

Audit Report

The Global Fund Strategy

Planning, Implementation and Monitoring Processes

GF-OIG-16-008
8 March 2016
Geneva, Switzerland

Table of Contents

I.	Background.....	3
II.	Scope, Methodology and Rating	5
	Scope	5
	Scope limitations.....	5
	Methodology.....	5
	Rating	7
III.	Executive Summary	8
IV.	Findings and Agreed Management Actions.....	10
	01 Processes and controls around strategy planning.....	10
	02 Processes and controls for strategy implementation.....	14
	03 Monitoring	19
V.	Table of Agreed Actions.....	23
	Annex A. The Global Fund 2012-2016 strategy.....	24
	Annex B. Global Fund Strategic Framework 2017 – 2022	25
	Annex C. Assessment of Strategy Good Practices.....	26
	Annex C. General Audit Rating Classification	29

I. Background

The Global Fund is a multi-stakeholder international financing institution. It has disbursed more than US\$ 27.5 billion and manages over US\$ 19.4 billion in active grants in 153 countries and territories around the globe.

In November 2011, the Global Fund Board approved a strategy called “Investing for Impact” for the period 2012-2016 with the following strategic goals:¹

1. Save 10 million lives
2. Prevent 140-180 million new infections
3. Keep 7.3 million people alive on anti-retroviral therapy
4. Deliver 4.6 million directly observed treatment, short course (DOTS) treatment annually and 21 million DOTS treatments in aggregate for tuberculosis
5. Distribute 90 million long lasting insecticide treated nets annually and 390 million nets in aggregate

In addition, the following strategic objectives were set:

1. Invest more strategically
2. Evolve the funding model
3. Actively support grant implementation success
4. Promote and protect human rights
5. Sustain the gains and mobilize resources

At the same time, a consolidated transformation plan was adopted which encouraged a comprehensive organizational reform. Therefore, in parallel to the implementation of the 2012-2016 strategy, significant changes to people, processes and systems were made to the Global Fund with the aim of revamping the operating model and improving the governance and internal control environment.

The Board delegated to the Strategy, Investment and Impact Committee (SIIC) the authority to provide oversight of the strategic direction of the Global Fund, and to ensure optimal impact and performance of its investments in health. In its charter, the SIIC has the mandate to perform advisory, oversight and decision making functions over these areas. “The enumeration of specific areas of decision making power represented a key change from the previous governance structure whereby the SIIC’s predecessor committee (i.e., Policy and Strategy Committee) served predominantly as a deliberative and advisory body, only exercising decision-making powers upon a specific directive of the Board.” SIIC members are drawn from the constituencies of the Board. The SIIC holds three formal meetings a year and ongoing informal calls throughout the year. To follow the 2012-2016 strategy, the organization is now planning a new strategy for 2017-2022, scheduled to be approved by the Global Fund Board in April 2016.

¹ See Annex A for details on Global Fund Strategy 2012-2016

“The Global Fund Strategy 2012-2016: Investing for Impact is an ambitious framework to transform the Global Fund into the most effective vehicle for investing in impact on the three diseases”

Global Fund, Strategy 2012-2016, public website.

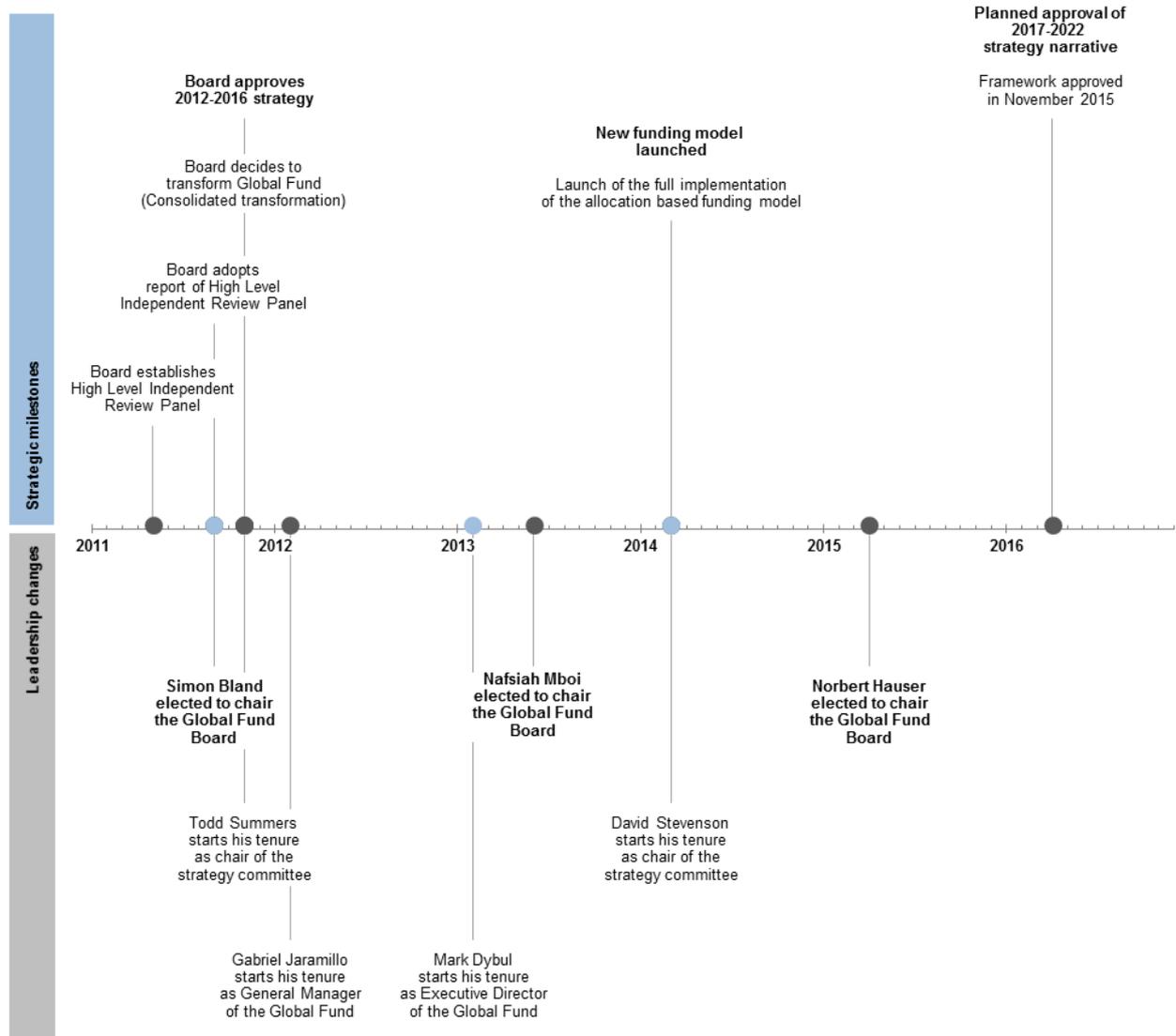
“The Consolidated Transformation Plan is a road map with clear timelines, deliverables and accountabilities for changing the Global Fund into a more efficient and effective organization. Successful implementation of the Plan will allow the Global Fund to launch into its second decade from a powerful starting point for continued achievement.”

Global Fund Consolidated Transformation Plan, November 2011.

“The Global Fund’s transformation process represents the maturation of the Global Fund: it was founded twelve years ago with much optimism around a bold mandate and framing principles, but needing much experience and evolution to build the robust and sustainable systems, procedures and safeguards required of a multi-billion dollar financing institution. Inevitably, there will continue to be further refinements along the way [...]”

Implementation of the Global Fund’s Transformation Plan, Global Fund Fourth Replenishment, November 2013.

Figure 1 Timeline of strategic milestones and leadership changes (since 2011).



II. Scope, Methodology and Rating

Scope

As the Global Fund planned its 2017-2022 strategy, the Audit and Ethics Committee (AEC) requested assurance over the adequacy and effectiveness of processes and controls for its planning, implementation and monitoring.

In this audit, the Office of the Inspector General (OIG) seeks to answer the following questions:

1. Does the Global Fund have effective processes to plan and develop its 2017 – 2022 strategy?
The audit covered new strategy planning activities during the period from November 2014 December 2015
2. Are the Global Fund processes to implement the 2012 - 2016 strategy effective?
The audit covered current strategy implementation period from January 2012 to December 2015.
3. Are the Global Fund processes to monitor the progress and results of its 2012 - 2016 strategy effective?
The audit covered the current strategy monitoring period from January 2013 to December 2015.

Scope limitations

The independent Technical Evaluation Reference Group (TERG) simultaneously conducted a mid-term evaluation to assess progress made against the objectives of the Global Fund Strategy 2012-2016 and to assess the impact made against the three diseases since 2002. Due consideration was given to ensuring that the OIG and TERG engagements were complementary.

The OIG does not opine on the relevance of the content of the Global Fund current or future strategy nor did it assess the achievement of impact. Instead, the focus of this review is on the adequacy of the processes that enable the organization to decide the content, implement it, and assess the impact of its strategy.

This audit does not cover the validation of the methodology to measure Global Fund leading targets and Key Performance Indicators, which are covered in separate OIG work products.

Methodology

In each section, the OIG assesses Global Fund processes against four sources of evidence:

5289

Pages of Board and committee documents reviewed

1405

Pages of SIC documents reviewed

204

Hours of executive-level meetings at the Secretariat observed

32

Global Fund employees interviewed

25

Current and previous Board and committee members interviewed

11

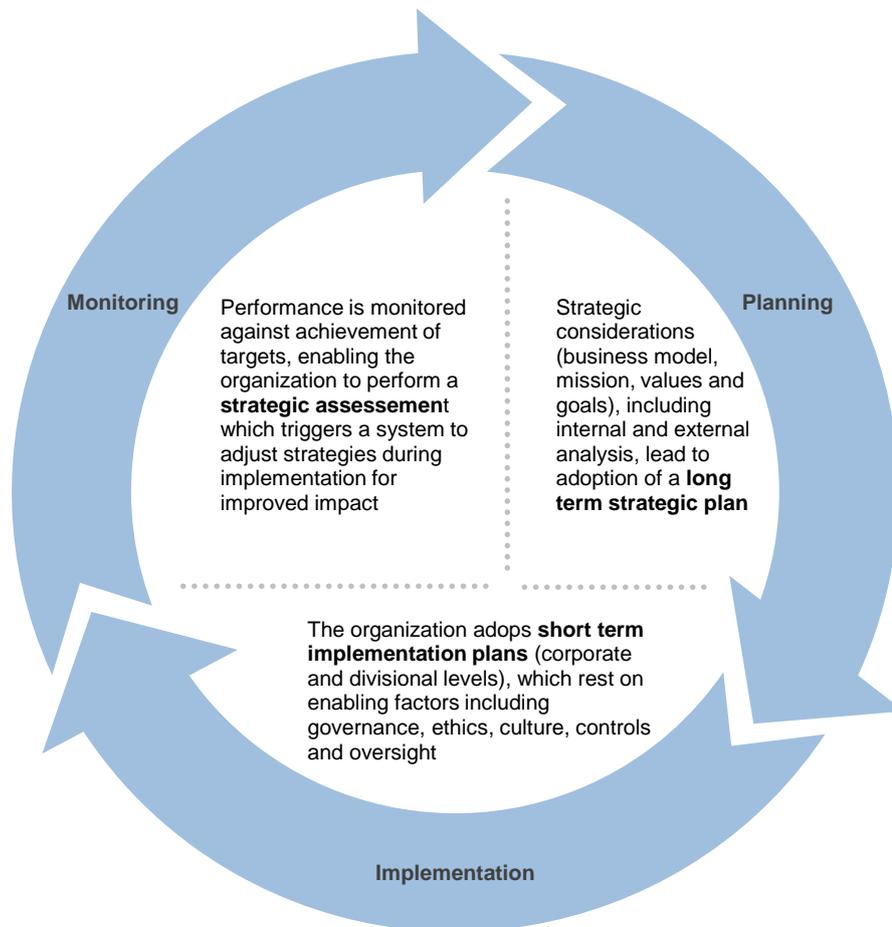
Management executive committee members interviewed

5

Strategy processes in peer organizations reviewed

1. analytical evidence, including analysis of Global Fund documentation and reports, and observation of meetings of the Board, its committees and the Partnership Forum;
2. previous reviews commissioned by the Board or conducted by the OIG;
3. interviews with relevant parties, including board and committee members, technical partners and employees of the Global Fund; and
4. industry good practices in strategy planning, monitoring and implementation as summarized in the diagram appearing below.

Figure 2. Components of an effective strategy lifecycle process.



The OIG considered the components of an effective strategy lifecycle process in its analysis of key risks and controls supporting the Global Fund’s strategy planning, implementation and monitoring processes. It also provided input into the areas of audit focus as well as recommended good practices to the organization. Refer to [Annex C. Assessment of Strategy Good Practices](#) for detail on the analysis and results of the OIG assessment of industry good practices.

Rating²

Operational Risk	Rating	Reference to findings
Strategy planning	Full Plan to Become Effective	01
Strategy implementation	Partial Plan to Become Effective	02
Strategy monitoring	Partial Plan to Become Effective	03

² See Annex C for the definitions of OIG Ratings

III. Executive Summary

In November 2011, the Global Fund Board approved a strategy called “Investing for Impact” for the period 2012-2016. This strategy foresaw a shift in the funding model and the way in which the organization financed eligible country components. The ultimate aim of the shift in the funding model was to enable strategic investment for maximum impact.

At the same time, the Board approved a consolidated transformation plan, following recommendations issued by a High-Level Report³ which highlighted concerns around the organization’s credibility and governance practices. Therefore, in parallel to the implementation of the 2012-2016 strategy, the Global Fund has also undergone a significant organizational reform with many improvements made to governance and oversight structures, people, processes and systems. In addition the organization has significantly strengthened its financial and fiduciary controls. To follow and go beyond the current strategy, the organization is now planning a new strategy for 2017-2022, anticipated to be approved by the Global Fund Board in April 2016.

This OIG report concludes that significant enhancements have been made by the organization to improve the 2017-2022 strategy planning process; however, areas of improvement exist on the timing and extent of data analysis to inform the strategic choices. In addition, significant issues exist around the processes for the implementation and monitoring of the 2012-2016 Global Fund Strategy.

The Secretariat has a number of plans underway and, if finalized and fully embedded at all levels in the organization, these will address the issues and risks identified in this report.

Does the Global Fund have effective processes to plan and develop its 2017-2022 strategy?

The current strategy planning process is a significant improvement from the 2012-2016 exercise and was supported by extensive internal and external consultations to inform the strategic framework. Three partnership forums were held with over 330 key stakeholder groups from over 130 countries. The process has been all-inclusive and transparent with multiple communications on the external and internal Global Fund websites, and with Board and SIIC Members.

The OIG noted areas of improvement in the data analysis processes supporting the overall development of the strategy, which creates a potential risk that the trade-offs and strategic choices being made as part the strategy development may not be informed by sufficient data. Most of the consultations around the strategy development occurred before detailed analytic work was completed to provide relevant data on current needs and existing gaps. The Secretariat’s view is that an assessment of the external and domestic financing landscape and the Global Fund’s role in financing the fight against the three diseases was presented at each recent Board meeting and every Partnership Forum, that the “Investment Case” is an analytical and communications document that provides a strong case for replenishing the Global Fund, and therefore that the “Investment Case” released in December 2015 is not an essential document needed for the *development* of the strategy.

However, in OIG’s view, the purpose and the scope of the necessary analytic work should be broader than just building a replenishment case. Instead, the periodic strategy development exercise is also a key opportunity for a comprehensive analysis and stock-take. A clear understanding of both the current status as well as the remaining needs and gaps, based on objective data and robust evidence-based analysis, is necessary to enhance the quality of the internal and external dialogue on strategic

³ The paper summarizes for the record the establishment of a High-Level Independent Review Panel on the Global Fund’s fiduciary controls and oversight mechanisms. It includes an overview of the establishment, membership, Terms of Reference, timing, process, resources and requirements of the Independent Review Panel (GF/B32/21).

choices. As such, the OIG believes that, along with the qualitative consultations, detailed analytic work should also be an important input into *both* the strategy *development* and its *implementation*. Therefore, the timing of this important analytic work should be such that its results can inform both phases. In addition the Secretariat would benefit from an internal organizational analysis to evaluate key business plans and potential changes that may be necessary to the operational model to enable the execution of the strategy. The Secretariat has recognized lessons learnt from the current strategy and has already commenced work on defining deliverables and key performance indicators relevant to the strategic framework, although this work is still in progress.

Are the Global Fund processes to implement the current 2012 - 2016 strategy effective?

The processes and controls for strategy implementation are currently ineffective, although plans are under way to improve them. Recent programmatic reviews, such as the 2015 TERG Strategy Review, suggest that the Global Fund has made good progress on key strategic priorities. The rollout of the funding model under the current strategy, for example, is generally considered as a major improvement. Yet, notwithstanding the progress made in many areas, ownership and accountability for strategy implementation are generally ambiguous and strategic priorities are not always supported by robust implementation plans at the operational level. Whilst the Secretariat has made multiple efforts to develop annual implementation plans during the 2012-2016 strategy cycle, these plans have generally not been successfully cascaded through the organization for delivery with clear deliverables and accountabilities defined. This has partly led, in recent past, to multiple ad-hoc projects and initiatives without a coherent linkage to key strategic priorities. The Secretariat has acknowledged the issues around multiple ad-hoc initiatives without adequate governance and project management capability and is taking steps to address them. For example, a Project Management Office has recently been created to ensure that all initiatives across the organization are prioritized to support the achievement of the organization's strategy, have clear and time bound deliverables, and are managed appropriately to ensure successful delivery. At the Board and committee level, whilst there have been improvements in terms of both the frequency and quality of discussions on strategy implementation, there is a need for a more structured follow-up on key implementation issues identified.

Are the Global Fund processes to monitor the progress and results of its 2012 – 2016 strategy effective?

Whilst efforts are currently under way to improve the Key Performance Indicator (KPI) framework, the existing processes and controls to monitor organizational performance against the 2012-2016 strategy are ineffective and do not yet enable full understanding of the strategy implementation challenges and a timely course correction.

During the implementation period of the 2012-2016 strategy cycle, the Global Fund did not have a robust mechanism to routinely measure, monitor and report on the organization's performance against strategy. Although a set of KPIs was adopted halfway through the strategy cycle, the poor design of many of these KPIs did not provide a suitable framework to monitor progress. Board, SIIC and Secretariat reports since 2012 have predominantly focused on the progress of disbursements made to countries and updates on the roll-out of the new funding model. Whilst recognizing the data complexities around these areas, there is limited evidence of reporting on portfolio results, in particular matters such as impact achieved per country, region or activities (Human Rights interventions and Health Systems and Community Systems Strengthening, etc.) funded by the Global Fund. Monitoring of key initiatives, corporate priorities and projects supporting strategy implementation has also been weak and inconsistent. Bi-annual reports on KPIs and organization results to the Management Executive Committee, to the Board and its committees started from November 2014 although with significant limitations on targets and results for many of the KPI's. The Secretariat also plans in 2016 to enhance reporting to SIIC and Board committees on the results of funding to the Global Fund's top 20 countries by allocation.

IV. Findings and Agreed Management Actions

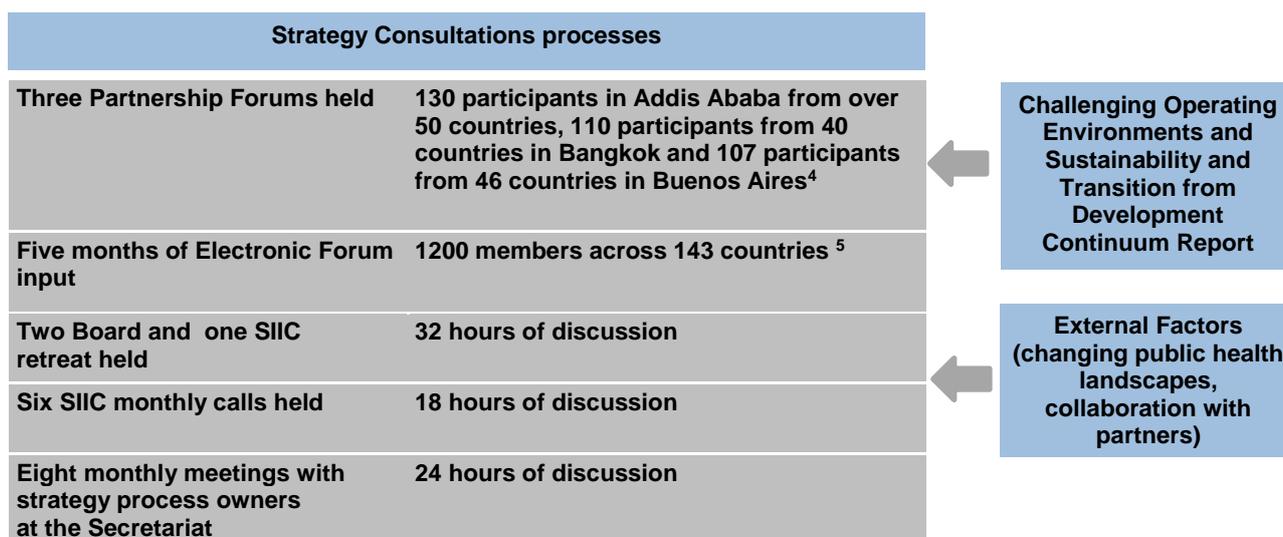
01 Processes and controls around strategy planning

The current strategy planning process is a significant improvement from the 2012-2016 process. Furthermore, the development of the new strategic framework was supported by extensive internal and external consultations. However, there is a potential risk that the strategy may not be informed by sufficient data and supported by key measures of success to enable the organization to deliver on its longer term mission.

a. Extensive internal and external consultations performed to inform the strategic framework.

Engagement with key stakeholders started in October 2014. This was followed by a detailed project plan communicated at the 33rd meeting of the Global Fund Board in March 2015 for the end-to-end strategy development process. The project plan included the identification of critical inputs into the strategy, key milestones and deliverables. The OIG found that the completion of the 2017-2022 strategic framework was conducted in an inclusive and transparent way, in line with one of the key strengths and defining features of the governance model of the Global Fund. Key parties such as technical partners, country coordinating mechanisms, implementers, donors and committee members were consulted during a series of Partnership Forums on three continents, and through an internet platform called The Partnership E-forum. Through these mechanisms, stakeholder contributions helped inform incremental iterations of the strategic framework. These were submitted to the SIIC and the Board on a regular basis, as those bodies have an oversight/steering role in defining the new strategy. In addition, the OIG noted a number of external factors that were considered in the strategy consultation process such as progress against the three diseases, the external and domestic financing landscape, sustainability and transition, and challenging operating environments. The illustration below describes the magnitude of internal and external consultations supporting the strategy planning process in addition to the business as usual activities:

Figure 3. Volume of inputs into strategy consultation processes.



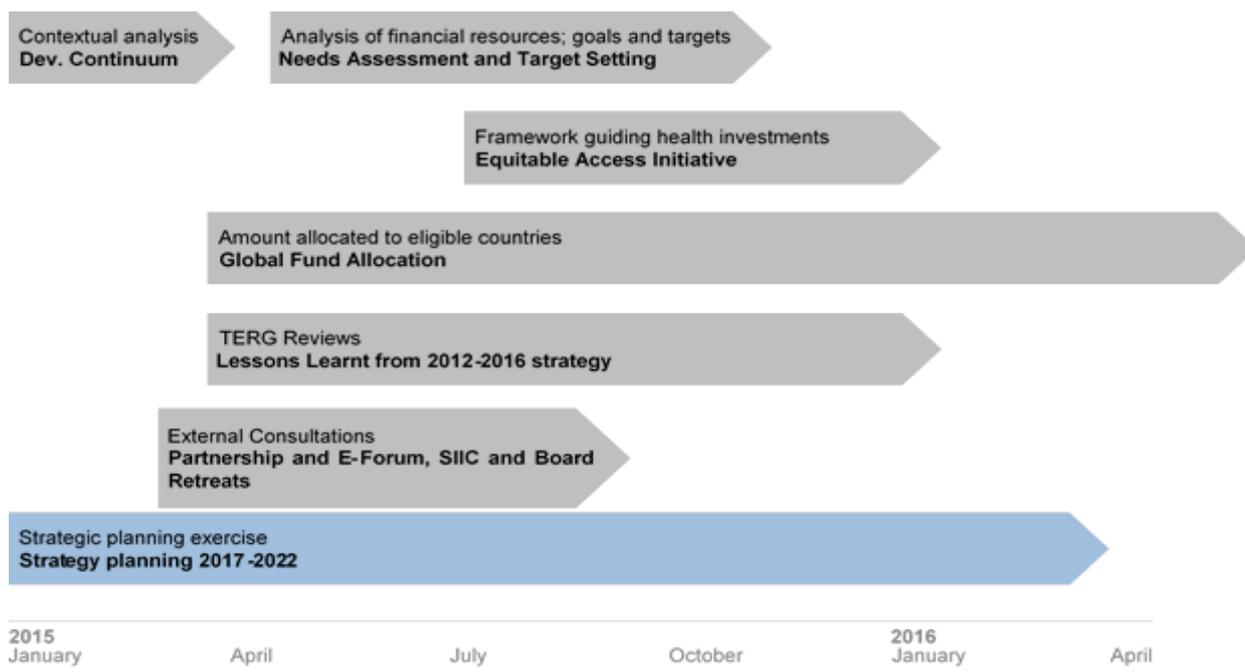
⁴ <http://www.theglobalfund.org/en/partnershipforum/>

⁵ <http://www.theglobalfund.org/en/search/?q=e-forum>

b. Data analysis to inform the development of strategy.

As intended by the Secretariat, the primary inputs to the development of the 2017-2022 Global Fund strategic framework were internal and external consultations. In addition to the more inclusive consultative process, the Global Fund is also taking a more comprehensive approach to strategy planning by incorporating significantly more analytic inputs into the development of the strategy. These inputs include data from the Development Continuum report,⁶ completed early in 2015, the needs assessment, the TERG strategy review, etc. The timeline below summarizes the additional inputs into the 2017-2022 strategy planning:

Figure 4 Timeline of inputs into the strategy planning process.



The OIG identified the following gaps in the data gathering and analysis to support the strategy development process:

Timing of data analysis: As noted above, the current strategy planning process included useful consultations, both internal and external. However, due to the timing of the various quantitative and technical analyses, the consultations often did not benefit from insights gained to inform some of the strategic choices made by the organization. Seven out of the eleven SIIC members interviewed by the OIG highlighted that they felt the level of data supporting the development of the strategic framework was insufficient, in particular, the nature and extent of gender gaps or data related to health and community systems. Whilst strategic decisions often reflect broader political choices and constituency priorities, a rigorous and timely analysis of relevant data would have also provided a solid understanding of the current needs and gaps as a key input into the consultations to develop strategic objectives.

In the Secretariat’s view, strategic analysis was presented and considered in the Strategy development process, including progress against the three diseases, specific challenges to progress including key and vulnerable populations, MDR-TB and missing TB cases, and malaria drug

⁶ The Development Continuum Working Group¹ was convened by the Global Fund Secretariat in the fall of 2014 as a time-limited group to assist in understanding the evolving health and development landscape, highlighting the resulting implications for the Global Fund, and providing suggestions to the Global Fund on how to improve the strategic impact and effectiveness of the Global Fund’s engagement with countries across the development continuum.

resistance, the external and domestic financing landscape, RSSH needs, sustainability and transition, and challenging operating environments. The Secretariat is also of the view that the “Investment Case” is an analytical and communications document that provides a strong case for replenishing the Global Fund, but is not an essential document needed for the development of the strategy. Whilst acknowledging that gaps in data on gender, health and community systems were identified in the strategy development process, the Secretariat believes that these gaps are more critical to inform country level planning and implementation.

However, in OIG’s view, the purpose and the scope of the necessary analytic work should be broader than just building a replenishment case. Instead, the periodic strategy development exercise is also a key opportunity for a comprehensive analysis and stock-take. A clear understanding of both the current status as well as the remaining needs and gaps, based on objective data and robust evidence-based analysis, can significantly enhance the quality of the internal and external dialogue on strategic choices. Whilst the strategy will ultimately reflect political choices, an objective analysis of current status and remaining needs should also inform, in part, the difficult trade-offs that are always necessary in the development of a meaningful strategy for an organization.

Performance of internal organizational analysis: the current strategy planning process does not include the performance of an internal organizational analysis. This analysis is critical for the organization to have sight of its strengths and weaknesses, opportunities and threats. The analysis is also relevant for the organization to learn lessons from the past and acknowledge the areas that contributed to success and those that were challenges to the implementation of the strategy. This knowledge should be used to identify changes that may be necessary to the business and operational model to enable the organization to implement and achieve its strategy.

c. Defining success, key deliverables and key performance indicators for the 2017-2022 strategy

Recognizing that this was an area for improvement in the last strategy planning cycle, the Secretariat is in the process of defining success and key deliverables for each of the strategic objectives and actions supporting the 2017-2022 strategic framework. The intention is to go beyond a mere definition of objectives, but to also draw out how these will be achieved. In parallel, the organization has started to work on defining the KPIs relevant to the strategic framework, to ensure that objectives adopted are achievable and measurable.

However, until these analyses are completed and related action plans implemented, there is a risk that improvements made in the strategy planning phase may be offset in the subsequent implementation phase due to gaps in clear linkages between the strategic goals, targets, objectives and actions, and effective monitoring of performance.

“The planning process of the new strategy is much better than the process for planning the current strategy: better leadership, more transparent and consultative process, good engagement with partners. Genuine willingness to hear and consider concerns of all stakeholders”

Strategy Investment and Impact Committee member

“The Secretariat has monthly meetings to discuss strategy development and replenishment matters and how the teams are progressing on their allocated tasks. This has been very useful to us as we understand the end goal and what needs to be delivered. We also have the opportunity to challenge based on understanding of the core business being Grant Management”

Global Fund employee, member of the Management Executive Committee

“The data supporting the draft strategy is not granular enough to understand the need behind the strategic objectives and actions.”

Strategy Investment and Impact Committee member

“There is a lack of data of what is happening in high impact countries and activities funded by the Global Fund...we need to know this so that we can made informed decisions.”

Board member

Strategy Good Practices ⁷

A long-term strategic planning process should institutionalize the task of analyzing the organization's external and internal environment. The internal analysis should consider the strengths, weaknesses, opportunities and threats to the accomplishment of the organization's goals. The results of the analysis should be used to identify key strategies and business model adjustments. The external analysis should be focused on environmental factors that affect the accomplishment of the mission and goals such as changes in the public health environment, the Global Fund's role in partnership with organizations, and goals for impact against the three diseases. See [Annex C. Assessment of Strategy Good Practices](#) for more detail.

Agreed Management Actions

The Secretariat believes that the current strategy planning process, conducted under close SIIC oversight and governance, was the most rigorous and inclusive in Global Fund history, and that there are no major or significant gaps or weaknesses in the process that require remediation. Hence, the Secretariat elects to implement no management corrective action.

⁷ Refer to [Methodology](#) for details on the OIG audit methodology and how strategy good practices were considered in the audit.

02 Processes and controls for strategy implementation

Ownership and accountability for the 2012 – 2016 strategy implementation are ambiguous and supported by weak implementation plans. This has contributed to under performance on some components of the strategic objectives and the launch of multiple ad-hoc initiatives that are not sufficiently linked to an overall strategy.

In parallel to the implementation of the 2012-2016 strategy, the Global Fund has also undergone a comprehensive organizational reform with significant changes to people, processes and systems. In 2012, the Board transformed the way the Global Fund does business through the adoption of a new funding model. These fundamental changes happened in parallel to the implementation of the 2012-2016 strategy. The transformation has improved business processes with the establishment of:

- integrated multi-disciplinary country teams to manage grants;
- high-impact portfolios designed to focus financial resources, and oversight to critical countries within the portfolio;
- a funding model based on the principle of a dialogue between grant managers and beneficiaries;
- a risk management function tasked with managing both corporate and operational grant risks;
- improved financial data management and oversight.

However, as the organization moves forward into the 2017-2022 strategy with a complex, multi-billion dollar portfolio, processes and controls around strategy implementation will need to be elevated to ensure sustainable achievement of strategy.

a. Ownership and accountability for strategy implementation is ambiguous

The OIG'S review of Board, SIIC and Secretariat meeting documents and transcripts as well as observations through the attendance of these meeting noted the following gaps:

The Board and Committees:

- The OIG has previously highlighted the gaps which result from the Board's lack of a holistic evaluation of progress on the overall strategy.⁸ Whilst there has been progress in terms of both the frequency and quality of the discussions on strategy implementation matters, there is often limited evidence of a structured follow-up on some key discussion items. For example, the OIG observations and review of the chairman's notes for the 13th, 14th and 15th SIIC meetings, highlighted that committee members raised issues around the insufficiency of data on the organization's key portfolios which prevented them from understanding the impact the Global Fund was making. Likewise, issues such as the integration of community systems into the health systems strengthening or the Global Fund's approach to working with partners, have been raised in multiple meetings without any clear follow-up action items.

The Secretariat:

The OIG noted weaknesses that can limit the effectiveness of strategy implementation at the Secretariat. Soft areas related to accountability or organizational culture may have important ramifications.

- Escalation mechanisms and accountability structures are sometimes implicit, at best, or often undefined. For example, the Management Executive Committee, the highest governance body

⁸ Governance Review, GF-OIG-14-008, June 2014

within the Secretariat, does not have specific terms of reference and, as a result, it often unclear what level of oversight or monitoring is required from them on key organizational initiatives, which issues or decisions require escalation or approval as opposed to other sub-committees within the Secretariat, or which ones remain within the decision authority of individual business owners. As a result, significant issues of strategic importance to the organization may sometimes not be escalated at the right level on a timely basis to facilitate smooth operational implementation. Examples include the challenges and delays in implementation of the Global Fund's risk and assurance framework, the improvement of the Global Fund's grant making platform and the development of a differentiated approach to grant implementation, all important enablers of the current strategy implementation. In this context the OIG acknowledges that the Secretariat has post June 2015 taken substantive steps to address the issues and challenges in each of these areas.

- There is also no formal tracking of decisions taken, matters arising and action items discussed at the Management Executive Committee. This has led to an inconsistent approach adopted for the escalation of issues within the organization, decisions taken and follow up procedures on issues flagged.
- Beyond the supporting policies, processes and tools, a critical element of strategy implementation relates to organizational culture. Although a soft and intangible factor which is difficult to assess or measure, organizational culture can be either a powerful enabler or a significant impediment to strategy implementation. In that context, a 2014 staff satisfaction survey showed that whilst the Global Fund had improved on a number of fronts, there are still cultural issues. For example, a perceived lack of ownership or weak accountability as suggested by low scores in the following categories:
 - *Authority and Empowerment*: 47% of staff felt that the Global Fund has a culture of challenging the way things are traditionally performed, 58% of staff felt that they could openly express differing views (which is 20% lower than the survey's tailored international benchmark). Only 55% of employees felt that they had the necessary information to do their jobs (13% lower than the benchmark).
 - *Leadership and Communication*: 57% felt that the Management Executive Committee provides a clear sense of direction and keeps employees informed about all matters affecting them. Also only 57% of staff noted that they were confident in senior management's roles and accountability. The international norm for clarity in management's roles and accountability is 67% highlighting that there is room for improvement in this area at the Secretariat.

The OIG notes that since January 2016, the Management Executive Committee has started tracking decisions and action items discussed at meetings.

b. Annual implementation plans to translate the 2012 – 2016 long-term strategy into short-term activities are inadequate

The Global Fund implemented its 2012-2016 strategy in an unplanned and inconsistent manner without adequate short-term implementation plans. The Secretariat made multiple efforts to develop implementation plans with annual objectives in 2012, 2013, 2014 and 2015; however, none of these plans were adequate or successfully rolled out into the organization for delivery:

- **2012 and 2013**: McKinsey, a management consultancy firm, developed a high-level list of performance objectives as part of the newly appointed General Manager's transformation plan for the organization in 2012. In 2013, under the leadership of a new Executive Director, the Secretariat performed a similar exercise. The implementation plans outlined activities and

objectives but were not formalized by any governance body at the Global Fund, nor were they cascaded through the organization for completion.

- **2014 and 2015:** The Secretariat created annual corporate work plans, which can be considered as short term strategy implementation plans. They listed a number of corporate priorities of the organization and initiatives to support the achievement of the corporate priorities. However, the plans were not supported by an assessment of the organization's current performance and the specific activities that should be completed to achieve the strategic objectives.

The Global Fund has been successful in implementing many areas of its 2012-2016 strategy which includes the delivery of a new funding model on time. However, the lack of adequate strategy implementation plans has resulted in many components falling behind and getting picked up late in the strategy lifecycle. For details, refer to Section 03 on Monitoring below.

d. Multiple ad-hoc projects and initiatives created with insufficient connection to strategy and inadequate governance and project management capability.

The absence of time-bound strategy implementation plans has led to the creation of multiple, ad-hoc projects and initiatives at the Global Fund. This has impacted the overall effectiveness of the organization with the total number of initiatives uncertain, tending to accumulate over time, and often remaining incomplete. For 2015, the Secretariat has formally approved and budgeted for work on several initiatives. Whilst some of these initiatives relate to or are in support of core business activities, the majority were identified as change initiatives or non-recurrent activities. These initiatives are also in addition to the Board-approved special initiatives which the Secretariat is also required to deliver on. Due to lack of governance, project management capability and clear prioritization, many of these initiatives often fail to deliver and within the contemplated timeframes. The OIG noted that a significant proportion of the identified initiatives are trailing behind schedule despite being labelled as corporate priorities. Four of those (including Risk and Assurance) commenced in 2013 and seven (including Data and Analytics platform, Supply Chain Management Strategy, Country Data Systems and Enhancing Value for Money and Financial Sustainability) commenced in 2014, without clear time-bound deliverables.

Based on the OIG's analysis of these initiatives, single department or divisional initiatives were generally well governed and delivered within the required timeframes. However, shortcomings existed mainly in the organizational wide (requiring many departments to work together) and transformational initiatives. These included the following:

- **Vision:** There was a lack of clear understanding of what the initiative or project was trying to achieve between all key stakeholders and the connection to the long-term strategy of the Global Fund.
- **Accountability:** Many of the initiatives lacked adequate executive sponsorship to provide a clear project direction, set measurable targets for the teams to execute against, require regular feedback and monitor progress, and resolve critical issues escalated from the operational level. As a result, many of the issues impacting key deliverables and milestones of the initiatives were left for operational-level staff to figure out. They were not appropriately escalated and corrective measures were not put in place.
- **Project management:** There was an absence of adequate project management principles applied to the initiatives, including a lack of:
 - detailed project plans setting out clear deliverables and timelines;
 - clear identification and communication to all key stakeholders;
 - consideration of resource requirements (internal staff and budgetary resources);
 - interdependencies with other project teams and timelines; and

- regular and accurate reporting including the flagging of project risks to the various Global Fund governance levels such as the Management Executive Committee or relevant Board committees when applicable.

As an illustration of the above issues, Salesforce,⁹ a significant project to support the implementation of the 2012 – 2016 strategy, had a clear vision and deliverables but lacked effective governance and accountability mechanisms. Key responsibilities including ownership, decision-making authority and an escalation structure for significant issues, were not well defined. Although a core component of implementation for a significant strategic pillar, Salesforce was also not supported by adequate project management capability to ensure successful delivery of its objectives. A weak culture of ownership and candid discussion of issues and challenges also resulted in failure to escalate problems at the right level and make course corrections on a timely basis. As a result of these various factors, the project encountered multiple delays, inefficient use of resources, and unsatisfactory deliverables, before a major project overhaul was initiated in the second half of 2015 to bring the initiative back on track.

The Secretariat has recently identified the above shortcomings and created a project management office which will focus on supporting the successful delivery of key initiatives to the organization's strategy.

⁹ Salesforce was a key project to streamline grant management processes, data and systems. A key pillar of the 2012-16 Strategy was to actively support grant implementation success through, among other elements, enhancing the quality and efficiency of grant implementation and transforming operations as an enabler.

Strategy Good Practices¹⁰

In order to effectively implement a long-term strategy, an organization must create plans focused on shorter-term term progress that build up towards accomplishment of the long-term strategies. It should include an over-arching corporate level plan that provides an overall guidance on what the organization wants to accomplish during the year in the pursuit of the longer-term strategic goals. These should include core business activities as well as change initiatives. Corporate level plans should be cascaded throughout the organization and each division should create business level strategic plans to support the achievement of annual corporate plans. Change initiatives should be underpinned by adequate governance, oversight and project management. Supporting processes focused on governance, culture, controls and oversight are also critical in successfully completing the plans. See [Annex C. Assessment of Strategy Good Practices](#) for more detail.

Agreed Management Actions

1. Short-term implementation plans will be developed to support the 2017-2022 strategy which include consideration of core business activities and change initiatives.
2. Short-term implementation plans will be cascaded throughout the Secretariat in individual's annual performance objective which are specific, measurable, achievable, and realistic and have clear targets for evaluating performance and holding people accountable for the delivery of the organization's strategy.
3. Oversight of project and initiatives will be put in place to ensure strategically important objectives are met as planned will facilitate strategic implementation.

Owner

Marijke Wijnroks
Chief of Staff

Timeline

31 December 2016

¹⁰ Refer to [Methodology](#) for details on the OIG audit methodology and how strategy good practices were considered in the audit.

03 Monitoring

Although efforts have been initiated to improve the KPI framework, the process and controls to monitor organizational performance against the strategy are currently ineffective.

The Secretariat has not yet established an effective mechanism to routinely measure and monitor the organization's performance against strategy.

Board, SIIC and Secretariat reports since 2012 have predominantly focused on the progress of disbursements made to countries, and updates on the roll-out of the new funding model. However, there is little evidence of reporting on portfolio results, in particular matters such as impact achieved per country or region, activities funded by the Global Fund, including areas such as human rights, health systems strengthening, engagement with partners. There is also no consistent monitoring of key initiatives, corporate priorities and projects identified by the Secretariat as key to supporting the implementation strategy at the Board, SIIC and the Secretariat.

In its approval of the Global Fund Strategy Framework 2012-2016, the Board tasked the SIIC with the oversight of the strategy implementation. At the time, the Board requested the SIIC to produce a progress update on the implementation of the strategy within a year, and on a regular basis thereafter. The OIG notes that the SIIC has only presented such a progress update in April 2013 and then through the TERG review in October 2015.

Global Fund Board:

The Board and Financial and Operational Performance Committee (FOPC) perform significant financial monitoring over Global Fund monies which include operating expenses (US\$ 300 million or 9% of the annual volume of aggregate Global Fund expenditures) and grant budgets (actual versus budgeted grant expenditure). However, monitoring and oversight of the use of funds which include country activities and impact (US\$ 3 billion or 91% of the annual volume of Global Fund expenditures) is limited, inconsistent and is not systematic to effectively evaluate the organization's performance against strategy.

The OIG analysis of Board meetings documents since November 2011 (9 Board meetings) showed that no monitoring of organizational performance took place for the first two and half years of the Global Fund 2012-2016 strategy lifecycle (25th to 28th Board meetings). Since June 2013 (29th Board Meeting), a limited amount of information has been presented to the Board on key measures of performance such as leading targets, and country activities and interventions. Out of 189 Board documents (5289 pages) reviewed:

- Six out of the 189 documents related to measuring performance around the Global Fund leading targets¹¹
- One out of the 189 documents was prepared on measurement of performance against the strategic objectives and actions.
- Eight out of the 189 documents included country data and related epidemiological information.

No data was reported on the type of activities the Global Fund is funding in countries (Funding of Human Rights interventions, Health Systems and Community Systems Strengthening, etc.)

¹¹ See [Annexure A-The Global Fund 2012-2016 strategy](#)

Global Fund Strategy Investment and Impact Committee:

A similar view was highlighted in a review of the SIIC since February 2012 (1st to 15th SIIC meetings). The first and only comprehensive report on the organization's progress took place in April 2013 (7th SIIC meeting), as it contained updates on the Global Fund leading targets ¹² as well as the strategic objectives and actions. However, although several areas were flagged as challenges to strategy implementation, there was no evidence of discussion on courses of action or follow up items for the committee or the Secretariat in response to the challenges.

Global Fund Secretariat:

The OIG noted that 2015 was the first year of the 2012-2016 strategy in which formal monitoring of organizational performance took place at the Secretariat (In May 2015, an update on the Corporate Priorities was provided to the Management Executive Committee and, in August 2015, an update was provided on both corporate priorities and KPIs). Despite this improvement, the Secretariat still lacks an effective monitoring system with adequate follow up procedures to address shortcomings to strategy achievement.

Whilst the Global Fund has experienced several areas of success in the implementation of its 2012-2016 strategy, the absence of effective monitoring processes throughout the organization has led to a number of key areas supporting the achievement of strategy trailing behind without a timely and clear approach to course correction. As a result, it was not until after June 2015 (three and a half years into the strategy) that the organization developed actions plans to address these shortcomings. As reported to the SIIC on 5-7 October 2015 and the Board on the 16-17 November 2015, certain indicators are performing below expectation:

1	INVEST MORE STRATEGICALLY	KPI 5 on Health System Strengthening is at risk of missing target: 4% point improvement in service availability versus the 5% target OKPI a on grant portfolio performance is at risk of missing target: 64% Fund absorption rate achieved versus a target of 85%
2	EVOLVE THE FUNDING MODEL	KPI 7 on access to funding is below expectation: 54% of grants met the 10 month submission to first disbursement versus a target of 75%
3	ACTIVELY SUPPORT GRANT IMPLEMENTATION SUCCESS	KPI 10 on value for money is performing below expectation: 4% reduction in spend versus 8% target on commodities at equivalent quality and volume OKPI f on cash balance is performing below expectation: The cash balances in country increased to 59% versus a target of 20-30%. OKPI g on procurement efficiency is performing below expectation: Spend penetration on pooled procurement was at USD 900 million versus a target of USD 1.6 billion OKPI m on CCM Performance is performing below expectation 35% of CCM moved to full compliance versus target of 100%
4	PROMOTE AND PROTECT HUMAN RIGHTS	KPI 12 on Human Rights protection is at risk of missing target: Only 30% of human rights complaints against Global Fund Supported programs were successfully identified versus the 60% target
5	SUSTAIN THE GAINS, MOBILIZE RESOURCES	OKPI on private sector pledges is at risk of missing target. Only USD 15 million of private sector pledges have been secured versus the USD 100 million target
◆	STRATEGIC ENABLERS	OKPI o on technical assistance is at risk of not meeting target Only USD 23 million of expenditure on special initiatives has been used versus the USD 50 million target

The OIG notes that the Board only approved the KPI Framework in November 2014, which was two years and halfway through the 2012 – 2016 strategy. In addition, the Board, SIIC and Secretariat have recognized shortcomings in some of the current KPIs, significant target and measurement

¹² See [Annexure A-The Global Fund 2012-2016 strategy](#)

gaps¹³, and along with data limitations to report KPI results¹⁴ (for example, KPIs on health systems strengthening or Human Rights). In this context the OIG also recognizes the complexities around measuring the impact of the organization's activities and that the time needed to be able to measure it effectively.

The KPI framework is only a tool used to measure the organization's performance. It needs to be supported by adequate and effective processes to regularly evaluate the organization's performance at the Board, committee and Secretariat level. The organization needs to devote sufficient time to strategy monitoring and an equal, if not larger, weight should be applied to understanding the key drivers to progress and discussions around root causes and course correction for the challenges experienced. This would also ensure alignment with best practice.

The OIG acknowledges that measuring the results of Global Fund investments and their actual impact is complex and challenging. This issue is not unique to the Global Fund as many other institutions in the development community also struggle with the same challenge. Unlike the measurement of financial performance or returns, there are no uniformly accepted norms or standards for measuring programmatic results or impact, and many of the inputs into such measurement may also depend on external actors. Yet, increasing the Global Fund's focus on this critical dimension of program monitoring and evaluation, and substantive discussion of both progress and challenges with the governance bodies of the organization as well as its partners, are key to maintaining the organization's strategic focus on "impact" and enhancing its accountability for results.

The OIG recognizes that the Secretariat has made improvements around monitoring the organization's performance. This includes the bi-annual monitoring of KPIs during 2015. Follow up procedures and monitoring of action plans committed to address shortcomings identified through this process will commence in the 2016 year. In addition, enhancements have been made to the quality of reporting to the Board and SIIC with leading targets now being reported twice a year. Detailed portfolio reporting of the organization's top 20 countries by allocation will also start in 2016.

Strategy Good Practices¹⁵

Strategic planning and implementation should be ongoing. Monitoring of execution and impact are therefore critical to evaluate which goals and objectives are being achieved and to make mid-implementation adjustments as necessary. A systematic approach to establishing targets measuring short-term progress towards the long-term strategic goals should support the monitoring of strategy. The results should be used to evaluate performance on an on-going basis to ensure all stakeholders (from executive management to all employees) are being held accountable. It should also inform management to adjust both long-term and short-term strategies and processes to improve impact mid-implementation. See [Annex C. Assessment of Strategy Good Practices](#) for more detail.

Agreed Management Actions

¹³ In the 32nd Board Meeting, GF/B32/24.a notes that performance targets were not available 2 out of the 16 indicators. KPI 12 and KPI 16.

¹⁴ In the 32nd Board Meeting, GF/B32/24.a notes that no results were available for KPI 1, 2, 3 and 5 due to data limitations and would be presented at the next Board Meeting.

¹⁵ Refer to [Methodology](#) for details on the OIG audit methodology and how strategy good practices were considered in the audit.

The Global Fund will develop and implement procedures for monitoring of the Global Fund strategy on a regular basis. This will include a clear delineation between strategic monitoring performed at the Board and SIIC levels, and operational monitoring performed at the Secretariat level. All monitoring and oversight of organizational performance will be formalized and followed up with relevant actions for the Board, SIIC and Secretariat.

Owner

Marijke Wijnroks
Chief of Staff

Timeline

31 December 2016

V. Table of Agreed Actions

#	Category	Agreed Management Action	Target date	Owner
1	Strategy implementation processes	<ol style="list-style-type: none"> 1. Short-term implementation plans will be developed to support the 2017-2022 strategy which include consideration of core business activities and change initiatives. 2. Short-term implementation plans will be cascaded throughout the Secretariat in individual's annual performance objective which are specific, measurable, achievable, and realistic and have clear targets for evaluating performance and holding people accountable for the delivery of the organization's strategy. 3. Oversight of project and initiatives will be put in place to ensure strategically important objectives are met as planned will facilitate strategic implementation. 	31 December 2016	Marijke Wijnroks Chief of Staff
2	Strategy monitoring processes	The Global Fund will develop and implement procedures for monitoring of the Global Fund strategy on a regular basis. This will include a clear delineation between strategic monitoring performed at the Board and SIIC levels, and operational monitoring performed at the Secretariat level. All monitoring and oversight of organizational performance will be formalized and followed up with relevant actions for the Board, SIIC and Secretariat.	31 December 2016	Marijke Wijnroks Chief of Staff

Annex A. The Global Fund 2012-2016 strategy

The Global Fund Strategy Framework 2012-2016: “Investing for impact”

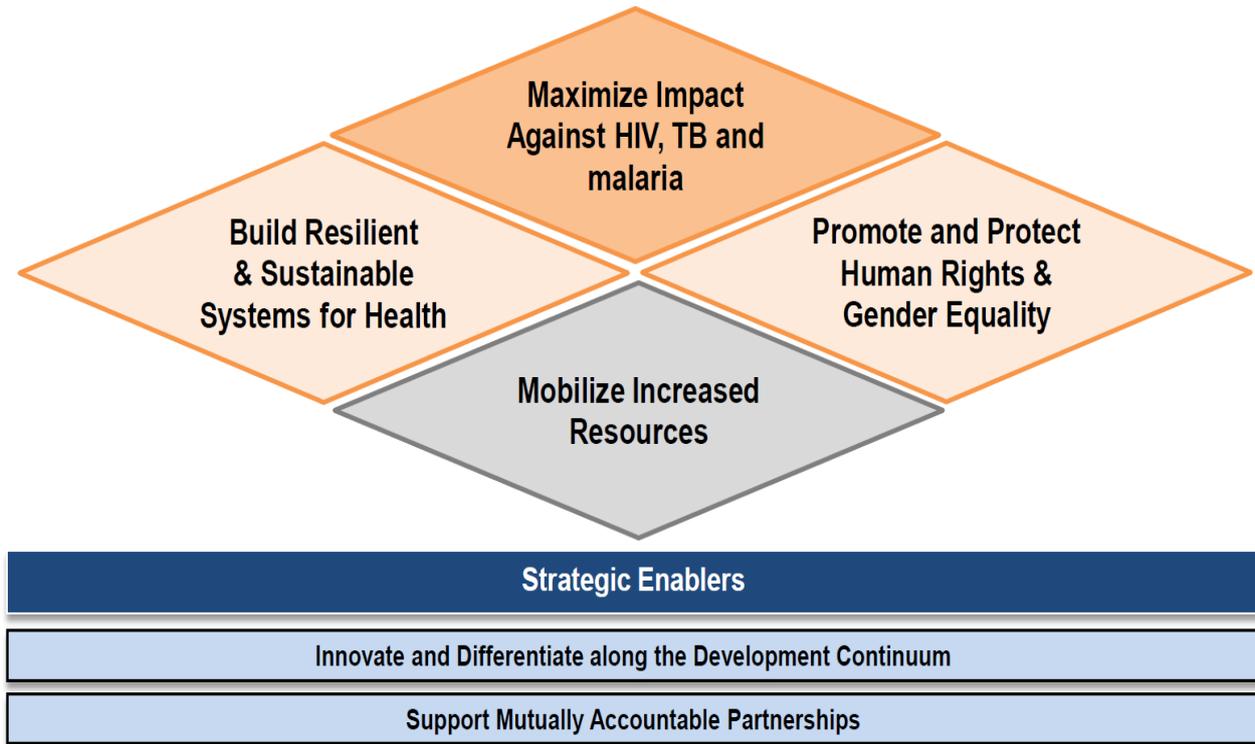
Vision	A world free of the burden of HIV/AIDS, tuberculosis and malaria with better health for all			
Mission	To attract, manage and disburse additional resources to make a sustainable and significant contribution in the fight against AIDS, tuberculosis and malaria in countries in need, and contributing to poverty reduction as part of the MDGs			
Guiding principles	<ul style="list-style-type: none"> • Being a financing instrument • Additionality • Sustainability • Country ownership 	<ul style="list-style-type: none"> • Multi-sectoral engagement • Partnership • Integrated, balanced approach • Promoting human right to health 	<ul style="list-style-type: none"> • Performance-based funding • Good value for money • Effectiveness and efficiency • Transparency and accountability 	
Goals	10 million lives saved¹ over 2012-2016 140-180 million new infections prevented over 2012-2016			
	Global plan	Global Fund leading targets for 2016	Indicators for other selected services	
Targets² (2016)	HIV / AIDS	UNAIDS 2011-2015 Strategy, 2011 Investment Framework, and UNGASS June 2011 Declaration	7.3 million people alive on ARTs	<ul style="list-style-type: none"> • PMTCT: ARV prophylaxis and/or treatment • HIV testing and counseling • Prevention services for MARPs • Male circumcision
	TB	Global Plan to Stop TB 2011-2015	4.6 million DOTS treatments (annual) 21 million DOTS treatments over 2012-2016	<ul style="list-style-type: none"> • HIV co-infected TB patients enrolled on ARTs • MDR-TB treatments
	Malaria	RBM Global Malaria Action Plan 2008 and May 2011 updated goals and targets	90 million LLINs distributed (annual) 390 million LLINs distributed over 2012-2016	<ul style="list-style-type: none"> • Houses sprayed with IRS • Diagnoses with RDTs • Courses of ACT administered to confirmed malaria cases

1. Based on impact of provision of ART, DOTS and LLINs using methodology agreed with partners. 2. Targets refer to service levels to be achieved in low- and middle-income countries. Note: Goals and targets are based on results from Global Fund-supported programs which may also be funded by other sources; targets are dependent on resource levels

Strategic Objectives			
	1. Invest more strategically	2. Evolve the funding model	3. Actively support grant implementation success
Strategic Actions	1.1 Focus on the highest-impact countries, interventions and populations while keeping the Global Fund global 1.2 Fund based on quality national strategies and through national systems 1.3 Maximize the impact of Global Fund investments on strengthening health systems 1.4 Maximize the impact of Global Fund investments on improving the health of mothers and children	2.1 Replace the rounds system with a more flexible and effective model <ul style="list-style-type: none"> • Iterative, dialogue-based application • Early preparation of implementation • More flexible, predictable funding opportunities 2.2 Facilitate the strategic refocusing of existing investments	3.1 Actively manage grants based on impact, value for money and risk 3.2 Enhance the quality and efficiency of grant implementation 3.3 Make partnerships work to improve grant implementation
4. Promote and protect human rights	4.1 Ensure that the Global Fund does not support programs that infringe human rights 4.2 Increase investments in programs that address human rights-related barriers to access 4.3 Integrate human rights considerations throughout the grant cycle	5. Sustain the gains, mobilize resources	5.1 Increase the sustainability of Global Fund-supported programs 5.2 Attract additional funding from current and new sources
Strategic Enablers	Enhance partnerships to deliver results		
	Transform to improve Global Fund governance, operations and fiduciary controls		

Annex B. Global Fund Strategic Framework 2017 – 2022¹⁶

“Investing to End Epidemics”



¹⁶ Decision Point GF/B34/DP04:

Annex C. Assessment of Strategy Good Practices

In its strategy review, the OIG examined four sources of evidence, of which one was business literature and good practices. This exercise was conducted to assess the Global Fund processes to formulate, implement and monitor long-term strategies. This resulted in the OIG audit focus being placed on the existence and effectiveness of core components to inform management's strategic decisions and execution.

The OIG reviewed several pieces of business literature and strategy good practices.¹⁷ The final assessment was primarily based on the book: *Strategic Management: Theory: An Integrated Approach*, Charles W.L Hill, Cengage Learning, 2015.

Bibliography for Charles W.L Hill:

Charles W.L. Hill is the Hughes M. and Katherine Blake Professor of Strategy and International Business at the School of Business, University of Washington. Professor Hill received his Ph.D. from the University of Manchester in Britain. In addition to the University of Washington, he has served on the faculties of the University of Manchester (UMIST), Texas A&M University, and Michigan State University.

Work of Charles W.L Hill:

Professor Hill has published over 50 articles in peer reviewed academic journals including the Academy of Management Journal, Academy of Management Review, Strategic Management Journal, Organization Science and Industrial Economics. His work is widely cited by other academics. In addition, he has published several books on strategy including "Essentials of Strategic Management"

The findings of work has been summarised and adapted by the OIG to take into account the Global Fund context as follows:

a. What does an effective planning process consist of?

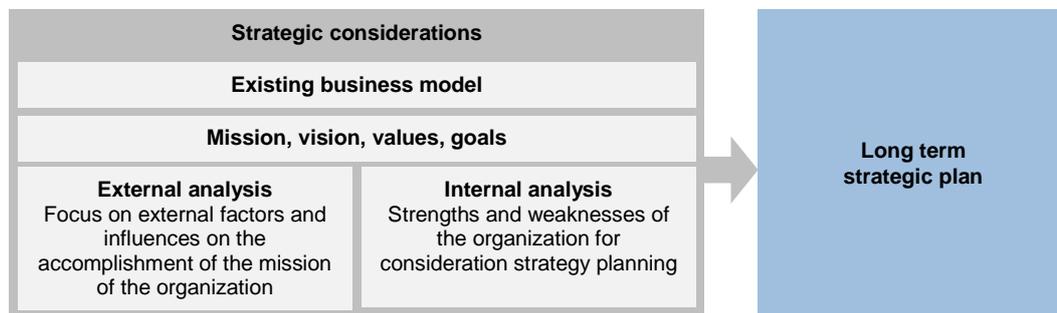
To formulate a long-term strategic plan and accomplish the mission and goals of an organization, a process to evaluate and inform management's strategic decisions must be put in place. The long-term strategic planning process should institutionalize the task of analyzing the organization's external and internal environment. The goal of the analysis is to understand the opportunities and threats to the accomplishment of the organization's goals and to use this knowledge to identify key strategies and business model adjustments.

An external analysis should be focused on environmental factors that affect the accomplishment of the mission and goals such as changes in the public health environment, the Global Fund's role in partnership with organizations, and goals for impact against the three diseases. The internal strengths and weaknesses of the organization should be considered through an internal analysis. This internal analysis should focus on the value the organization provides in the fight against the three diseases, an evaluation of the current operational model and current risks, and where there are opportunities for improvement.

¹⁷ The Balanced Scorecard by Drs. Robert Kaplan (Harvard Business School) and David Norton and Insights to strategy: http://www.mckinsey.com/insights/strategy/managing_the_strategy_journey

A process for management to use the information from both the internal and external analysis to create the 2017-2022 strategic plan should then be completed.

Figure 1 Components of an effective strategy planning process.



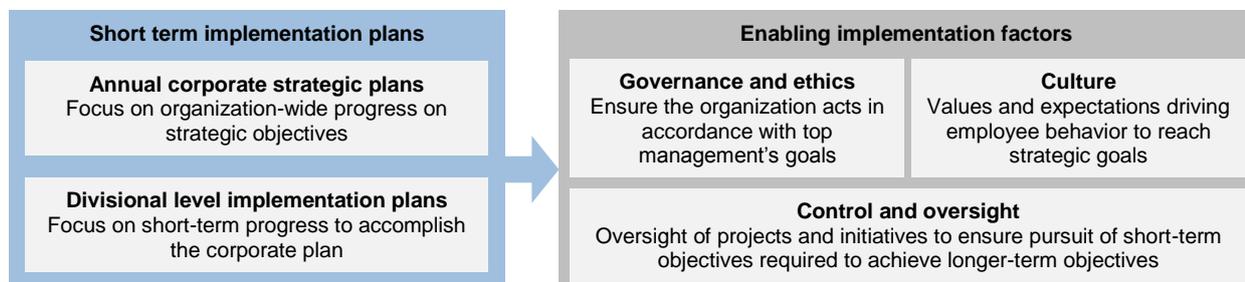
b. What are effective processes to implement a strategy?

In order to effectively implement a long-term strategy, an organization must create plans focused on shorter-term progress that build towards the accomplishment of the long-term strategies. Short-term implementation processes should include an over-arching corporate level plan that provides overall guidance on what the organization wants to accomplish during the year in the pursuit of the longer-term strategic goals. Once corporate priorities have been established, each division produces a business level strategic plan that should document how they will contribute to the accomplishment of the annual corporate strategic priorities.

Even if planning for short-term is done effectively, the organization’s design of processes focused on governance, culture, controls and oversight are critical in successfully completing the plans. The combination of the following three components allows management to create an environment that is conducive to putting in action a management-designed strategy:

1. a governance model designed to ensure the Global Fund acts consistently with top management’s goals;
2. with a culture that establishes a set of values and expectations the will drive all staff member’s behavior to accomplish the organization’s strategic goals; and
3. oversight of project and initiatives to ensure strategically important objectives are met as planned will facilitate strategic implementation.

Figure 2 Components of an effective strategy implementation process.

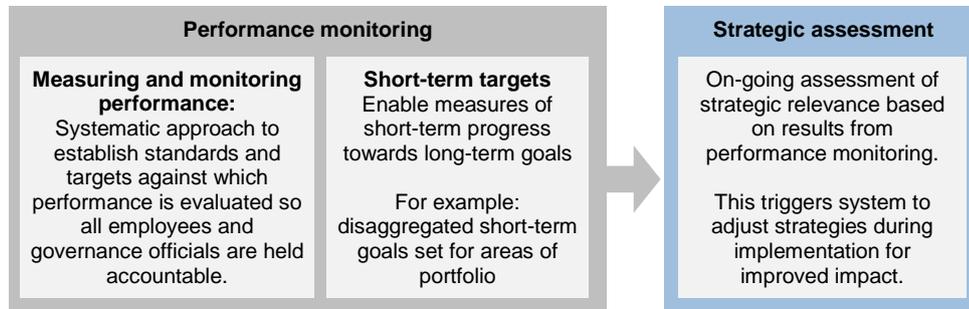


c. What are processes to monitor strategic effectiveness?

As strategic planning and implementation are ongoing, it is important that execution and impact are monitored to evaluate which goals and objectives are being achieved and to make mid-implementation adjustments as necessary. A systematic approach to establishing targets measuring

short-term progress towards the long-term strategic goals is critical. These targets and goals should be used to evaluate performance on an on-going basis to ensure all stakeholders (from executive management to general staff) are being held accountable. These evaluations will also inform management to adjust both long-term and short-term strategies and processes to improve impact mid-implementation.

Figure 3 Components of an effective strategy monitoring process.



d. What are the components of an effective strategic lifecycle?

To succeed, the three processes above should be embedded in the organization. These form part of a strategic lifecycle, as referred to under the OIG [Methodology](#). The lifecycle continuously provide management with the assurance that the organization is able to measure progress towards the achievement of its strategy and objectives.

Annex C. General Audit Rating Classification

Highly Effective	No significant issues noted. Internal controls, governance and risk management processes were adequate, appropriate, and effective to provide assurance that objectives should be met.
Generally Effective	Some significant issues noted but not material to the overall achievement of the strategic objective within the audited environment. Generally, internal controls, governance and risk management processes were adequate, appropriate, and effective. However, there is room to improve.
Full Plan to Become Effective	Multiple significant and/or (a) material issue(s) noted. However, a full SMART (<i>Specific, Measurable, Achievable, Realistic and Time-bound</i>) plan to address the issues was in place at the time audit Terms of Reference were shared with the auditee. If implemented, this plan should ensure adequate, appropriate, and effective internal controls, governance and risk management processes.
Partial Plan to Become Effective	Multiple significant and/or (a) material issue(s) noted. However, a partial SMART plan to address the issues was in place at the time audit Terms of Reference were shared with the auditee. If implemented, this plan should improve internal controls, governance and risk management processes.
Ineffective	Multiple significant and/or (a) material issue(s) noted. Internal controls, governance and risk management processes were not adequate, appropriate, or effective. They do not provide assurance that objectives will be met. No plan to address the issues was in place at the time audit Terms of Reference were shared with the auditee.