

REPORT OF THE EXECUTIVE DIRECTOR

Purpose:

This report of the Executive Director is being provided to the Board for information.

Table of Contents

Part 1: Introduction	3
Part 2: Innovation and Evolution	4
A more strategic approach to investing	4
Tiered pricing to expand access	7
Measuring progress and impact through evidence.....	8
Part 3: Updates on priority areas of work	9
Implementation of the new funding model	9
Human rights	10
Vulnerability of women and girls.....	11
Leveraging purchasing power and partnerships through greater value for money	12
Maximizing and sustaining the results through health systems strengthening	13
Grant management update	14
Part 4: Organizing for impact.....	17
Part 5: Closing.....	19

PART 1: INTRODUCTION

1.1 Dear Board members,

It is a privilege to be writing to you once again in my second report as Executive Director of the Global Fund. These reports are a valuable opportunity to provide regular updates on key areas of work, and to reflect and share with you our evolving thinking on how best to deliver on the Global Fund's mandate and implement our strategy. They serve as a vehicle for ongoing dialogue with you, building on and refining ideas previously discussed, and citing key outcomes that help us understand concretely the direction in which we are moving. This includes also frank discussion about our challenges, and the missed opportunities that require our collective effort to address. And as I note the value of open and collaborative communication with you, the Board and committees, allow me, on behalf of the entire team, to thank you for your continued engagement, guidance and trust, which are indispensable to deliver on the Global Fund's mission.

1.2 2013 continues to be an extremely busy year for all of us. Since our last Board Meeting in June, there has been significant progress and valuable lessons learned in many critical areas of work. Our focus has been, and will continue to be, to deliver on our core business of the new funding model at the country level. Everything each of us at the Secretariat is doing is towards this essential objective. We have no side shows. In fact, soon it will simply be the funding model. We approach the task of implementing the new funding model with excitement about the powerful opportunities that it offers, but also with humility, recognizing that it is a huge and complex undertaking. Undoubtedly, our ability to listen and learn – particularly from countries – throughout the process will be equally critical successful factors as hard work, robust systems and meeting tight timelines. I would like to take this opportunity to express my gratitude to the Secretariat. Our team continues to be one of the Global Fund's most valuable assets, and it is a privilege for me to serve with them. I would also, on behalf of the team, like to thank all of our partners who have dedicated so much time, effort and their own resources to deliver on our shared mission to defeat HIV, TB and malaria while strengthening health systems.

1.3 This report provides high-level updates on our work, to complement the much more comprehensive reporting you are receiving directly from us and through your committees on the broader scope of activities in which we are engaged.

1.4 This report will not have a significant focus on replenishment. And yet, we would nevertheless like to briefly acknowledge and express gratitude – on behalf of the Global Fund, and the programs and people that we all serve – to Belgium, Denmark, Finland, France, Germany, Luxembourg, Norway, Sweden and the United Kingdom, who have already announced their generous pledges for the Fourth Voluntary Replenishment. Our sincere appreciation also to the United States, which has offered to host the Replenishment Conference in Washington, D.C. in December.

1.5 The meeting in December will be different than those in the past and will focus on the contribution of the Global Fund to important themes in global health and development: shared responsibility and mutual accountability; the historic opportunity to defeat HIV, TB and malaria; the need for a fully inclusive human family to achieve that goal; and the opportunity for investments in HIV, TB and malaria to serve as a platform for the broader health of people.

PART 2: INNOVATION AND EVOLUTION

2.1 One of the few constants in the almost twelve-year history of the Global Fund has been change. Its core mission and mandate have remained the same, but the Global Fund has nevertheless undergone almost continuous evolution since its inception – of its business model, its priorities and the way it engages with country stakeholders and partners. This can perhaps be partly explained by the relative youth of the institution. But it is almost certainly also driven by the fact that the Global Fund was created as a 21st Century learning organization, with a mandate to improve, adapt and evolve for greater impact.

A more strategic approach to investing

2.2 In our last report, we discussed a number of significant changes we are currently implementing as part of our 2012-2016 strategy, which reflect this spirit of innovation and evolution, including transitioning to the new funding model. These changes are already helping us to invest smarter, towards greater impact against the three diseases.

2.3 We are currently working on ways to take this a step further, so that it is not just about improving our work as a health financing mechanism, but also how we contribute within the context of a broader **development approach**. Recognizing that the countries we support are in different stages in a continuum from fragile state to self-sufficient, how the Global Fund supports countries, i.e. how we deliver on our Strategy, should be based on the epidemiology of the three diseases *as well as* the wider realities, challenges and opportunities for each of the stages in the development continuum, including the state of the underlying health system. Of course, the continuum is not a straight line for all countries, and some that have moved from fragility or other points along the continuum can experience setbacks. Development realities require that we formulate long-term strategies for our work with countries that are in different phases based on a structured thought process to coherently articulate:

- i. The objectives of investing in a country;
- ii. The outcomes expected in 3, 6 and 9 years (e.g. 3 replenishment cycles); and therefore
- iii. The types of investments we should be making.

2.4 Adopting such an approach will push us to better leverage the opportunities that are specific to a given country's stage of development. But it will also help us to take into account the factors on which we may have limited influence, such as a country's political stability or their pace of economic development, and to identify the approaches that realistically address the needs within that context.

2.5 All of this is still under development, and following broad consultation with development partners and other stakeholders, we will bring the concept and proposed approach to the Strategy, Investment and Impact Committee (SIIC) and Board early next year. But to provide a more concrete sense of the direction in which we want to move, below are examples of ways we are trying to tailor our work more deliberately and strategically for countries in the different stages of the development continuum.

2.6 **Fragile states:** The Global Fund is one of the largest, if not the largest, investors in health in fragile states. But how we engage should and must be different from how we approach a stable country with good health systems and a history of high-level achievements. The Grant Approvals Committee (GAC) recently reviewed the renewal request for a malaria grant in the Central African Republic – a country held back through slow economic

development, low capacity and now a political-military crisis. The program was showing little or no progress towards impact, and there was only 6 percent achievement in the grant's Top 10 indicators. In addition to this, we have only limited reliable malaria data, compromising program design and reporting. One option would have been to shut down the grant, based on the lack of progress to date and on the unlikelihood of any improvement if we were to continue funding under our traditional modes of support. And yet, the need for assistance is higher than ever during this crisis. Furthermore, pulling Global Fund resources posed significant risks, as we are currently the largest contributor to the malaria program in the country, and the only source of long-lasting insecticide-treated nets (LLINs) and artemisinin-based combination therapies (ACTs) in the target zone.

2.7 Our country team therefore worked closely in the country dialogues with stakeholders and partners to reformulate our support, tailoring it to the particular circumstances and needs of the program, including:

- i. A mass LLIN distribution, as the most reliable way to save lives in the fragile state environment, and based on the success of a previous mass LLIN distribution campaign in 2010;
- ii. Limited case management for confirmed malaria cases and intermittent preventive therapy (IPT), based on available data;
- iii. A service delivery system adapted to deliver in a complex emergency context with fiscal and procurement and supply chain management controls;
- iv. Shifting the Principal Recipient (PR) role to the International Federation of Red Cross and Red Crescent Societies (IFRC), which has proven experience in complex emergencies; and
- v. An operational risk management plan that reflects and accounts for the special circumstances surrounding the program and the grant.

2.8 This grant and its modalities – together with the other modest malaria interventions that will be implemented outside of the grant – are not the definitive answer to malaria control in the Central African Republic. But it is an approach that responds to the country's current stage in the development continuum. It addresses an immediate need with a realistic strategy based on what is possible, what systems are available under the current environment and how to best work with those systems, to begin to strengthen them and provide examples of success to build on as – and to at least some degree promote – stability and development occur.

2.9 The Technical Evaluation Reference Group (TERG) is currently completing a review on how the Global Fund can better fulfill its role in supporting HIV, TB and malaria programs in fragile states and in other environments with difficult implementing conditions, based on experiences and analyses in Somalia, Syria and the Democratic Republic of the Congo. At the recent SIIC meeting in October 2013,¹ the SIIC discussed mechanisms to set aside funds to meet urgent needs to address emergencies, build capacity and reinforce data systems. We will take on the TERG's recommendations and consult broadly with development partners as part of the overall effort.

2.10 **High-performing programs with robust National Strategic Plans and systems:** For Rwanda's HIV program, we are working with country stakeholders to pilot a ***results-based financing*** model. This model is intended to build upon Rwanda's previous

¹ 8-10 October, Geneva

successes and strong capacity, and will shift much more explicitly the focus from grant outputs to programmatic outcomes. Key features will include:

- i. Monitoring and reporting based on a limited set of coverage, outcome and impact indicators that are part of the country's National Strategic Plan (NSP), which have been internationally agreed upon by technical partners;
- ii. Results-based financing: the first disbursement will provide upfront working capital, and subsequent disbursements will be strictly based on performance towards pre-defined sets of indicators;
- iii. A shift away from detailed budgets, to allow for the flexible use of grant funds; and
- iv. Use of national audit and results systems: we will audit those systems, rather than ones created for Global Fund-specific purposes.

2.11 We expect this approach to reduce transaction costs and reporting. But much more importantly, we want to unlock the potential of what can be achieved under an **empowered country-owned program, with aligned and harmonized systems, mutual accountability and a strong national plan**. By focusing on the achievement of program objectives, and with future disbursements directly tied to key outcome and impact indicators, we can move away from grant-specific activities and reporting, and pave the way for countries to focus on high-impact interventions. And through allowing them to reinvest any savings into the national program, we can help support and incentivize the achievement of greater impact when programs operate efficiently and implement interventions that represent good value for money.

2.12 There will also be a strong focus on shared responsibility, including tracking resources to ensure that they are used for health purposes and that they do not displace – on the contrary, they should in fact help promote – increased domestic financing.

2.13 This model may not be appropriate in many cases. What gives us the confidence that this is both a reasonable approach, as well as a strategic one, has to do with where Rwanda is on the development continuum. It is a country that has a proven track record of achieving impact, with reliable impact and outcome data. It has transparent and strong national systems (e.g., financial management, procurement and supply chain management, and monitoring and evaluation). And it has a robust and costed current national strategy that has been independently validated. These factors – including the strength of the program and the country's broader development stage – dictate that the best way to support Rwanda and others like it is to move towards an approach and modalities that explicitly feed into their national strategic plan and health systems.

2.14 **Middle-income countries:** In 1990, 94 percent of the world's poor² lived in low-income countries. By 2008, this figure dropped to only 26 percent. Zambia today is a middle-income country. While it has made significant progress, it did not look fundamentally different the day after it was reclassified than it did the day before. But not all middle-income countries are the same, and it is important that we be clear about why we invest in lower-middle- and even upper-middle income countries.

2.15 Recently, as part of its new funding model early application, we reviewed our previous funding for El Salvador's HIV program. Implementers were performing well and achieving the targets we had previously set. But our investments lacked a clear strategy on what Global

² Refers to population living on less than US\$1.25 per day. Source: Martin Ravallion, *Should we care equally about poor people wherever they may live?* Blog post, 11.8.2012.

Fund support was intended to achieve, and how it would help catalyze a fundamental change in the country's epidemic. Approximately 80 percent of new infections were estimated to occur in risk groups – such as men who have sex with men, female sex workers, people who inject drugs and their partners – and yet a significant portion of our investments were supporting interventions for the general population.

2.16 Through deeply collaborative country dialogues, we collectively shifted the focus of Global Fund support onto the interventions and approaches that directly target the hot spots of the epidemic. This was made possible by 1) the openness of the El Salvadoran government to absorb previously-supported activities and to empower and actively collaborate with civil society organizations; and 2) the intensive engagement of technical and bilateral partners.

2.17 Related to this at a regional level, we have been partnering closely with UNAIDS and PAHO/WHO on an approach to optimize HIV/AIDS investments in Central America. This includes a **policy dialogue** to reverse the mismatch between current funding patterns vis-à-vis epidemiological trends in the region. Towards that end, the policy dialogue will seek to help focus HIV investments where they will have the greatest impact, specifically for interventions that target most-at-risk populations (MARPs), and to support countries to access resources for these interventions, such as through our new funding model. This policy dialogue is providing direct inputs into the *Strategy Framework for the Sustainability of a Historic Response to HIV*, currently under development through the Council of Ministers of Health of Central America (COMISA).

2.18 We want to expand this type of approach to other regions as well, such as Central and South America, the Caribbean, Eastern Europe and Asia Pacific, in order to support key populations and interventions not easily covered by governments. Our financial investments in such environments will often be relatively small in the context of middle-income countries' larger health programs and budgets. But if we target those funds strategically, we can **catalyze larger political and social change**, and support countries through to their final stage of completely controlling the epidemics.

2.19 Again, our work on supporting countries through the development continuum is still in an early stage, and we will come back to you early next year through the SIIC to elaborate more on the approach. The Chair of the SIIC will initiate part of this conversation with you at the upcoming Board Meeting (7-8 November), which will include a discussion on the Global Fund's strategy for middle-income countries. As discussed during the recent SIIC meeting, we may need to refine our overall approach and rules for allocating funding to the different income categories of countries, given significant shifts over the past decade in countries' income levels and the growing proportionate disease burden carried by middle income countries.

Tiered pricing to expand access

2.20 As part of our move to better accommodate and adjust our business model according to the different stages of the development continuum, we have developed a new multi-agency initiative to help expand access to essential health commodities through a multi-tiered pricing framework. Increasingly, people living in low- and high-income countries have access to such products, but those in the middle can be left without access. Co-sponsored by the World Bank, UNDP, UNICEF, UNITAID and GAVI, we will also be actively collaborating with WHO. The work will create a blue-ribbon Task Force of leading multidisciplinary experts, which will develop a framework for multiple pricing- and royalty tiers for health commodities to help ensure a sustainable marketplace and maximize availability across countries of all income levels.

Measuring the progress and impact through evidence

2.21 One of the critical enablers in our mission to invest more strategically is **data** – to measure progress and impact, identify the trends and hot spots in the epidemics, and to understand what's working and where course correction is required. In our last report to you, we discussed the overall approach and direction we are taking to leverage epidemiological intelligence for our investments, and to help strengthen countries' data systems so that we all have more and better quality information. This work is progressing well, with promising milestones on a number of initiatives.

2.22 The TERG has raised concern about the quality of the data we collect and use for Impact Evaluations. This is a challenge we must collectively address. We have been working with partners to support data system assessments in order to evaluate the availability and quality of programmatic and epidemiological data being collected. As we identify gaps in countries' data systems, we are providing **targeted funding to strengthen national data systems** in twenty priority countries. This is being implemented based on a WHO framework of key underlying data systems for HIV, TB, malaria and maternal- and child health. It leverages partner and country investments to strengthen cross-cutting, rather than parallel, data systems. These data system investments have been added to existing grants, and for example in Zimbabwe are building electronic reporting from national- to district health facility levels for the first time. It is also being used to strengthen the analytical components of existing country program reviews to evaluate impact with partners and prioritize investments based on evidence.

2.23 The TERG has also raised concerns regarding size estimates of Key Affected Populations, service quality data at facility level and direct mortality. Reliable estimates are essential to deliver on our core strategy elements of impact and human rights. We are working closely with partners to strengthen the quality of such estimates.

2.24 In a related initiative, we continue our efforts to simplify our reporting and **shift the focus from process- to higher-level indicators**. Over the past several months, we have been collaborating with key partners, including WHO, UNAIDS, the World Bank, PEPFAR and others, to develop a one-page set of indicators each on HIV, TB, malaria and cross-cutting areas. This will result in more consistent reporting among the different agencies, with a focus on coverage and outcomes, which will help us all to fulfill our international commitments on alignment and harmonization. It will also improve our ability to jointly review with partners our respective areas of support for a given country's program, and to more easily identify gaps and overlaps. This streamlined and harmonized approach is resulting in a 31 percent reduction in the number of indicators in our guidelines, representing a significant alleviation of the reporting burden for countries. A smaller number of impact indicators should also contribute to quality in two ways: 1) collecting fewer indicators allows more focus and resources; and 2) because health providers and officials can see the impact and value of their work, there can be more rapid and better program adjustments for impact and ownership over programs and results. The work is currently in its final stages, with ongoing efforts to harmonize tools and guidelines with partners. This will include for example closely coordinated monitoring and evaluation guidance released by PEPFAR and the Global Fund for HIV/AIDS programs, which will be further adapted upon WHO's release of its new HIV/AIDS monitoring and evaluation guidelines (Q1 2014).

2.25 Another key feature of the revised indicators is improved guidance on the **disaggregation of coverage data by age, sex and key population groups**, so that we have better information on the populations that are most-at-risk, including their access to key interventions and the outcomes of the interventions for those groups. This will be a key tool to support our work on human rights and gender equality, as it provides richer data that helps us to ensure equity of access.

2.26 Finally, we have been working with the different Board committees and constituencies to finalize the **revision of our Key Performance Indicator (KPI) corporate framework**. We are in the final stages of this process, the outcome of which will be a streamlined number of KPIs (approximately 15) that are visible, measurable and aligned with the 2012-2016 strategy and our corporate priorities for the 2013-2014 period.

PART 3: UPDATES ON PRIORITY AREAS OF WORK

Implementation of the new funding model

3.1 Implementation of the new funding model is progressing well, and it continues to be the top priority for the Global Fund – the Board, partners and every person at the Secretariat.

3.2 Following your approval of the three accelerated **early applications** in June,³ we proceeded to grant signing with El Salvador, Myanmar and Zimbabwe at record pace, just three weeks later. In total, the entire process from the announcement of funding allocations to grant signing required only four months and one week. This startlingly fast pace was due in large part to the existence of robust national strategies, strong PR capacity, the political leadership of the CCMs and excellent partner support. Although this pace may not become the norm as we experience a large influx in the coming year/s, it is nevertheless a dramatic improvement compared with – and beyond the scope of possibility under – the rounds-based process, which typically required over a year from proposal development to Board approval, and almost an additional year for grant signings.

3.3 Also notable is the fact that the initial “success rate” of funding requests for early applicants during the transition has been 100 percent, and it is expected to remain at or close to this level under the new funding model’s allocation and iterative systems. This stands in strong positive contrast to the approximately 50 percent success rate for funding requests under the rounds-based system. Thus far, the new funding model is therefore delivering on its promise to significantly reduce lost effort and time for implementing countries. Perhaps more importantly though, it is shifting the question from *whether* countries will have the funds they need to support their disease programs, to *how to optimally utilize* the funds allocated – in other words, “getting to yes.”

3.4 The timing for first disbursements is being set according to the preferences of the implementers, and so far we have processed five disbursements for Myanmar’s grants under the new funding model. Both El Salvador and Zimbabwe are expecting a first release of funds in or around January 2014.

3.5 Country funding requests for **interim applicants**⁴ are largely on track, with most scheduled for GAC review by March 2014. Of the interim applicants, 33 of 61 grant programs have completed GAC reviews in 2013 and are expected to access new funding over the course of the calendar year. Overall, the Board has approved US\$832 million in interim funding.⁵

3.6 Forward planning preparations for the **full roll-out** of the new funding model are well underway, with a focus on the following areas:

- i. Identifying when countries are likely to require funding. Currently it is estimated that approximately 50 percent of disease components will be signed

³ B28/EDP/24: Decision on the Secretariat’s Funding Recommendations for Early Applicants

⁴ These are applicants in countries that have been selected for new funding, but receive that money for renewals, grant extensions and redesigned programs that can make use of additional funds in 2013.

⁵ As of 25 September 2013

in 2014. This information will be used by technical partners and the Global Fund to identify areas where support is most needed;

- ii. Ensuring sufficient partner and Secretariat resources are available to support countries. Resourcing requirements are expected to be met by Q1 2014, through 1) secondment arrangements with partners; 2) creation of temporary surge teams; and 3) the reallocation or hiring of staff to meet long term needs; and
- iii. Providing training. New Secretariat funding model training modules are being rolled out and include several modules on 1) laying the ground work training (completed); 2) country dialogue (Q4 2013); 3) counterpart financing (Q4 2013); 4) investing strategically (Q4 2013); 5) communicating country allocations (Q1 2014); 6) concept note and modular templates (Q1 2014); 7) online tools (Q1 2014); and 8) grant making and implementation (Q2 2014).

3.7 Even as we note positive indications of progress, we know it would be premature to celebrate. We are still in the early stages of the work. And implementation of the new funding model is the largest, most complex change process the Global Fund has ever undertaken, requiring not just new forms, policies and processes, but also quite significant shifts in our culture, and in what is required of all stakeholders, including implementers, partners and the Secretariat. We therefore need to continue to treat this work as the highest priority of the Secretariat, actively learning and adapting as we proceed. But we also need to successfully engage, and leverage the valuable role of, our partners.

3.8 Experiences with early applicants have taught us that ***timely and focused technical support*** is a critical factor for the country dialogues and iterative processes. We are currently working with technical partners to develop deliverable-based partnership agreements for technical support on both thematic and geographic issues. The scope of support currently under discussion includes priority issues such as sub-national and sub-population epidemiological information, reviewing national strategic plans and operationalizing new normative guidance. It will also involve support networks of key affected populations to ensure that those groups play a strong role in country dialogues. We plan to include the deliverables of these partnership agreements, as well as the associated budgets, into our 2014 work plan and budget, so that we can quickly proceed to deploy the resources required to help ensure the success of new funding model's full roll-out.

Human rights

3.9 In our last report to you, we noted the criticality and opportunity of promoting and protecting human rights to help ensure we achieve our ambition of defeating HIV, TB and malaria. After a slow start, and following extensive consultations on the development of a framework for implementing the actions laid out in the strategy,⁶ we are now making progress at a more rapid pace against an ambitious 18-month work plan, which is reflected in the KPI. The work is being carried out in two phases:

3.10 Phase 1 – interventions: This phase focuses on investments and interventions, developing practical tools and procedures to integrate human rights considerations into every step of the grant lifecycle to achieve our collective health objectives. We are developing comprehensive guidance on addressing human rights to accessing services in all three diseases and health systems strengthening (HSS), drawing on our two previously published information notes on human rights. The guidance areas will include:

⁶ 1) Ensure that the Global Fund does not invest in programs that infringe human rights; 2) Integrate human rights considerations throughout the grant cycle; and 3) Increase investment in programs that address rights-related barriers to access.

- i. A rights-based approach to health services;
- ii. Community systems strengthening (CSS); and
- iii. Removing legal barriers to access: package of interventions.

3.11 We are also developing budgeting modules and M&E indicators tied to the roll-out of the new funding model for recommended interventions. In parallel, we are conducting a thematic review of human rights with the TERG, which will identify the obstacles to getting these interventions into grants, and developing strategic information for country teams on human rights issues in each country we fund. Within the Secretariat, we are building capacity through brown-bag lunches and training for focal points in Grant Management, and we are piloting these tools and partnerships through our South and East Asia regional team.

3.12 Phase 2 – safeguards: In 2014, we will enter into phase 2, where we will focus on safeguards to ensure that the risks of human rights violations or negative impacts are effectively identified and managed. As part of this work, we will clarify what human rights violations the Global Fund can and should address in the programs we fund, and develop the policies and tools for implementing the approach. This will include reviewing current policies, contracts and procedures, and working with the Office of the Inspector General (OIG) to develop a reporting and allegation management procedure.

3.13 This work is a core deliverable of a new team in the Secretariat – the *Critical Enablers Department* and *Civil Society Hub* – which brings together key enabling workstreams on human rights, gender, key populations and community systems strengthening. This new team will be working to address key gaps and find ways to systematize and improve partnership engagement with civil society, especially at country level, in their technical, advocacy, implementing and watch/monitoring functions. There is an enormous amount of work to do on this front. We collectively need to do more to empower communities and civil society, to both improve delivery of key services to populations, as well as for their promotion of human rights and work on gender equality.

3.14 To help guide all of this work, we recently formed a **Human Rights Reference Group** (HRRG),⁷ which brings together colleagues from the global human rights community, including experts on human rights law and -mechanisms, and practitioners with experience implementing human rights programs at regional- or country levels. The group is providing us with invaluable ongoing and practical advice on how to carry out the strategic actions identified by the Board, as well as keeping us abreast of emerging human rights developments that relate to the three diseases. We have also formed a staff task force with approximately 15 Secretariat members from Grant Management, Communications, Finance, the new funding model transition team and others from across the organization, which is reviewing the HRRG's recommendations and adapting them for use.

Vulnerability of women and girls

3.15 Although we are making progress, there is one significant cautionary note. We, and I personally, are concerned that issues related to the vulnerability of women, in particular young women, are not receiving adequate attention. It is wonderful to see the energy around traditional knowledge, attitudes and practices (KAP), and we thank those who are actively engaged and pushing. But we do not yet see similar engagement around the vulnerability of women on the ground, nor do we see it reflected in our grants yet. For example, in the GAC review of an HIV concept note in southern Africa, there was important emphasis on MSM and sex workers. However, there was little discussion of young women, one of the most

⁷ As discussed with the SIIC during its meeting 16-18 July

affected groups in that region. Addressing the needs and vulnerabilities of girls and women is an important challenge for all of us and will require a collective effort. As we are moving to the full implementation of the Gender Equality Strategy I will keep the Board informed on the progress we are making.

Leveraging purchasing power and partnerships towards greater value for money

3.16 With approximately 2/3 of Global Fund grant expenditures going to the procurement and supply chain management of commodities, we have significant **purchasing power to leverage**, which we are further expanding through **strategic partnerships**. We are on track to achieve our earlier-projected 8 percent annual savings for commodity purchases – with **savings of over US\$82 million during the March-October 2013 period** – and a 10 percent improvement in the “on-time and in-full” service delivery to recipient countries. We have also recently received requests from an additional five countries to join our voluntary pooled procurement mechanism, bringing the total number of countries to 55.

3.17 In our last report, we spoke about a collaboration then under development to jointly negotiate orders of insecticide-treated nets (ITNs). This initiative has since expanded, and the Global Fund is now partnering with UNICEF, PMI and DFID to harmonize purchases and negotiate long-term supply agreements on ITNs. Collectively, we currently represent an estimated 87 percent of the global purchasing power of ITNs,⁸ which we are leveraging to reduce ITN prices and provide greater predictability on purchase orders for manufacturers. We are currently in similar negotiations together with PEPFAR and the South African government – all major purchasers of ARVs – and ARV manufacturers; and we have initiated similar processes for diagnostics and male circumcision devices.

3.18 As part of a larger set of initiatives to optimize the entire supply chain, we are developing a **rapid supply mechanism** to improve the management of projected needs for essential drugs and reduce the risk of shortages, stock-outs and treatment disruptions. We are doing this through leveraging existing health product procurement arrangements (e.g., voluntary pooled procurement, Global Drug Facility) and existing stockpiles (US government-purchased ARVs, UNITAID-funded MDR-TB treatment).

3.19 We are ramping up our efforts against the **counterfeit, theft and diversion** of drugs, working closely with Interpol, the US Food and Drug Administration (FDA), Health Ministries, the OIG, WHO and other partners. Focusing on the top 50 drugs in the Global Fund’s high risk environments, we are implementing approaches to prevent, detect and respond, using measures (e.g. barcodes) based on their cost effectiveness, scalability and ease of implementation. With the valuable support of the OIG, we are developing contract terms to encourage data collection at both country- and manufacturer level, and we are building communication plans for PRs and governments to provide better information on prevention and enforcement. Finally, we are seeking to promote this work through local champions, such as the African Union (AU) and the Southern African Development Community (SADC).

3.20 Ensuring continued access to appropriate and quality health products and technologies and their rational use are key components in our collective efforts against the three diseases. We have been working to enhance our approach to **quality assurance** for health products procured with grant funds through policies, guidance and monitoring, with the invaluable and constant support of WHO and other technical partners and experts. Our quality assurance policies are designed to ensure that 1) the products purchased meet recognized international standards, and 2) the quality of the products and their use are monitored once

⁸ The Global Fund alone currently accounts for an estimated 52 percent of global ITN purchasing share.

they enter into national supply chains. This comprehensive approach is helping us to mitigate the risk of substandard or counterfeit products being delivered to patients or end users.

3.21 Compliance with product standards for procuring health products is strong. But there continue to be some gaps in the implementation of the required in-country quality monitoring and reporting activities, as highlighted in a recent OIG report. We are in the process of putting more systematic and robust monitoring processes in place for ensuring inclusive in-country quality assurance activities, and to address capacity challenges.

3.22 The new funding model is further improving our ability to support in-country stakeholders to ensure the quality and appropriate use of health products, including pharmacovigilance activities. We are working to routinely bring into country dialogues targeted discussions on the identification of systemic challenges in the national supply chain and regulatory and monitoring functions that impact the quality of health products, and to ensure adequate and coordinated planning for technical assistance and capacity building.

Maximizing and sustaining the results through health systems strengthening

3.23 There is still much work required to strengthen the underlying health systems before we can fully leverage elements such as data or commodity purchasing power. Our 2012-2016 strategy calls for maximizing the impact of health systems strengthening (HSS) investments by targeting them towards most-in-need countries and high-impact interventions. But our experience to date indicates that we have not historically focused our HSS investments on the most high-impact interventions, nor has our support been consistently aligned with the needs of the programs. The TRP has for example found that in cases where the Global Fund is providing funding for the large-scale procurement of pharmaceuticals or ITNs, we have not focused our HSS support on addressing weaknesses in the countries' procurement and supply chain management (PSCM) systems.

3.24 A recent programmatic risk assessment of our portfolio identified a number of key health-systems-related factors posing risks to the effective implementation of Global Fund-supported disease programs. These HSS-related risk factors fall under four main health system functions: PSCM, health management information systems, human resources and service delivery and accessibility. At the recent SIIC meeting, we discussed options for improving the Global Fund's support of HSS activities around these four areas, which the SIIC leadership will be bringing for your discussion at this Board meeting.

Grant management update

3.25 In the midst of the innovations to our business model, new tools, partnerships and guidelines, the management of our grant portfolio continues to be the core business of the Global Fund. Below is a brief overview on the current state of our portfolio.

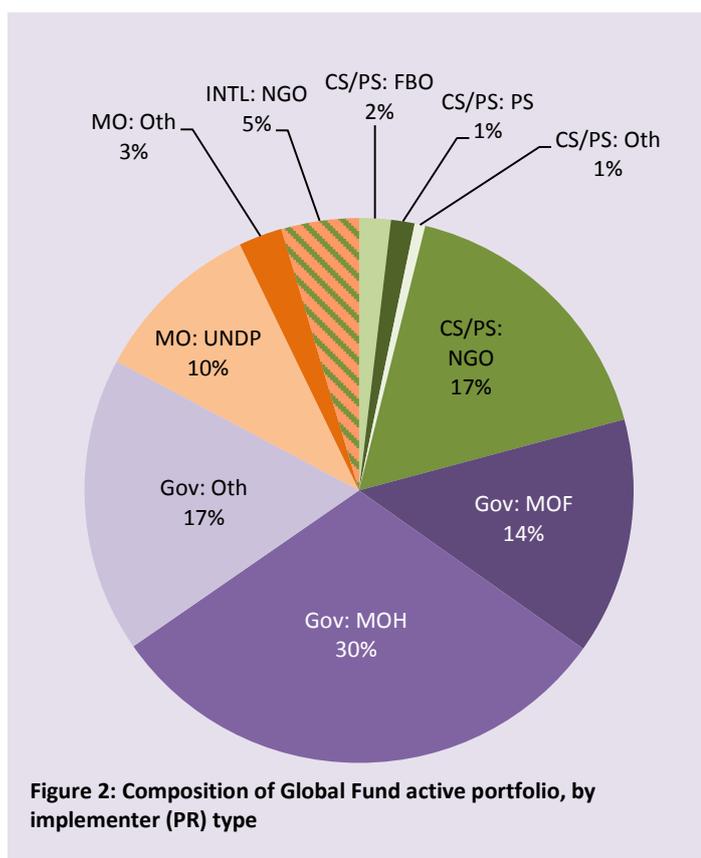
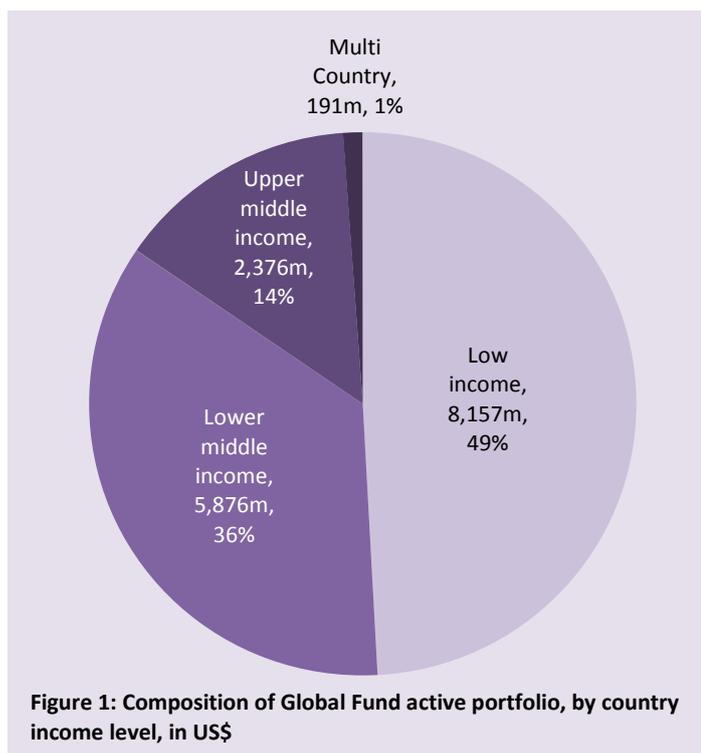
3.26 Proportionately, the current Global Fund portfolio is heavily focused on lower-income countries, with 85 percent of our total active investments going to countries in the low (49 percent) and lower-middle (36 percent) income categories (see *Figure 1*).

3.27 We continue to increase the representation of Civil Society and Private Sector among our implementers. More than 25 percent of our grants are implemented by non-government entities, including NGOs, faith-based organizations and the private sector (see *Figure 2*).

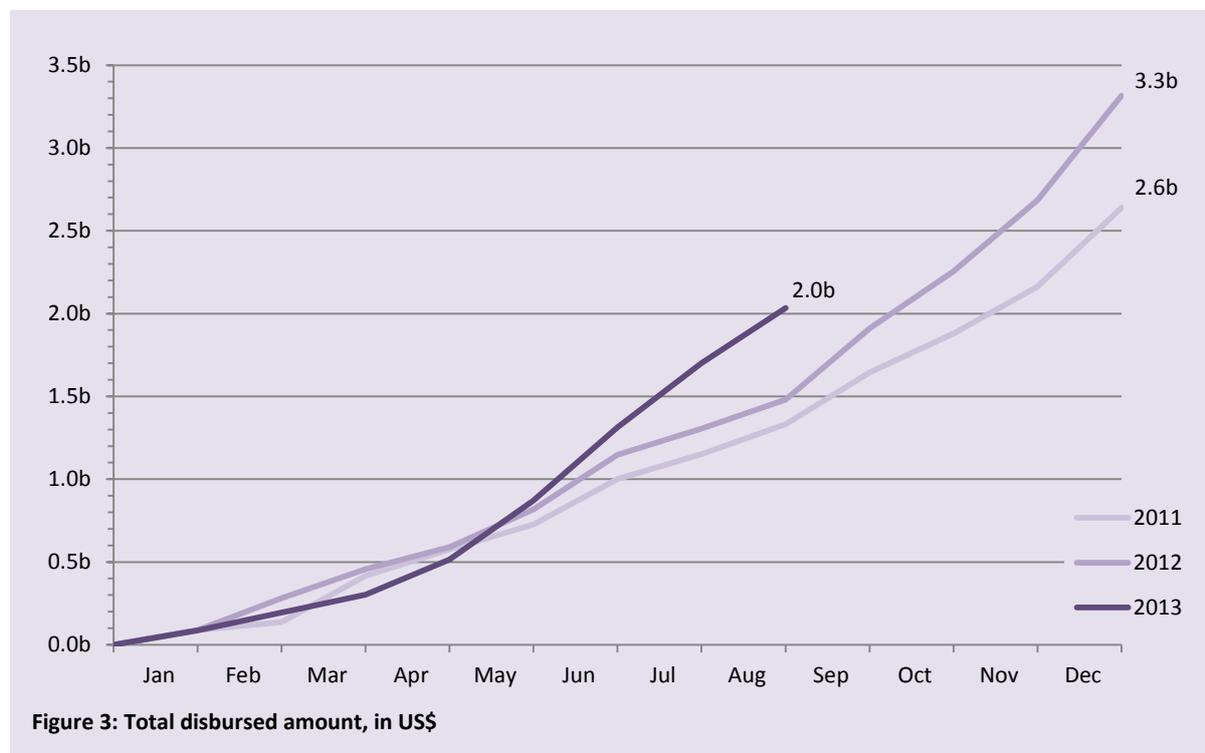
3.28 In total, US\$3.3 billion in **new funding** has been recommended by the GAC and approved by the Board in the January-September 2013 period. Of this amount, US\$1.3 billion (38 percent of the total) has gone to early- and interim applicants under the new funding model. 86 percent of the 2013 new funding amount to date has gone to countries in the low- or lower-middle income categories, including 48 percent for low income countries and 38 percent for lower-middle income countries. Much of the new funding will go to HIV/AIDS programs (approximately 55 percent) and “high impact” countries (over 70 percent).

Performance is generally good, with more than 80 percent of the grants rated A1, A2 or B1 at renewals and almost 90 percent receiving a “Go” recommendation from the Board.

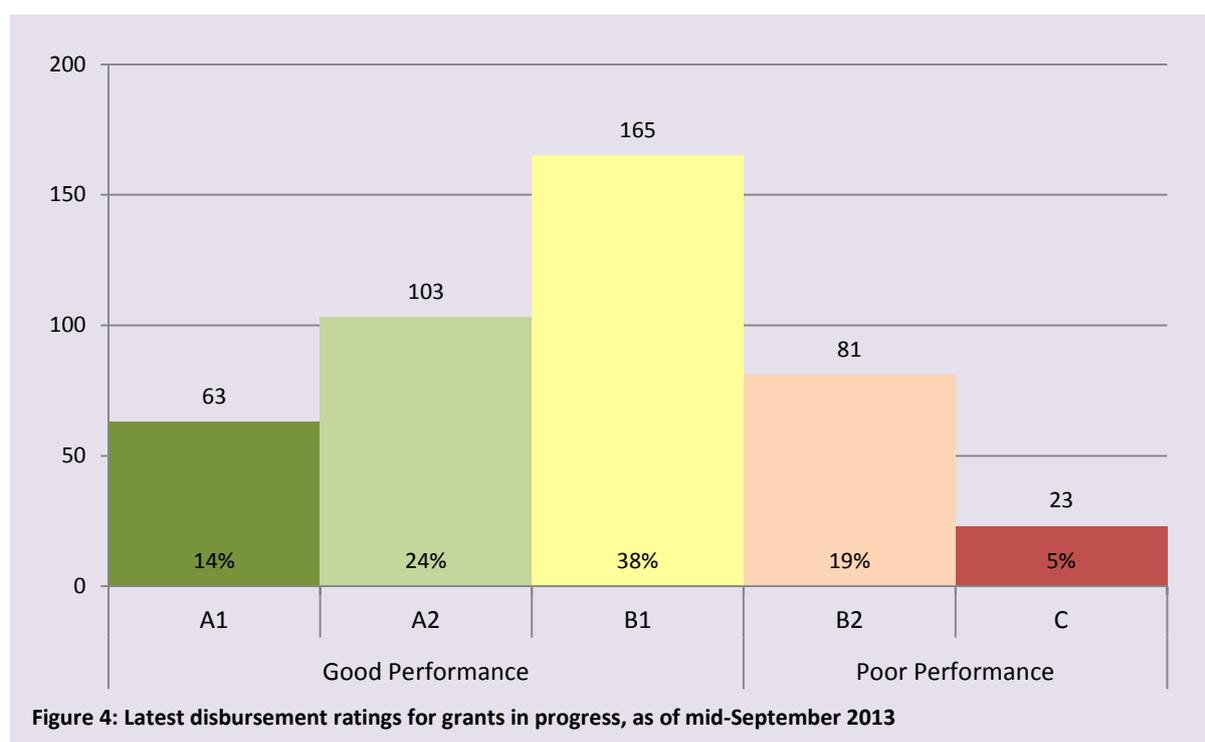
3.29 The total funds disbursed in 2012 reached US\$3.3 billion, the highest levels ever. This continues our upward trend in annual disbursed amounts following the dip observed in 2011.



We are likely to disburse at even higher levels this year. As of early September 2013, we have already disbursed more than US\$2 billion, compared with US\$1.5 billion by September 2012 (see *Figure 3*).



3.30 The **performance** of the portfolio continues at a relatively strong level, with most grants rated B1 (adequate performance) and only 24 percent with poor performance (B2 or C). The number of grants with strong performance (A1 or A2) is at 38 percent – a 3 percentage point increase over last year’s measure (see *Figure 4*).



3.31 Last year, the Secretariat presented to you an analysis on “**stuck grants**.”⁹ As of September 2012, we had 51 stuck grants in our portfolio, and an estimated 73 in 2011. Through the strong efforts of implementers and other country stakeholders and Secretariat country teams, we have now reduced the number of stuck grants to only 22, as of September 2013 (See Figure 5).

3.32 The most common current cause of stuck grants is long negotiations for renewals or for grants deriving from the Transitional Funding Mechanism (TFM). We expect to be able to address this systemic issue through our move to the new funding model.

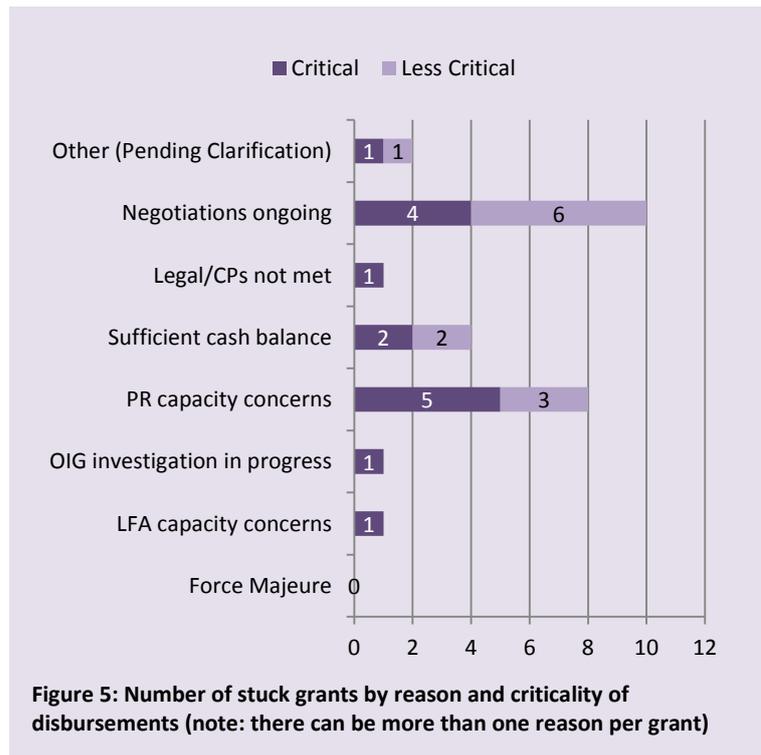
Another recurring reason for stuck grants is serious concerns about current implementation and/or PR capacity, which lead us to reduce or stop disbursements as part of our normal risk mitigation measures and performance-based funding approach.

3.33 Following the introduction of our Operational Risk Framework, we’ve retained a strong focus on **risk assessment and mitigation** this year. This included the wide release of the Qualitative Risk Assessment, Action Planning and Tracking Tool (QUART), which is helping us to identify risks at the grant level for all levels and areas of implementation. This exercise has been completed in 2013 for 75 percent of the High Impact grants, with the remaining portion of the High Impact portfolio to be covered by the end of the year.

3.34 We continue to work on **simplifying key grant management processes**. We’ve simplified processes for renewals and for accessing new funds through the new funding model, which helps us to focus on risks and strategic investment issues. Revised reprogramming procedures are enabling us to work with countries to update our funding more regularly, so that it is better aligned to epidemiological changes, new data, changes in the national strategy, etc.

3.35 A key change this year to help simplify grant management work has been our introduction of the **annual disbursement decision**, under which the Secretariat makes one disbursement decision per year, with actual cash transfers staggered according to a predefined schedule. This new policy simplifies the process, reducing the workload for PRs, LFAs and the Secretariat and providing more reliability around funding forecasts, both for individual PRs and for the Secretariat’s financial and operations planning. We began implementing annual disbursement decisions in March this year, with most disbursements made now under the new policy. The shift to annual disbursement decisions has allowed the portfolio to move towards more timely disbursements and more strategic annual planning.

3.36 We also continue to refine and strengthen the work of **country teams** through new guidance, including a revised KPI framework, a new escalation process, and clarified roles



⁹ Grants to which disbursement flows have been delayed or blocked

and responsibilities. Ongoing training and work planning are reinforcing the importance of spending more time in country and developing in-country partnerships.

PART 4: ORGANIZING FOR IMPACT

4.1 During the difficult 2011-2012 period¹⁰ of the restructuring, the number of staff cases brought to the Ombudsman increased to the equivalent of 40 percent of the staff at the time, compared with 23 percent of staff in 2010-2011. In this latest 2012-2013 period, the **number of cases has dropped sharply** to 14 percent of staff. In 2012-2013, we have also seen a **75 percent reduction in the number of “high risk,” or serious cases**, compared with 2011-2012. We hope these are indications that our efforts to improve the environment and opportunities for staff are yielding results. But we are continuing our efforts to further improve the employment proposition for Secretariat staff, who continue to be a vital strategic enabler for our work.

4.2 Following a comprehensive review of our Human Resources (HR) operating model, the HR team is now fully operational. A new **People Strategy** for 2013-2016 is in place, to provide the Secretariat with a roadmap for improving the employment relationship and ensuring that the Global Fund is maintaining an optimal environment for staff to be productive and engaged. The Strategy is translated into a work plan with activities underway in the areas of employee relations, talent management, performance management, HR practices clarification and consistency, leadership development, basic management skill- and core skill development and system implementation. A **“Living the Values” workshop** was recently launched, in order to align around, and adopt behaviors reflective of, the Global Fund’s values. We have run this workshop with senior leaders and will be cascading it throughout the organization in the coming months.

4.3 The Secretariat is now feeling more settled after last year’s restructuring, with our new organizational structure, leadership team and capacities. We have filled a number of key management positions this year, including a new Chief of Staff, Head of Human Resources, Chief Information Officer, Head of Program Finance and Accounting, and the Head of our new Critical Enablers Department and Civil Society Hub. The changes last year certainly took their toll, but we are already seeing positive returns, not least of which is the stronger, more effective and country-focused Grant Management Division, which was a cornerstone of the restructuring.

4.4 We will soon be implementing a few final minor changes to the way we are organized in the Secretariat, in order to further streamline; ensure better collaboration, coordination and coherence to our work; and improve the Global Fund’s ability to work as one team. We are undertaking these changes to better manage the sharply expanded workload associated with implementing the new funding model, and to ensure that the overall structure and way we work is more explicitly focused on supporting country teams. It will also unify and centralize policy and strategy work, which will enable us to coordinate and collaborate more effectively with Board committees. The changes will involve redeployment of some staff, as well as possible secondments from partner organizations and external recruitments, in order to bolster our capacity with the critical skill sets and expertise required for the important work ahead. We expect all internal transfers to be in place by January 2014, and any external positions to be filled by February 2014.

4.5 The newly created **Treasury department** has initiated a dynamic forecasting approach to provide visibility on funding and to better assess the level of uncommitted assets, based on different scenarios and continuously updated assumptions on grant commitments

¹⁰ To date, the Ombudsman has reported on a September-August cycle. Thus, “the 2011-2012 period” refers to September 2011 – August 2012.

and disbursements. This approach enabled for example the Finance and Operational Performance Committee (FOPC) to unlock US\$1.9 billion in uncommitted assets for the transition to the new funding model, and it provides greater visibility to the Board committees as to the available funding for further commitments and the level of commitments and disbursements every quarter. The Treasury department is also carrying out granular quarterly forecasts of grant disbursements, grant commitments and expected contributions in order to permanently monitor the level of assets and liabilities of the Global Fund and to ensure cautious liquidity risk management.

4.6 Implementation of the **finance step-up** project continues to progress well, with a successful design phase completed in July this year in a collaborative and consultative process involving over 100 staff members. This has resulted in a comprehensive overhaul of the Secretariat operating expenses structure that will provide the Management Executive Team with the relevant financial information and analysis to ensure that investment of internal resources is aligned to the corporate strategy, with enhanced efficiency and a focus on in-country risk mitigation. The new systems will enable the Secretariat and Board to have direct access to consolidated information and reports as to the level, nature, timing and granular geography of investments. Its linkage to the grant management portal currently under development will also ensure that full programmatic information is available.

4.7 The first stage in the reconfiguration and streamlining of our systems is complete and is supporting the development of the **2014 work planning and operating expenditure budget**, which is currently ongoing and will embed the budget within a high-level work plan, as per the Board's request. We expect the 2014 operating expenditure budget to continue our current trajectory of stabilizing the expenses by leveraging further efficiency exercises, for example through changes to our Travel Policy to make staff travel more cost effective.

PART 5: CLOSING

5.1 We have spoken a great deal in this report about the new funding model. This is partly because of the enormity of the undertaking, in moving from a few heavily supported pilots to a global scale-up with the rest of our portfolio. All that by two Board meetings from now. We cannot underestimate how much work, and how complex, this task will be.

5.2 But it is also because we are not just implementing a new project, but rather an entirely new business model for the Global Fund. And this new business model isn't just about changing forms and processes – it is a fundamental shift in the way we are bringing the Global Fund's work to the country level, leveraging partnerships and maximizing the impact of our respective contributions.

5.3 As we continue our work to finalize the required policy changes, implementation of new systems and refinements of formulas and rules, we will also remain focused on the other elements of change that will be just as crucial in achieving the intended impact of the new funding model.

5.4 Perhaps the most important of these is a change that we have already begun to collectively realize in the Global Fund's *partnership* model. There is so much of our work, and of what we need to deliver, that will depend on our ability to constantly and meaningfully collaborate at all levels, from global taskforces to country-level, where we must focus our effort. Everything we do must be focused on better supporting countries to defeat their epidemics, create a full inclusive human family and strengthen their health systems as they move along the development continuum to self-sufficiency. This requires a shift in the way the Global Fund operates. But it requires that we make these changes together with the Board and all stakeholders. We look forward to continuing this important shift together with you, towards a deeper and more powerful partnership, to deliver the impact against the three diseases that we can only achieve together.