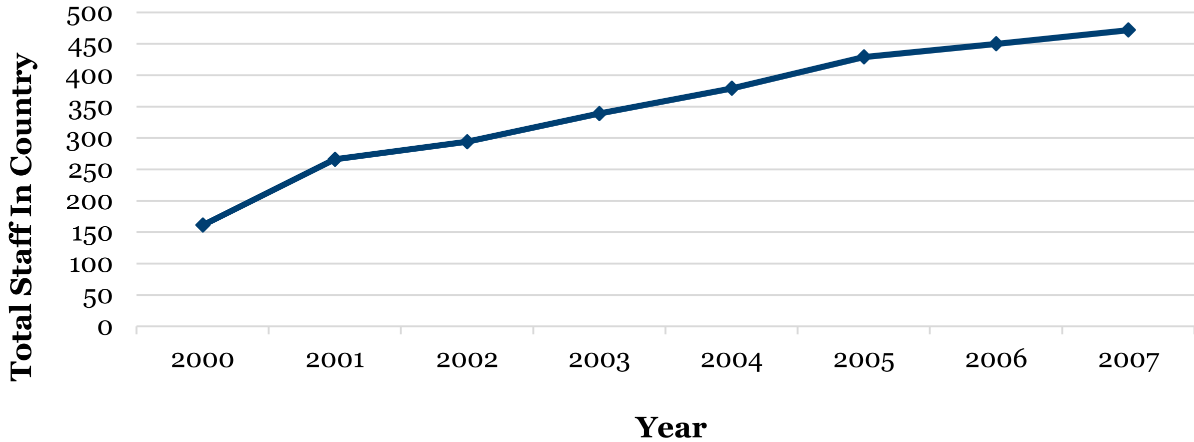


Figure 10: Growth of AsDB staff in country from 2000 to 2007 [18]

71. Finally, several stakeholders expressed concerns about the role of liaison officer and wondered how effective an individual could be in this role. As the country team would retain most of the decision making powers, the liaison would have limited scope to take action. Partners questioned the effectiveness of a liaison that is not empowered to act on behalf of the Global Fund while others, especially country teams, worried that an empowered liaison could cause confusion and tension around the role of the country team compared to the liaison. In addition, several stakeholders pointed out that in most countries, one individual would have limited capacity to be involved in programs beyond central level (the same point was emphasized for country teams in country as well).

72. Operationally, shifting staff to countries represents significant legal, logistical and management issues. In particular, it is critical that the Global Fund signs agreements with countries to secure privileges and immunities before placing staff in countries. To date, the Global Fund has agreements with only 12 countries. Without this legal framework, the Global Fund would be asking staff to reside in country without the protections afforded to staff of peer financing and development institutions. Given the high risk nature of the work (particularly with key populations), this could place staff at risk and create a significant liability for the Global Fund. Considering that the Global Fund and its staff have faced legal claims in implementing countries in the past, and the OIG's note that privileges and immunities are critical for the safety and security of staff, these concerns should be afforded attention. Moreover, privileges and immunities will ensure the security of Global Fund resources held in local accounts to meet operational needs, by protecting these resources from seizure. Other challenges include identifying appropriate office space across over 100 countries, managing the consistency of Global Fund messages, and determining how much decision-making autonomy should be granted teams in countries. All of these operational challenges can certainly be overcome with time and effort (for example, recruiting or seconding staff through partners) and should not be a reason to avoid changing the business

[18] Source: AsDB, 2008 - Review of Resident Missions' Operations

model if there is a compelling case for change. However, they do point to a need for significant further analysis to understand the implications and potentially a phased approach to learn and incorporate lessons.

73. The costs vary depending on the size of staff located in each country. For Option 2 (Place liaisons in a subset of countries), the costing assessment was undertaken with the assumption that liaison officers would be hired and placed to the top 10 high risk countries as per the Global Fund's Risk Register from Q1 2016 (Nigeria, Democratic Republic of Congo, Malawi, Ethiopia, India, Tanzania, Kenya, Uganda, Mozambique and Zimbabwe). In addition to the liaison officer, a locally-hired staff member would be required to fulfil transport and security duties. This option would result in an additional estimated US$ 3.82 million beyond the current cost for staff working with countries (an average of US$ 0.38 million per country). The permanent placement of Global Fund staff in country necessitates the creation of a new headquarters-based security function which is the major contributor to this additional cost. The synergies achievable from this option would be negligible due to the fact that the liaison officer role would be newly created and therefore there would be no relocation of existing Global Fund staff from headquarters.

74. The costing assessment estimates that for Option 3 (Move a sub-set of country teams in-country), an additional US$ 7.95 million would be incurred above the current baseline cost for staff working with countries (an average of US$ 1.32 million per country office). This is based on the assumption that offices would be established in the top 6 high risk countries as per the Global Fund's Risk Register from Q1 2016 (Nigeria, Democratic Republic of Congo, Malawi, Ethiopia, India and Tanzania). Additionally, it was assumed that there would be a decrease in LFA costs as a result of Global Fund staff taking on a portion of the LFA's responsibilities. The additional cost is driven primarily by the high value of in-country benefits to be paid to Global Fund staff as part of a relocation package, along with the cost of setting up a new headquarters-based security team.

75. **Option 4 – Establish Regional Hubs.** Approximately 6% of stakeholders interviewed were in favor of establishing regional hubs as the preferred model. Often those interested in this option were stakeholders from focus countries, which have smaller grants, and therefore smaller Global Fund country teams supporting them. Acknowledging that the smaller sizes of the portfolios in their regions made it unlikely that the Global Fund would have country presence, they still wanted to benefit from having country teams located in the same time zone and close by, to rapidly respond to challenges faced in grant implementation and encourage greater coordination with partners. Having country teams located together in one regional hub was also viewed as a way of enhancing knowledge sharing among Global Fund country teams about innovations in the region.

76. There were also variations between stakeholders interested in this option as to how best to implement it. It was suggested that regional hubs could be combined with option 3 to have country teams in select countries. By placing the regional hub in a high impact country in the region, the Global Fund would have the ability to be closer to some of its most important countries while also serving other countries in the region more efficiently. Alternatively, one stakeholder recommended the Global Fund consider sub-regional hubs, which could be placed in each distinct sub-region and could focus on the particular challenges facing that

group of countries. This would require perhaps 20 or 30 regional hubs. Overall, flexibility was encouraged to match the deployment of Global Fund resources to the needs of the regions. As one stakeholder recommended: "don't have fixed size of regional or country team – vary them based on funding and complication of portfolio."

77. Those with concerns about the Global Fund moving to regional hubs highlighted that it could create an additional layer of bureaucracy between countries and headquarters without providing the benefits of local presence. By being neither in headquarters nor in countries, the Global Fund would need to address the challenges of both models (current model and country offices): worsening communications and coordination with headquarters, higher risk of inconsistency in decision making across regions, lack of direct involvement with partners and key country stakeholders on a daily basis, etc. In addition, within regions, especially Africa, travel may often be quite challenging, making it easier to fly from Europe than to travel within the region. Several partners mentioned that they had investigated moving to regional hubs and set aside the idea after an analysis showed the substantial challenges and limited benefits. Based on these concerns, few stakeholders saw this as a compelling option for the Global Fund at this time.

78. Based on the preliminary cost analysis for Option 4, moving all country teams to regional hubs would result in US$ 8.40 million of estimated additional costs beyond the Global Fund's current baseline cost for staff working with countries (an average of US$ 1.68 million per hub). This is driven primarily by an increase in staff benefits and allowances (including cost of living adjustment, hardship allowance and rental subsidies) which would be caused by the relocation of large numbers of Global Fund staff from headquarters to 5 regional hubs in Francophone West Africa, East Africa, Asia, Latin America and the Caribbean, and Eastern Europe / Central Asia. Additionally, to manage the security considerations of staff in country, the Global Fund would need to establish a new security team, which would lead to a significant direct cost increase related to the hiring of staff in Geneva to carry out highly specialized security roles. Both elements offset the overhead cost savings which occur as a result of the relocation of staff who work with countries from headquarters to lower-cost regional hubs.

79. If the Global Fund Board recommends this option for further consideration, detailed analysis would need to be undertaken to establish the number, location and size of regional hubs as well as the set-up and ongoing operational costs.

80. **Option 5 – Move all country teams in-country.** As acknowledged by most stakeholders, option 5 represents a significant and radical shift for the Global Fund. No stakeholder interviewed recommended that the Global Fund pursue this option.

81. Of the stakeholders who encouraged the Global Fund to consider moving country teams in country, most recommended that the Global Fund first experiment in selected high risk countries to learn lessons before considering option 5. Given the lack of interest of this model, the Secretariat undertook a high level cost assessment, rather than a detailed assessment as it did for the other options. Based on this assessment, it was estimated that moving all country teams in-country would result in an additional US$ 141.08 million beyond the Global Fund's current baseline cost for staff working with countries (an average of US$ 1.20 million per country). This includes additional cost of introducing a new headquarters-based security

team to set and manage the organization's security strategy, the scope of which would greatly expand if large numbers of staff were to be permanent relocated in-country.

82. Additionally, the study assumed a fixed number of roles would be required in each country team depending on the nature of the country (the general rule being that a country team should be comprised of 5 staff for a Focused country, 7 for a Core country and 8 for a High Risk / COE country). Currently, a number of staff (particularly Health Product Management Specialists, Public Health Monitoring & Evaluation Specialists, Finance Officers and Legal Officers) assume responsibility for multiple countries as part of their day-to-day responsibilities, and therefore some country teams may not currently have a dedicated specialist. However, when costing Option 1, the assumption was taken that each role would require a dedicated staff member to carry out the necessary activities in country. This would lead to a large increase in Global Fund staff numbers, and therefore a significant increase in direct costs (e.g. salaries and benefits).

7. Next steps

83. Based on feedback from Board and Committee stakeholders, over 70% of interviewees expressed a strong preference for the Global Fund to improve the current model and use existing flexibilities more effectively to manage risks and address implementation bottlenecks programs may face. Based on this feedback, the Secretariat recommends that the Global Fund focus near-term efforts on implementing the proposed improvements described in Section 6.2: Improvements to the Current Model while maintaining its long-term commitment to continuously assessing and adapting the business model.

   v. In January, the Secretariat will develop 1) a draft plan that describes the key milestones and timelines to implement the improvements and 2) draft assessment criteria and timeline for measuring the level of baseline risk and residual risk after the proposed changes have been put in place. A teleconference will be held with Committee members to discuss the draft plan.
   vi. By March, the Global Fund will perform additional analysis of similar organizations with country presence to understand how these organizations manage common in-country risks and what good practices the Global Fund may learn from them. The findings from these analyses will be incorporated into the implementation plan.
   vii. At the March/April cycle of Committee and Board meetings, the Secretariat will report back to the Standing Committees with an implementation plan and provide an update on progress on ongoing initiatives related to improving the business model.
   viii. At subsequent Committee and Board meetings, the Secretariat will provide regular updates on progress against the implementation plan, on the results of the assessment of how effective the improvements are at addressing residual risks and consider whether any additional changes to the business model are required.

8. Annex

Annex 1: The Global Fund Geneva-based and in-country actors

The Global Fund Headquarters team (Geneva-based)	
Fund Portfolio Manager	Defines the overall strategy for the portfolio to achieve impact, identifies and mitigates risks and manages strategic relationships in country.
Program Officer	Manages the operational details around grant making, disbursements and grant closure and supports the FPM in strategic management of grant.
Finance Officer	Ensures that the grant financial tracking / monitoring systems are established and maintained to comply with standards and policies.
Public Health / Monitoring & Evaluation Officer	Contributes to defining strategic investments of disease programs, establishing a framework to measure performance, report on impact and enabling M&E systems strengthening, in particular manage programmatic risks and ensure continuous quality improvement.
Health Product Manager	Ensures optimal investment decisions related to health products and provides expert advice in HSS investments related to pharmaceutical and supply chain systems to meet the programmatic objectives and to ensure value for money.
Legal Officer	Provides legal advice to the Country Team and Grant Management in general by (i) advising on compliance requirements by reference to Board and Secretariat policies, (ii) identifying risks linked to international/national laws and recommending mitigation measures, (iii) leading efforts to obtain privileges and immunities, and (iv) providing legal expertise in connection with the management of grants, including by negotiating Framework and Grant Agreements, and (v) generally manages legal risk at Country Team and Grant Management level.

In Country Actors	
Country Coordinating Mechanism	Submits requests for funding on behalf of the entire country, and to oversee implementation once the request has become a signed grant.
Local Fund Agent	Independent consultants who assess implementation and data. Local Fund Agents serve as eyes and ears on the ground.
Principal Recipient / Sub Recipient	Responsible for implementing grants, including coordination of other, smaller organizations, known as sub-recipients. Principal Recipients take on the financial and programmatic responsibilities of the grant.
Fiscal Agent	Ensure that effective controls are in place over the use of grant monies, financial records are maintained accurately and on a timely basis and financial reporting is accurate, timely and in accordance with the Grant Agreement.

In Country Actors	
Technical Support Providers	Provide technical support to CCMs, PRs / SRs to strengthen their ability to manage grants, remove grant implementation bottlenecks and achieve impact
Procurement Agent	Service provider that is contracted to manage the entire procurement process in part or in full on behalf of another entity. These activities may include, procurement, sourcing or some activities, such as the transport and the delivery.

Annex 2: Overview of existing arrangements in high risk and high impact countries

84. To illustrate the level of resources the Global Fund deploys within countries and also the way the business model can be adapted to different situations, the Secretariat has provided high level overviews of the resources currently deployed in country, the key risks and how these risks have been managed for 7 high risk countries (including Nigeria, which is summarized in Section 5.3).

85. Each country section includes a diagram that summarizes the actors in-country that receive Global Fund financing, with values based on 2015 data. This includes the following information:

- The total staff resources in the Global Fund county teams expressed as Full Time Equivalents (FTE), with the total number of days spent in country.
- The FTE of LFA time contracted for the country portfolio (based on 225 days of consultancy time being equivalent to 1 FTE).
- The total cost of the in-country auditors.
- The number of Principal Recipients and the total number of staff working in their Project Management Units. Also included is the number of sub recipients.
- The total number of CCM Members and where relevant the FTEs financed by the Global Fund in the CCM Secretariat. CCM Members' participation in the CCM is not financed by the Global Fund.
- Where relevant, the total partner technical support financed through the Global Fund's Special Initiatives in the current allocation period, implemented through WHO and STOP TB for Concept Note development. Other partner and technical support is regularly mobilized to support Global Fund grants, but is not included in this review.
- Where relevant the total cost of the fiscal agent requested by the country team.
- A note to indicate whether a procurement agent is part of the implementation arrangements.

Burkina Faso

86. Burkina Faso has 5 active grant with the total value of US$ 151,080,754. The current Principal Recipients (PR) are: Initiative Privee et Communautaire contre le VIH/SIDA au Burkina Faso, the National Council for the Struggle Against HIV/AIDS, and STI and Programme d'Appui au Developpment Sanitaire of the Government of Burkina Faso. The Burkina Faso portfolio is complex, with integrated disease components. This reflects work to ensure closer program integration across disease program and the health system. In the health services and products area, country faces the absence of stock management analysis and coordination at the district level and the lack of national supply chain management strategy and national Procurement and Supply chain Management task force. In response to these challenges, the country team has required the following risk mitigation measures be adopted:

i. Institute a multi-stakeholder quantification committee, chaired by the directorate of pharmacy, for each disease program to coordinate alignment among contributors (USAID, Global Fund, Government and other partners).

ii. The Directorate of pharmacy is a strong regulatory authority in the country and is very involved in the procurement of Global Fund and government Standard antiretroviral therapy, ensuring registration and improving coordination.

iii. Formalize the linkage of National Health Accounts with disease accounts to enable regular reporting of government and other donor spending.

iv. Hold trainings for health workers on stock management and the use of tailored electronic tools thorough the HSS grant.

v. Establish shared monitoring between the country team, the Ministry of Health and Ministry of Finance to assess progress towards on risk mitigation measures.

vi. Require that all health products are procured through the Pooled Procurement Mechanism and the Global Drug Facility.

87. To address inadequate PR and CCM governance and oversight risk the country team has required the following risk mitigation measures be adopted:

i. Restructure the Project Management Unit of the PR to improve management.

ii. The PR received the support of UNAIDS and Grant Management Solutions in relation to SR contracting processes and HR issues.

iii. Require the Fiscal Agent's new Terms of Reference to include a capacity building component to assist the PRs in strengthening the management capacity.

iv. Mobilize Technical Assistant (TA) to provide regular support to improve governance and oversight capacity, including evaluation of Community Based Organizations (CBO) to ensure that CBO and Community Health Workers' networks are functioning properly.

v. Continue efforts to build PR capacity including use of PR dashboard and enhanced collaboration between PRs.

Summary of GF financed country resources: Burkina Faso

GF Secretariat	***In-country Assurance***	***Implementers***	***Oversight & application development***
Country Team: 4.14 FTE Days spent in country: 110 days	Local Fund Agent: 1.81 FTE	3 Principal Recipients 9 Sub-recipients PR's PMU: 52.9 FTE Fiscal Agent cost: US$ 1,818,671	17 CCM members CCM Secretariat: 3 FTE Partner Technical Support cost: US$ 285,000

		Procurement Agent	

The Kingdom of Cambodia

88. The Kingdom of Cambodia has 4 active grants totaling US$ 100,000,000. There are 4 Principal Recipients (PR) in the country: The Ministry of Health (MoH), United Nations Office for Project Services (UNOPS), National Center for Tuberculosis and Leprosy Control and National Center for HIV/AIDS, Dermatology and STI. The Global Fund's assurance for Cambodia brings together data from LFA verifications, Fiscal Agent (FA) reports, UNOPS monitoring and partner observations.

89. Following the Office of Inspector General's investigation report which was released in 2013, the country team introduced a number of risk mitigation measures, particularly to increase fiscal and procurement controls. The country team required a change of the PR for the Malaria program and introduced a FA for the HIV program to. Towards the end of 2015, the scope of FA oversight was also extended to the PR for the HSS grant (the MoH). Procurement of health products was outsourced and is now being handled by UNOPS for the malaria program and UNICEF for the HIV and HSS program. Other non-health procurement processes are overseen and monitored closely by the FA and the LFA.

90. Cambodia is one of the countries that has participated in the risk and assurance pilot process conducted in the first half of 2016. Through this process, the Global Fund country team reviewed the key risks in the country and for each of the major risks identified, identified mitigation measures, as follows:

91. **Risk:** Lack of clarity and long term vision for program sustainability due to phase out of GF Human Resources (HR) financing in 2016 & 2017. This could result in staff shortages and turnover due to the phasing out of incentives and any issues with the planned absorption of contract staff under Government budget.

92. **Mitigation measures:**

    i. Engage the Ministry of Economy and Finance to increase Government contributions in future funding windows.

    ii. Contract an international consultant to produce a transition plan for financing human resource costs covered by the Global Fund.

    iii. Establish an inter-ministerial working group to implement the HR transition plan, led by the Country Coordinating Mechanism (CCM) Chair, with support of Technical Assistance (TA) providers.

93. **Risk:** Heavy Global Fund processes, especially the due diligence and annual funding approvals processes, delay the pace of program implementation.

94. **Mitigation measures:**

    i. Apply and document a risk-differentiated approach to balance fiduciary controls against implementation priorities

ii. Approve quarterly travel plans submitted by PR and verify travels (both country team and LFA).

iii. Align Key Risk Matrix with Center for Disease Control risk register to enhance collaboration and improve country-level program ownership by PRs.

iv. Adapt fiscal agent activities to incorporate a risk-differentiated approach to accelerate program implementation and improve funds absorption.

In addition to these measures the country team and Risk Department conducted a combined risk assurance plan visit to Phnom Penh in February 2016 during which views of prioritized risks, feasible mitigation measure and assurances were aligned with country stakeholders and technical partners.

Summary of GF financed country resources: The Kingdom of Cambodia

GF Secretariat	***In-country Assurance***	***Implementers***	***Oversight & application development***
Country Team: 2.30 FTE Days spent in country: 95 days	Local Fund Agent: 3.77 FTE External Auditor Total cost: US$ 92,600	4 Principal Recipients 10 Sub-recipients PR's PMU: 119 FTE ↑ Fiscal Agent Total cost: US$ 3,591,163 Procurement Agent	18 CCM members CCM Secretariat: 3 FTE ↑ Partner Technical Support cost: US$ 465,000

The Republic of Chad

95. The Republic of Chad has 2 principal recipients, Fonds de Soutien aux Activités en matière de Population et de lutte contre les IST/VIH/SIDA (FOSAP) and United Nations Development Programme (UNDP), and 3 active grants with a commitment of US$ 111,593,790.

96. The country faces serious security challenges and the Additional Safeguard Policy has applied since 2009 due to concerns related to governance. The security situation remains fragile due to the presence of a terrorist organization in the country; this is a major risk and complicates access to certain regions. In addition, the weak national procurement and supply chain management (PSM) system leads to a low level of assurance on commodities. Other major challenges are around the scarcity of qualified individuals and the discontinuity in leadership due to frequent changes of the senior level decision-making actors (for example at the ministerial level).

97. In 2012, a Fiscal Agent was put in place for the governmental PR (FOSAP) to mitigate the potential financial risks including corruption and mismanagement of funds. The country team required the following mitigation measures as well:

i. Reduce the number of Sub-Recipients and adoption of a "Restricted cash policy" to manage the cash flow.

ii. Recruit international technical assistance to build the capacity of the governmental PR in terms of financial management, procurement and supply chain management, monitoring and evaluation and human resources management.

iii. Outsource procurement of health products to UNDP, UNICEF and GDF.

iv. Involving a larger number of technical partners as key SRs (e.g UNICEF, WORLD Vision, Cooperazione Internazionale (COOPI) and iMC Worldwide).

v. Recruit additional staff to strengthen the program management unit of FOSAP and UNDP.

Summary of GF financed country resources: The Republic of Chad

GF Secretariat	***In-country Assurance***	***Implementers***	***Oversight & application development***
Country Team: 5.08 FTE Days spent in country: 41 days	Local Fund Agent: 2.17 FTE External Auditor Total cost: US$ 135,982	2 Principal Recipients 12 Sub-recipients PR's PMU: 52 FTE Fiscal Agent Total cost: US$ 837,814 Procurement Agent	22 CCM members CCM Secretariat funding has not been requested Partner Technical Support cost: US$ 46,000

The Republic of Mali

98. The Republic of Mali has 4 active grants for the total value of US$ 129,020,800. There are 4 principal recipients in Mali: Catholic Relief Services (CRS), Plan International, Population Services International (PSI) and United Nations Development Program (UNDP). The political context in Mali is unstable and this could lead to disturbances in the implementation of programs. Due to the political instability, the portfolio is being managed under the Additional Safeguard Policy. Given the ambitious targets in the grants, it is essential for all parties involved - Government, PR, SRs and partners - to deploy joint efforts to accelerate the implementation of programs and improve the capacity to absorb funds. Another challenge for Mali is to continue increasing its domestic financing to ensure the long-term sustainability of the HIV, TB and malaria programs. A concrete area where increased governmental contributions will need to materialize in the medium-term is human resources support. To address these challenges the country team has introduced a set of risk mitigation measures:

i. Replace the government (Ministry of Health, National Aids Council) with international organizations (UNDP, PSI, CRS and Plan) as PRs. A capacity strengthening plan has been put in place for improving the capacities of national entities to manage the Global Fund grants.

ii. Institute a Limited-Cash Policy (LCP) at sub-recipient (SR) level for all grants.

iii. Reduce the number of SRs to 19 to improve program management oversight.

iv. Apply harmonized unit costs across all grants.

v. Outsource procurement activities to the Global Fund Pooled Procurement Mechanism and ensure that procurement for all SRs is performed only by PRs.

vi. Undertake an enhanced review and reprogram of high-risk activities (e.g. trainings).

vii. Enhance the Terms of Reference to have the Local Fund Agent undertake expenditure verification and spot checks of high risk activities.

viii. Contract an international firm to perform the external audit of all HIV grants in Mali, the findings of which would be by senior management.

ix. Commission UNDP to manage the CCM funds.

Summary of GF financed country resources: The Republic of Mali

GF Secretariat	***In-country Assurance***	***Implementers***	***Oversight & application development***
Country Team: 5.37 FTE Days spent in country: 31 days	Local Fund Agent: 2.39 FTE External Auditor Total cost: US$ 297,427	4 Principal Recipients 19 Sub-recipients PR's PMU: 47.8 FTE Procurement Agent	23 CCM members CCM Secretariat: 3 FTE Technical Partner Support Total cost: US$ 46,000

The Republic of India

99. The Republic of India has 9 active grants implemented by 6 civil society Principal Recipients and one government PR which is the Finance Ministry, Department of Economic Affairs. Under the government PR, the implementation is executed by the Health Ministry, Central Tuberculosis Division (CTD), National AIDS Control Organization (NACO) and National Vector Borne Disease Control Program (NVBDCP). The civil society PRs include: 1) Caritas for Malaria, 2) The Union, 3) World Vision for TB, 4) Alliance India, 5) Solidarity and Action Against the HIV Infection in India and 6) Plan India. The total value of active grants is US$ 628,807,409.

100. The three national SRs have strong operational controls with well-established program design, systems and reporting guidance. Preliminary findings from the Office of Inspector

General (OIG) report suggests overall strong financial management and internal control systems for the national programs. However some cross-cutting issues effect program implementation for all three diseases: Delays in budget approvals and suboptimal financial reporting, delays in procurement, diverging quality assurance arrangements of health commodities and SR oversight are the main challenges. For addressing these issues, the Country Team introduced several mitigation measures:

i. Supporting an on-going financial management systems strengthening initiative with Global Fund financing.

ii. Changing procurement agents to address procurement delays. The government of India is establishing a fully autonomous procurement agent, Central Medical Services Society (CMSS), for efficient procurement and distribution of health sector goods.

iii. Strengthening the logistics/commodity data systems, human resource training and supervision plan to support the operationalization of the e-LMIS and ensure quality and completeness of data reported from the new systems for TB and Malaria programs.

iv. Conducting stock out and risk of over stock analysis (SORAs) twice a year by the LFA to get a overview of the stock situation, pipeline and consumption.

v. Conducting reforecasting exercise with all states in order to update the supply plan (e.g., quantities to be procured and items) and prevent possible loss of commodities that may result from changes in treatment guidelines.

101. Another major challenge for the portfolio will be to ready it for a sustainable transition away from Global Fund support. This could include a different type of engagement with the government of India (for example, greater involvement of the Ministry of Finance), focus on building capacity of the civil society (financial and programmatic) which would contribute to the gradual transition of the Global Fund support to India. The likely timeline for transition (in the next 9 years) has already been communicated by the Global Fund Secretariat to the country and been agreed with both the Finance and Health Ministers.

Summary of GF financed country resources: The Republic of India

GF Secretariat	***In-country Assurance***	***Implementers***	***Oversight & application development***
Country Team: 10.34 FTE Days spent in country: 279 days	Local Fund Agent: 7.44 FTE External Audit Total cost: US$ 295,413	8 Principal Recipients 84 Sub-recipients PR's PMU: 181 FTE Procurement Agent	22 CCM members CCM Secretariat: 3 FTE Partner Technical Support cost: US$ 82,000

The Republic of Zimbabwe

102. The Republic of Zimbabwe has 3 active grants with a total value of US$ 709,634,350. The Ministry of Health and Child Care (MOHCC) and United Nations Development Programme (UNDP) are the Principal Recipients (PR).

103. A major risk in Zimbabwe is the poor quality of health services due to loss of health professionals following economic challenges. The Global Fund is committed to working closely with donors/partners in country to address key health systems strengthening issues specifically in relation to the health worker retention scheme through a health systems strengthening grant and also through supply chain strengthening efforts. In order to address supply chain risks, the country team has introduced the following risk mitigation measures:

    i. Supporting the Government of Zimbabwe with health management systems such as eLMIS and integration with NatPharm Entreprise Resource Planning (ERP) system.

    ii. Increasing the supervision for improving stock management.

    iii. Improving storage capacity through renovation and expansion of storage facilities at high volume Health Facilities.

    iv. Implementing and harmonizing the distribution system (Integrated Pull System) to address multiple parallel distribution systems.

    v. Supporting the provision of an incinerator to support waste management, IT hardware for NatPharm and expansion of 2 regional NatPharm warehouses and solar systems for the health facilities to improve storage conditions.

    vi. Supporting the Medicine Control Authority of Zimbabwe with upgrading of microbiology lab to attain World Health Organization prequalification.

    vii. Developing an operational plan to support the ongoing rationalization of the distribution systems in the supply chain.

104. Due to the high risk environment and concerns over governance, the Additional Safeguard Policy (ASP) was applied to Zimbabwe in 2008. Given the economic situation, the ASP measures will continue to be maintained in the country. A Fiscal Agent was put in place in January 2015 to improve financial controls. Other measures for mitigating potential financial and fiduciary risks are:

    i. Reviewing the implementation arrangements and additional safeguard measures to strengthen financial oversight and respond to emerging financial risks.

    ii. Implementing a policy of advancing additional funds only if previous advances have been reconciled.

    iii. Amending the current agreement, coupled with an intense dialogue with the key partners (Government of Zimbabwe, PEPFAR) aimed at achieving the optimal volume and timing of funding.

Summary of GF financed country resources: The Republic of Zimbabwe

GF Secretariat	***In-country Assurance***	***Implementers***	***Oversight & application development***
Country Team: 4.03 FTE Days spent in country: 75 days	Local Fund Agent: 2.64 FTE	2 Principal Recipients 13 Sub-recipients PR's PMU: 20 FTE Fiscal Agent Total Cost: US$ 5,119,173 Procurement Agent	23 CCM members CCM Secretariat: 1 FTE Technical Partner Support cost: $ 54,000

Annex 3: Board and Strategy Committee Members Interviewed

105. In June 2016, the Secretariat contact Board, Strategy Committee, Audit and Finance Committee and Ethics and Governance Committee members to request an interview. Due to the low initial response rate, follow-up requests were sent.

106. The following Board, Committee or Constituency members were interviewed individually or on behalf of their constituency as input to this review of the Global Fund business model:

	Institution or Constituency	Name of Interviewee(s)
1	Department of Foreign Affairs and Trade, Australia	Chris Cannan
2	Department of Foreign Affairs and Trade, Australia	Sue Glaze
3	Department of Foreign Affairs and Trade, Australia	Brenda Butter
4	Latin American Network of People Living With HIV (REDLA) and Communities Delegation to UNITAID	Jorge Saavedra
5	European Commission	Jan Paehler
6	European Commission	Grégoire Lacoin
7	CCM Macedonia	Ana Filipovska
8	Action Africa Health International	Vinand Nantulya
9	Office of Auditor General of Rwanda	Grace Rwakarema
10	International Senior Adviser Global Public Health	Mirta Roses Periago
11	Bill and Melinda Gates Foundation	Greg Ferrante
12	Bill and Melinda Gates Foundation	Kieran Daly
13	Bill and Melinda Gates Foundation	Todd Summers
14	African Leaders Malaria Alliance	Melanie Renshaw
15	Department for International Development, United Kingdom	Anthony Garnett
16	Ministry of Foreign Affairs, Japan	Aya Otaki
17	KNCV Tuberculosis Foundation	Beatrijs Stikkers
18	Ministry of Health and Medical Education, Islamic Republic of Iran	Mohsen Asadi-Lari
19	US Department of Health and Human Services	Jimmy Kolker
20	U.S. Department of State, Office of the Global AIDS Coordinator and Health Diplomacy	Mike Ruffner
21	Office of the Global AIDS Coordinator Global Health Working Group	Julia Martin
22	Swiss Agency for Development and Cooperation	Jacques Mader
23	Board Chair	Norbert Hauser
24	Heydar Aliyev Foundation	Soltan Mammadov
25	French Ministry of Foreign Affairs	Sylvie Bourdenet
26	Ministry of Finance, India	Sugata Ghosh Dastidar
27	Aktionsbündnis gegen AIDS - Action against AIDS Germany	Beate Ramme-Fuelle
28	International AIDS Society	Owen Ryan

	Institution or Constituency	Name of Interviewee(s)
29	STOPAIDS	Mike Podmore
30	Médecins Sans Frontières	Kerstin Akerfeldt
31	Health Programs Group (HPG)	Jason Wright
32	Merck & Co., Inc.	Paul Schaper
33	Mylan N.V.	Erika Sattaerwhite
34	GBCHealth	Cassandra Dormond
35	Office of the Presidential Palace, Timor-Leste	Felipe Da Costa
36	Development Policy Center	Jim Tulloch
37	German Federal Ministry for Economic Cooperation and Development (BMZ)	Hans-Peter Baur
38	Permanent Mission of Denmark to the United Nations Office in Geneva	Carsten Staur
39	Permanent Mission of Denmark to the United Nations Office in Geneva	Signe Refstrup Skov
40	Ministry of Foreign Affairs, Norway	Eivind Homme
41	Ministry of Foreign Affairs, Sweden	Lennarth Hjelmåker
42	World Health Organization	Minghui Ren
43	World Health Organization	Sheikh Mubashar
44	World Health Organization	Clarisse Masson
45	UNITAID	Lelio Marmora
46	Communities Delegation	Rachel Ong
47	Global Network of People Living with HIV	Gustav Rico
48	Ministry of Health, Senegal	Awa Coll-Seck
49	UNAIDS	Deborah Von Zinkernagel

Annex 4: PR, LFA and CCM survey Responses

107. A survey was distributed to approximately 4000 stakeholders to obtain feedback on the Global Fund operations and business model. Surveys tailored to each stakeholder group (PRs, LFAs and CCMs) contained questions relating to collaboration, communication, efficiency and effectiveness and the business model. Further tailoring was done to the CCM surveys based upon the role of the respondent within the CCM (civil society member, multi-lateral organization, or governmental organization). The surveys were made available in English, Spanish, French, Russian and Portuguese.

108. 836 responses were received to the survey which was conducted in June and July 2016. This included 225 responses from PRs, 135 responses from LFAs and 476 responses from CCMs. Responses were received across all Global Fund regions, with the largest number of responses coming respectively from Africa, Latin America & the Caribbean, Asia and Eastern Europe & Central Asia. They represent a reasonable response from high impact, focus and core countries as well experience levels (measured in years) with the Global Fund. See figures below for demographic information about the survey respondents.

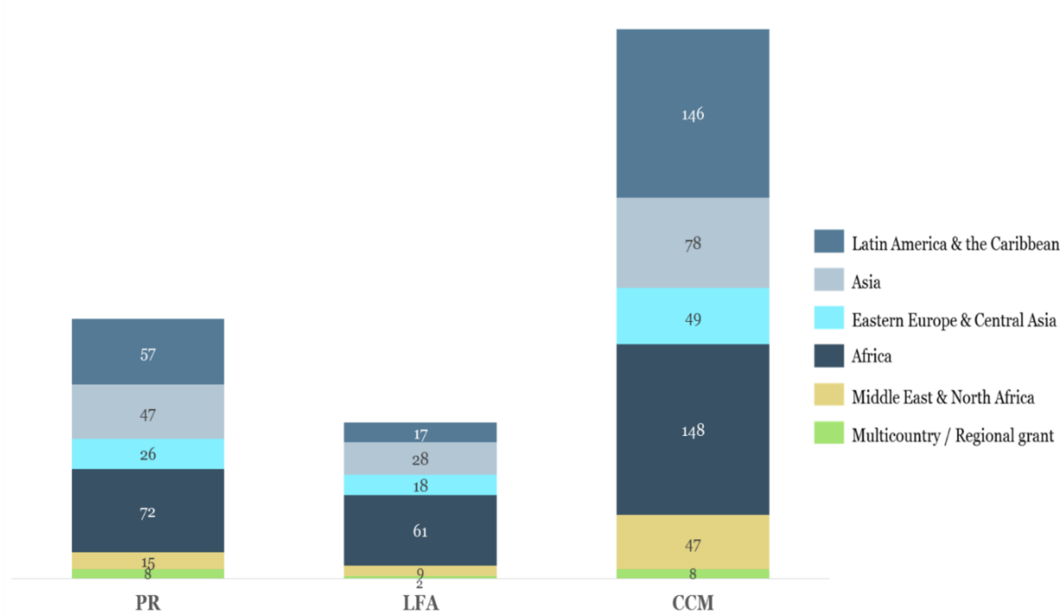


Figure 11: Summary of regional responses per role.

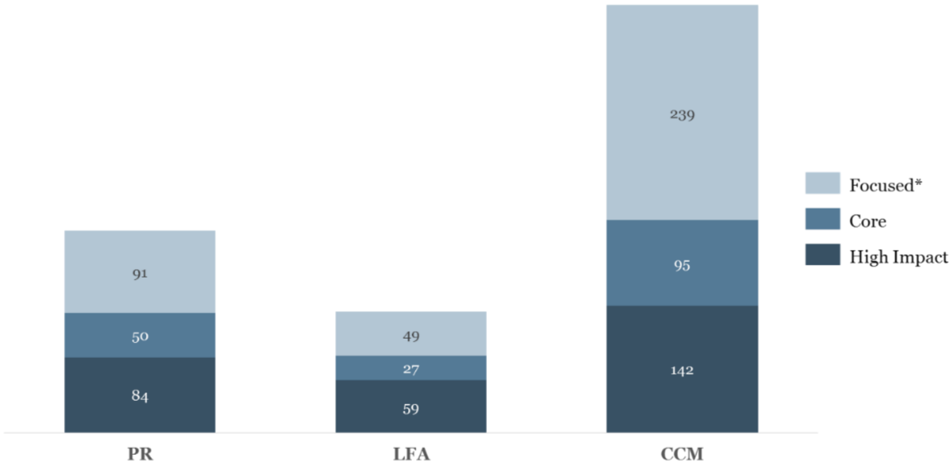


Figure 12: Categorization of survey responses based on high impact, core and focused countries. * Focused includes Multi-country / Regional grant countries.

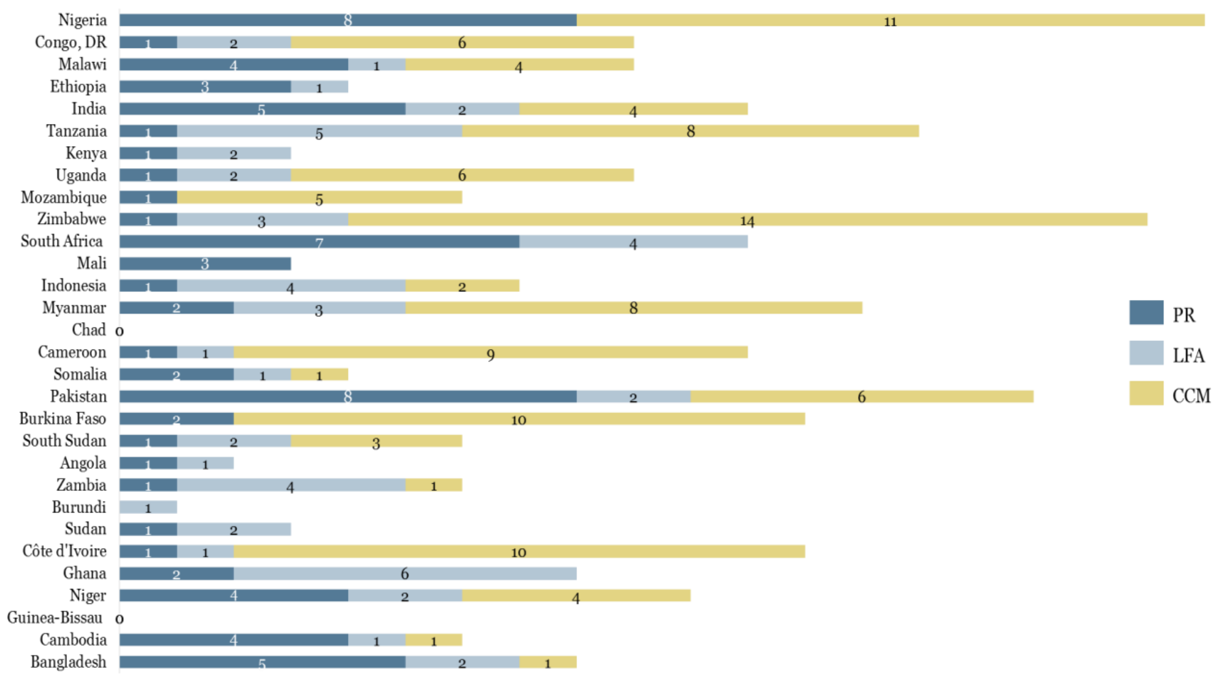


Figure 4: Summary of responses for top 30 high risk & impact countries identified by the Global Fund risk team (as per Q1 2016).

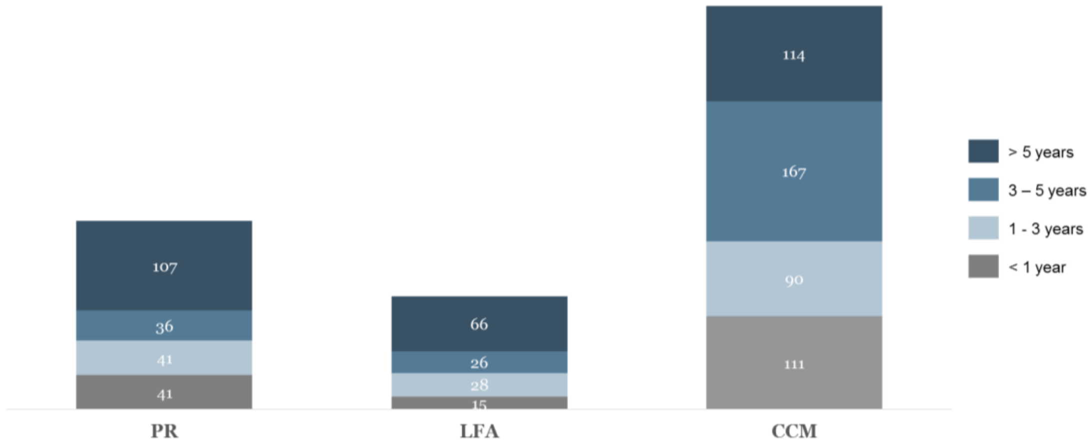


Figure 5: Duration PRs, LFAs and CCMs worked with Global Fund (in years)

PR Survey Results

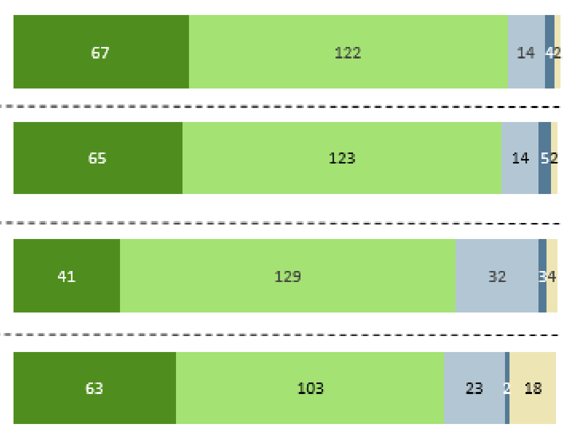
109. Respondents were asked to answer the following questions by selecting one of the following options: Strongly Agree, Agree, Disagree, Strongly Disagree and Not Applicable across four different categories of collaboration, communication, efficiency / effectiveness and current global fund business model to understand the satisfaction and engagement level of the stakeholders with the global fund. Please note that when reporting results, we removed the answers from those respondents who said that the question was not applicable and calculated the percentage based on applicable respondents. The full results from the PR survey are included in the following section.

Legend: Strongly Agree Agree Disagree Strongly Disagree Not Applicable

1. Collaboration

Questions | **July 2016**

1. The Global Fund Secretariat provides adequate support to help my grant reach its objectives.
2. I can easily get from the Global Fund Secretariat the information I need to help me manage my grant.
3. The Global Fund Secretariat supports me in identifying and mitigating risks for the implementation of my grant.
4. Collaboration with the Global Fund Secretariat has improved in the past year.



2. Communication

Questions | **July 2016**

5. The decisions made by the Global Fund Secretariat regarding my grant are communicated in a timely manner.

6. The decisions made by the Global Fund Secretariat regarding my grant are communicated clearly and are well documented.

7. The information and guidance I get from the Global Fund Secretariat is consistent (regardless of who sends it from the Secretariat).

8. The number of iterations related to grant management (e.g. grant making, disbursements, extensions) between the Global Fund Secretariat and the PR is reasonable.

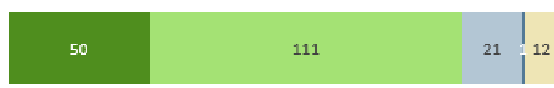
9. Communication (e.g. advice, requests) from the Global Fund Secretariat on technical matters in the areas of finance, health products management, monitoring and evaluation or programmatic issues is of good quality.

10. Communication from the Global Fund Secretariat has improved in the past year.

3. Efficiency and Effectiveness

Questions | **July 2016**

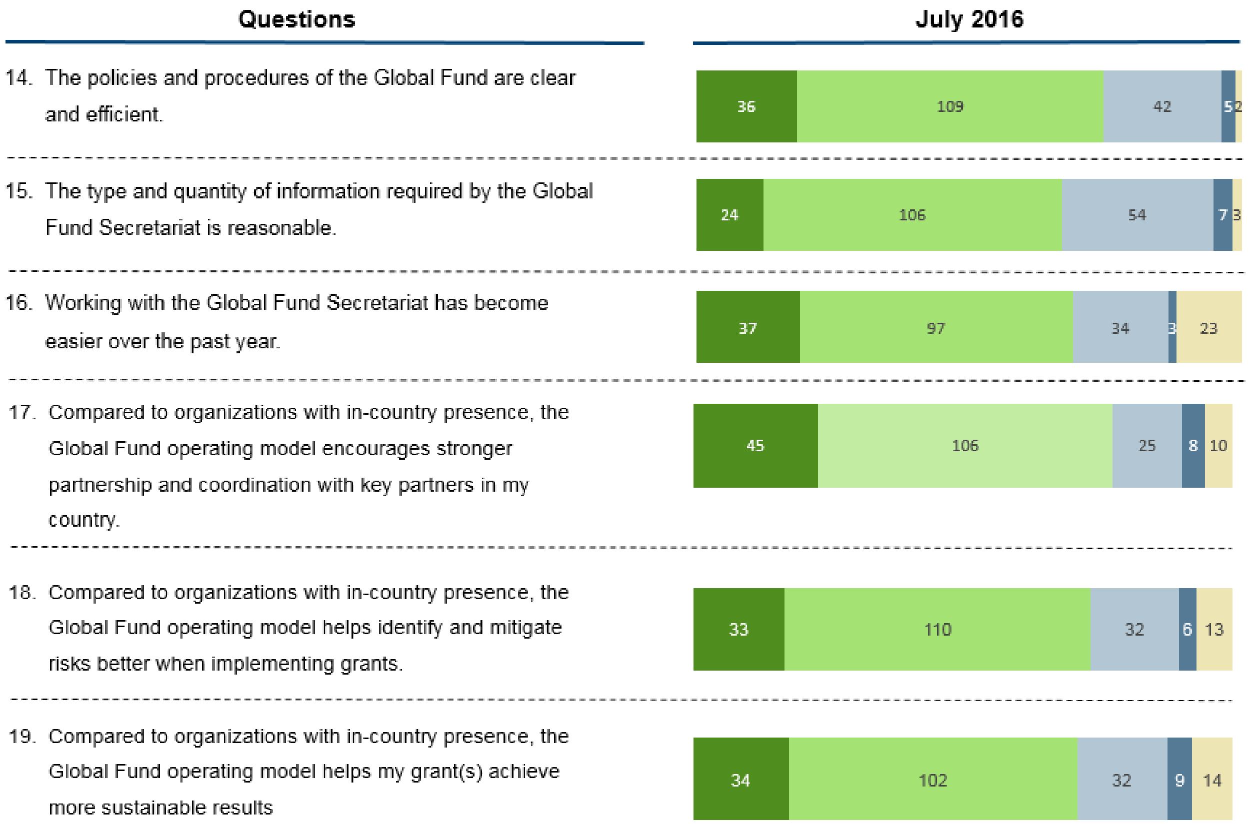
11. The Global Fund Secretariat processes my disbursement requests in an efficient manner.



12. The Global Fund Secretariat manages the grant negotiation process (for new grants or extensions) efficiently.

13. The Global Fund processes have become more efficient in the past year.

4. Business Model



LFA Survey Results

110. Respondents were asked to answer the following questions by selecting one of the following options: Strongly Agree, Agree, Disagree, Strongly Disagree and Not Applicable across four different categories of collaboration, communication, efficiency / effectiveness and current global fund business model to understand the satisfaction and engagement level of the stakeholders with the global fund. Please note that when reporting results, we removed the answers from those respondents who said that the question was not applicable and calculated the percentage based on applicable respondents. The full results from the LFA survey are included in the following section.

Legend: Strongly Agree Agree Disagree Strongly Disagree Not Applicable

1. Collaboration

Questions | **July 2016**

1. The Global Fund Secretariat provides adequate guidance and support to the LFA.

2. The LFA can easily access the information/guidance/clarification it needs from the Global Fund Secretariat to fulfill its role.

3. The Global Fund Secretariat provides adequate support to enable the LFA to tailor its work to identified risks.

4. Over the past year, collaboration between the Global Fund Secretariat and the LFA has improved.

2. Communication

Questions | **July 2016**

5. The LFA has direct access to relevant teams of the Global Fund Secretariat (Finance, Health Products Management and Public Health Monitoring & Evaluation specialists) to discuss technical issues.

6. The LFA receives consolidated (instead of piecemeal) feedback/requests for clarification or additional information from the Global Fund Secretariat that incorporates the concerns/issues from all relevant teams.

7. Feedback on LFA performance (including but not limited to PET reports) are communicated in a timely and regular manner by the Global Fund Secretariat.

8. Global Fund expectations of the LFA are clearly defined and well documented.

9. The number of iterations (e.g. requests for additional information, clarifications) at critical points in the grant management cycle (e.g. grant making, disbursements, extensions) between the Global Fund Secretariat and the LFA have decreased over the past year.

10. Over the past year, the LFA has seen evidence of an improved quality and frequency of communication between the Global Fund Secretariat and PRs, CCMs/RCMs and in country Partners.

3. Efficiency / Effectiveness

Questions — **July 2016**

11. The Global Fund Secretariat provides effective tools to facilitate submission of quality LFA deliverables.

12. Issues flagged and recommendations made by the LFA are effectively addressed by the Global Fund Secretariat.

13. The assurance tasks the Global Fund asks LFAs to perform are the most effective way to gain assurance over the risks in the grants.

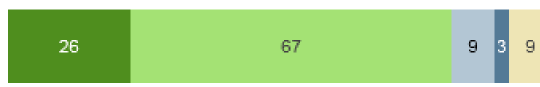
14. Over the past year, the LFA can see improvements in the efficiency of the grant management processes of the Global Fund.

4. Business Model

Questions — **July 2016**

15. The level of effort expected from the LFA is appropriately aligned with the risk profile of the portfolio.

16. Compared to organizations with in-country presence, the Global Fund operating model helps identify and mitigate risks better when implementing grants.



17. Over the past year, working with the Global Fund Secretariat has become easier.

CCM Survey Results

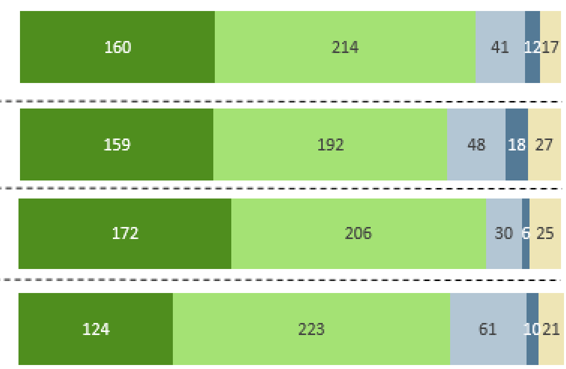
111. Respondents were asked to answer the following questions by selecting one of the following options: Strongly Agree, Agree, Disagree, Strongly Disagree and Not Applicable across four different categories of collaboration, communication, efficiency / effectiveness and current global fund business model to understand the satisfaction and engagement level of the stakeholders with the global fund. Please note that when reporting results, we removed the answers from those respondents who said that the question was not applicable and calculated the percentage based on applicable respondents. The full results from the CCM survey are included in the following section.

Legend: Strongly Agree, Agree, Disagree, Strongly Disagree, Not Applicable

1. Collaboration

Questions — **July 2016**

1. The Fund Portfolio Manager shares the terms of reference for Global Fund missions to the country with me.
2. The Fund Portfolio Manager invites me to debriefing sessions as part of their visit to the country.
3. The Fund Portfolio Manager participates in a CCM meeting at least once a year.
4. The Fund Portfolio Manager includes me in discussions and communications about overall program progress and performance.



[1)] Civil Society CCM member specific question.

2. Communication

Questions	July 2016

10. I am systematically copied on grant management letters.

11. The Global Fund Secretariat has clearly identified a focal point who is responsive to CCM queries.

12. The Global Fund Secretariat clearly communicates Global Fund policies and procedures, and how they relate to the role of CCM members.

13. Global Fund Secretariat expectations of the CCM are defined, documented and clearly communicated.

14. Communication from the Global Fund Secretariat has improved in the past year

15. The Global Fund Secretariat is responsive to the questions and concerns of my constituency / my organization / my ministry.

16. My ministry is informed in a timely manner about Global Fund activities in my country.²⁾

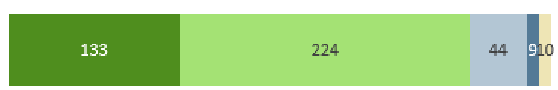
17. Global Fund Secretariat expectations of the CCM are defined, documented and clearly communicated.

1) Civil Society CCM member specific question. 2) Governmental CCM member specific question.

3. Efficiency / Effectiveness

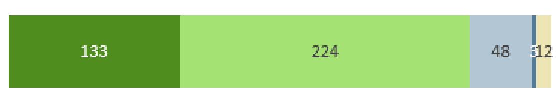
Questions	July 2016

18. The CCM is an effective mechanism for my constituency to participate in strategic decisions related to the performance and impact of Global Fund-financed programs.



19. The Global Fund is an effective instrument to contribute to my country's response to HIV, TB and Malaria.²⁾

20. Global Fund supported programs are not duplicating programs supported by the national government and/or other donors in my country.



21. Global Fund supported programs have improved services delivered to my constituency over the past year.[1)]

22. The Global Fund processes have become more efficient in the past year at the Global Fund

[1)] Civil Society CCM member specific question. [2)] Governmental CCM member specific question.

4. Business Model

Questions — **July 2016**

23. The Global Fund helps to include the expertise of my organization in the country's response to the three diseases and health systems strengthening.

24. The Global Fund helps to address issues of human rights and gender equality in my country

25. The Global Fund has helped to enhance the partnership between the government and my constituency over the past year in my country.[1)]

26. My ministry's understanding of the Global Fund's policies and procedures has improved over the past year.[2)]

27. Compared to organizations with in-country presence, the Global Fund operating model encourages stronger partnership and coordination with key partners in my country

28. Compared to organizations with in-country presence, the Global Fund operating model enables a stronger oversight of the implementation of grants in my country.

29. Compared to organizations with in-country presence, the Global Fund operating model helps my grant(s) achieve more sustainable results.

30. Compared to organizations with in-country presence, the Global Fund operating model enables more meaningful and/or more frequent engagement of affected communities

[1)] Civil Society CCM member specific question. [2)] Governmental CCM member specific question.

Annex 5: Cost Implications of Business Model Options

112. In addition to internal and external stakeholder interviews and surveys, a costing exercise was undertaken to examine the cost implications of the alternative business model options listed above. Based on stakeholder feedback on each option's feasibility, this detailed cost assessment was conducted for Option 2 (Place liaisons in a subset of countries), Option 3 (Move a sub-set of country teams in-country) and Option 4 (Establish regional hubs), with a high level cost assessment for Option 5 (Move all country teams in-country) since no stakeholders recommended this option. It was assumed that the costs of Option 1 (Adapt the current model) could be covered through reallocation of operating expenses. It is important to note that these costs are based on estimates and that a more rigorous analysis should be conducted if the Global Fund decides to investigate one of the options further.

113. To calculate the baseline costs currently associated with Global Fund staff supporting countries (this included Regional Managers (RMs), Fund Portfolio Managers (FPMs), Program Officers (POs), Public Health Monitoring and Evaluation Officers (PHM&E), Health Product Management Specialists (HPMs), Finance Officers, Legal Officers and team assistants (FPAs)), a combination of elements were used. Costs were calculated per staff member on an annual basis and subsequently aggregated at the country level, based on the size of each country team. Two types of cost were considered – direct costs (comprised of staff salaries, benefits / allowances, employer charges[19] and flight, hotel and per diem expenses[20]) and indirect costs (overheads including facilities cost). Additionally, other costs related to other in-country actors (LFAs, CCMs and Fiscal Agents where applicable) were collected and noted alongside the baseline Global Fund staff cost.

114. To calculate the costs of each option, a series of assumptions were made to arrive at indicative estimates for the direct and indirect costs of relocating staff to countries. For these estimates, it was assumed that:

   i. Core country team members working in country could not be nationals of that country, as is the current Global Fund policy, to avoid conflicts of interest in funding decisions. Therefore, Global Fund staff working in country would be similar to UN professional staff;

   ii. Global Fund staff working in country would be eligible to receive salaries, allowances and benefits (for example, a cost of living adjustment, rental subsidy and hardship

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[19] Employer contributions to insurances (such as health, accident and invalidity) and the Global Fund's provident fund for retirement

[20] Due to historical data limitations, flight, hotel and per diem expenses were collected at a regional level and apportioned to countries within that region based on the number of staff per country team - the assumption being that countries with more staff incurred a higher proportion of the regional expense

allowance[21]) in line with the UN's Common System of salaries, allowances and benefits provided to Professional staff;

iii. Local staff would be hired, where relevant, at local salary rates based on the General Service classification of the UN's Common System[22], to provide on-the-ground security and transport;

iv. The overhead costs related to setting up an office would cover internet and telecommunications, utilities and other services (including building reception and building security);

v. The cost of LFA support would decrease for Option 5 (Move all country teams in-country) and Option 3 (Move a sub-set of country teams in-country) as a result of expanded country teams assuming a portion of the responsibilities currently carried out by the LFA; and

vi. A new headquarters-based security function would need to be established if Global Fund staff were to move in country, and would be responsible for oversight, quality assurance, training and further support for Global Fund security staff based in country. The composition of this team was recommended by the Global Fund's Travel Security team, and would vary based on the option selected. This is due to the number of staff relocating from headquarters, the number of locations in which offices would be established, and the risk factor associated to the countries where offices would be established. A summary of this security team's composition for each option can be seen below:

Option	Total Number of New Security Staff	Breakdown of Roles
Option 5 (Move all country teams in-country)	11	1x Chief Security Officer 4x Security Manager 4x Security Specialist 1x Security Training Manager 1x Security Trainer
Option 4 (Establish Regional Hubs)	5	1x Chief Security Officer 1x Security Manager 3x Security Specialist
Option 3 (Move a sub-set of country teams in-country)	4	1x Security Manager 3x Security Specialist
Option 2 (Place liaisons in a subset of countries)	2	1x Security Manager 1x Security Specialist

[21] Benefit amounts and applicability vary by country and by staff role / level. The different benefits included in costing estimates were a cost of living adjustment, rental subsidy, dependency allowance, language allowance, hardship allowance and employer pension contribution

[22] Base salaries for staff represent the average of salaries across all increments for each UN grade level

115. Finally, a series of parameters were selected to estimate cost impacts for each business model option. These parameters relate to the locations of potential offices and the size of teams moving in country, as summarized below. The team size in each location represents Global Fund staff working with countries and locally-hired staff performing security and transport roles. For all options, staff were proportionally allocated to a location. In the case of Option 5 (Move all country teams in-country) and Option 3 (Move a sub-set of country teams in-country), the assumption was taken that each staff role would be equivalent to 1 FTE as opposed to a percentage of 1 FTE.

116. For **Option 5 (Move all country teams in-country)**, the assumptions made for staff size varied by category:

i. Focused country teams were assumed to be comprised of 5 Global Fund staff (1 FPM, 1 FPA, 1 HPM Specialist, 1 PHM&E Specialist and 1 Finance Officer) as well as 2 locally hired transport/security staff.

ii. For Core countries, this team would be further augmented by 1 PO and 1 Legal Officer as well as 2 additional transport/security staff.

iii. The country team in High Impact / Challenging Operating Environment (COE) countries would be equivalent to that of a Core country team, with the inclusion of 1 additional PO and 1 dedicated security officer.

iv. In the case of Democratic Republic of Congo, India and Nigeria (which each currently have additional specialist roles within their respective country teams), team sizes were assumed to be comprised of 1 FTE for each active role, resulting in a team of 17, 12 and 22 staff for Democratic Republic of Congo, India and Nigeria respectively.

Option 5 (Move all country teams in-country)	
Location	**Team Size (FTE)**
Focused countries	5
Core countries	7
High Impact / COE countries	8

117. In the case of **Option 4 (Establish Regional Hubs)**, it was assumed that regional offices would be established in five locations[23] - Asia, Eastern Europe / Central Asia, West Africa, Latin America and the Caribbean and Southern and Eastern Africa. All Global Fund staff currently working with countries were assumed to be relocating from headquarters to their respective regional office – this covers Regional Managers and all country team members. Additionally, a varying number of local staff would be hired in each regional office to provide on-the-ground security and transport. The total number of locally-hired staff performing these activities was assumed to be 15 in Asia, 9 in Eastern Europe / Central Asia, 30 in West Africa, 12 in Latin America and the Caribbean and 20 in Southern and Eastern Africa.

[23] If the Global Fund Board recommends Option 4 (Establish Regional Hubs) for additional consideration, detailed analysis would need to be undertaken to further establish and confirm the number, size and location of regional hubs.

Option 4 (Establish Regional Hubs)	
Location	Team Size (FTE)
Asia (Regional Hub)	78
Eastern Europe / Central Asia (Regional Hub)	30
West Africa (Regional Hub)	150
Latin America and Caribbean (Regional Hub)	37
Southern and Eastern Africa (Regional Hub)	101

118. When estimating **Option 3 (Move a sub-set of country teams in-country)**, it was assumed that offices would be set up in the top 6 high risk countries as per the Global Fund's Risk Register from Q1 2016 (Nigeria, Democratic Republic of Congo, Malawi, Ethiopia, India and Tanzania). For each country team, the assumption was that the current team structure (i.e. number of roles) would remain, but there would be 1 FTE for each active role (e.g. where a country currently has 0.5 FTE performing the role of a HPM Specialist, 1 FTE was assumed to be placed in country to perform that role). Additionally, local staff would be hired for the purposes of transport and security in each country. This represented a total of 12 locally-hired staff in Nigeria, 9 in Democratic Republic of Congo, 7 in Kenya and 5 in each of Tanzania, Ethiopia and Malawi.

Option 3 (Move a sub-set of country teams in-country)	
Location	Team Size (FTE)
Democratic Republic of Congo	26
Ethiopia	12
India	19
Malawi	16
Nigeria	35
Tanzania	12

119. For **Option 2 (Place liaisons in a subset of countries)**, the assumption taken was that 1 liaison officer would be located in the top 10 high risk countries (the top 6 countries listed previously plus Kenya, Uganda, Mozambique and Zimbabwe). In addition, 1 local staff member would be hired to provide security and facilitate transport for the liaison officer. This would result in a team size of 2 FTE for each country.

120. The above team sizes and office locations, combined with in-country direct / indirect costs per staff member, enabled the calculation of an estimated total cost for each location. Further to this, a number of cost synergies were calculated to account for the difference between the cost of setting up an office in a new location (e.g. location-specific staff salaries and benefits for Global Fund staff and locally-hired staff) and the savings which result from moving a team to a new location (e.g. changes in travel[24] and overhead costs due to a reduction in staff at headquarters). Synergies were calculated for Options 3, 4 and 5. For Option 2, it was assumed that a liaison officer role would represent a new role additional to the country team, and as

[24] Decreases in travel of 25%, 25%, 25% and 50% were assumed for Options 1, 2, 3 and 4 respectively – leading to an equivalent decrease in flight, hotel and per diem cost per FTE for each option

such would not necessitate the relocation of staff from headquarters. Synergies were calculated in three forms:

i. Direct cost synergies – the difference between the baseline direct cost (e.g. staff salaries and benefits) of a specified location's country team, and the forecasted direct cost assuming the country team moved location (i.e. out of headquarters).

ii. Indirect cost synergies – the difference between in-country overhead costs and overhead costs at headquarters, variable based on the number of staff moving out of headquarters to a new location.

iii. LFA cost synergies – for Option 5 (Move all country teams in-country) and Option 3 (Move a sub-set of country teams in-country), an LFA cost synergy was calculated. This is represented by the difference between the baseline LFA cost and the forecasted LFA cost, and is based on the assumption that LFA cost per FTE would decrease[25] as a result of the expanded country team assuming a portion of the responsibilities currently carried out by the LFA. For option 4, given the same staffing size, LFA costs were assumed to remain at current levels.

121. The sum of all synergies provided an estimate for the net cost of moving staff in country, with a positive value representing an additional cost requirement over the baseline, and a negative value representing a saving. This was calculated by location and aggregated to provide an overall estimate for each option. Additionally, the average of individual locations' net costs was calculated:

Option	Total Estimated Cost	Total Net Cost (Above Baseline)	Average Net Cost per Location[26]
Option 5 (Move all country teams in-country) [27]	US$ 255.33M	US$ 141.08M	US$ 1.20M
Option 4 (Establish Regional Hubs)	US$ 80.53M	US$ 8.40M	US$ 1.68M
Option 3 (Move a sub-set of country teams in-country) [28]	US$ 30.28M	US$ 7.95M	US$ 1.32M

[25] In order to calculate LFA cost synergies, it was assumed that LFA cost per FTE would decrease by 20%

[26] For each option, the average net cost per location was calculated by dividing the total net cost by the number of locations assessed

[27] For Options 3 and 5, the estimated costs and synergies include LFA cost impacts

[28] Refer to previous footnote

Option 2 (Place liaisons in a subset of countries)	US$ 3.82M	US$ 3.82M	US$ 0.38M

122. These estimates indicate that there would be an increase in the Global Fund's operating cost if a decision was taken to change the business model in line with Options 2, 3, 4 or 5 as discussed in this paper. For all options, the following items were major contributors to the cost of setting up an office in country:

   i. **Increased country team sizes.** Currently, it is common for a single staff member to take on responsibility for multiple portfolios, with the consequence being that the FTE for a role in a country team is frequently lower than 1. However, with Options 3 and 5 where entire country teams are assumed to move into all countries or a sub-set of countries respectively, the total FTE for each country team is assumed to increase due to the fact that 1 FTE would be required to carry out role in a country team. This would necessitate the hiring of additional specialists (HPM and PHM&E) as well as Finance Officers and Legal Officers.

   ii. **Benefits provided to Global Fund staff who relocate.** The benefits provided to staff as part of a relocation package would include a cost of living adjustment, hardship allowance and rental subsidy amongst other allowances (in line with the UN's benefit package). These benefits are substantial for each of the locations under consideration (e.g. a cost of living adjustment and rental subsidy for the Democratic Republic of Congo) and would result in a significant additional cost, impacting Options 3, 4 and 5 which involve the relocation of large numbers of staff.

   iii. **New security team based out of Global Fund headquarters.** Any permanent relocation of Global Fund staff would necessitate significant additional security planning and risk mitigation. This raises the need for a new security team as discussed above, with a number of dedicated staff to be hired and based out of headquarters. The cost implications are significant for all options, particularly due to the direct cost incurred as a result of hiring additional headquarters-based staff. This additional cost would be greatest for Option 5 (which assumes 11 staff would be required to oversee the security activities of individual country teams in all countries) and would have a high impact for Options 4 and 3 (assuming 5 and 4 new headquarters-based staff respectively). Although small relative to the other options, Option 2 would still see a cost increase over the baseline, due to the requirement for 2 new staff to augment the existing Travel Security team in supporting liaison officers located in 10 different countries.