



Investing in our future

**The Global Fund**

To Fight AIDS, Tuberculosis and Malaria

**Ninth Board Meeting  
Arusha, 18-19 November 2004**

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**GF/B9/3  
Information Only**

## **REPORT OF THE EXECUTIVE DIRECTOR**

**Outline:** This document contains the report of the Executive Director of The Global Fund to Fight AIDS, Tuberculosis and Malaria to the Ninth Board Meeting.

Good Morning, Ladies and Gentlemen, and welcome to the Ninth Meeting of the Board of the Global Fund to Fight AIDS, Tuberculosis and Malaria.

This is a historic moment for the Global Fund. We are meeting in Africa, the continent to which the majority of our investments are flowing. We are meeting in Tanzania, a pioneer in development, particularly in the health and education sectors. We are meeting in Arusha, the home of the East African Community and the town where so many important international meetings and agreements take place. I would like to pay tribute to President Mkapa and his colleagues for so generously hosting this meeting of the Board in his country.

Yesterday was a very special day. We heard moving tributes from African Presidents and other world leaders. These world leaders reinforced the importance of fighting HIV/AIDS, TB and malaria, and the centrality of this fight to the achievement of the Millennium Development Goals and to the alleviation of poverty in Africa and globally.

This Board Meeting is of special significance, not only because it is taking place in Africa, but because of the matters which we will debate. The Global Fund is on the brink of a critical year in its history. Decisions taken in the next two days will have far-reaching implications. The Board Consultation on Saturday will allow us, for the first time, to discuss at length our vision for the future, and the role, shape and size of the Global Fund to which we are jointly committed.

This is my seventh Board Meeting and my seventh report to the Board. In previous reports, I have focused on our achievements and challenges and have reported in some detail about issues facing the Secretariat. In Part One of this report, I will cover this ground. In Part Two, recognizing the significance of our discussions both at the Board Meeting and at our Board Consultation, I will concentrate on the medium and longer term vision for the Global Fund, on the options that are before us, and on the impact of some of the decisions that we will be making here in Arusha.

## **1.0 PROGRESS UPDATE AND IMMEDIATE CHALLENGES**

### **1.1 Portfolio Operations**

During 2004, and particularly since the last Board Meeting in June, we have accelerated the pace of operations and have achieved substantial progress. I summarize these developments below.

#### Grant agreements and disbursements

Considering grant agreements by Round, we find the following picture. For Round One we have signed 67 grant agreements out of a total 69. For Round Two we have signed 93 grant agreements out of a total of 100; for Round Three we have signed 63 grant agreements out of a total of 73; and for Round Four (approved by the Board only at the end of June this year) we have signed 3 grant agreements out of a total of 72. Up until the date of this report, we have signed 91 grant agreements in 2004. We expect to sign approximately 105 grant agreements during the whole of 2004.

From Round Three onwards, the Board has set a cut-off point of 12 months from Board approval to grant agreement signing. The Round Three cut-off date occurred on October 15. By that date, all Round Three grant agreements had been signed, with the exception of 10 grants. For seven of these grants the Board has agreed to provide a three- month extension due to extenuating circumstances. The remaining three grants were successfully appealed and approved only in March 2004. They therefore fall outside the October 15 deadline.

The Secretariat has given particular attention to improving the quality of the grant agreements signed. We are working with our partners to ensure that all grants have clear performance targets based on coverage. We have also put emphasis on completing all four Principal Recipient assessments and reducing the number of conditions precedent in advance of grant signing, which we expect to lead to faster disbursements. Finally, proposal formats for future rounds have been improved to ensure all critical information required for TRP review is included in the proposal and to make them more user friendly. We are preparing a workshop for consultants and staff engaged by technical partners for proposal development both to orientate them and to receive feedback on how to further improve our processes.

As of the date of this report, cumulative disbursements had reached \$648 million, out of a total commitment in signed grant agreements of \$1.87 billion. This equals 76% of the \$850 million projected to be disbursed by December 2004. We are confident that disbursements will approach this level by the end of the year, and will reach \$1 billion early in 2005.

To evaluate whether disbursements are on track we examine the disbursed funds as a proportion of all committed funds and compare this with the proportion of time elapsed since the grant agreements were signed. Applying this technique, the disbursement record is described in the simple table below for each Round and for the portfolio as a whole. The overall conclusion to be drawn is that disbursements are roughly on track. A more detailed discussion is provided in the Operations Update presented at this Board Meeting.

| <b>Disbursements by Round</b>                   |                 |                                    |                                  |                                     |                                     |                                      |
|---|-----------------|------------------------------------|----------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|
| <i>\$ figures in millions, as of 5 Nov 2004</i> |                 |                                    |                                  |                                     |                                     |                                      |
| <b>Round</b>                                    | <b>Approved</b> | <b>2-Year Approved<sup>1</sup></b> | <b>2-Year Signed<sup>2</sup></b> | <b>2-Year Disbursed<sup>3</sup></b> | <b>Mean % Disbursed<sup>4</sup></b> | <b>Mean Time Elapsed<sup>4</sup></b> |
| Round 1   | Apr-02          | \$ 558                             | \$ 545                           | \$ 293                              | 61%                                 | 71%                                  |
| Round 2   | Jan-03          | \$ 859                             | \$ 779                           | \$ 248                              | 40%                                 | 47%                                  |
| Round 3   | Oct-03          | \$ 639                             | \$ 543                           | \$ 107                              | 30%                                 | 11%                                  |
| Round 4   | Jun-04          | \$ 1,039                           | \$ 6                             | \$ 0.11                             | 10%                                 | 5%                                   |
| <b>Total</b>                                    |                 | <b>\$ 3,094</b>                    | <b>\$ 1,873</b>                  | <b>\$ 648</b>                       | <b>45%</b>                          | <b>47%</b>                           |

<sup>1</sup> Proposals approved by the Board (5-year terms, with initial approval covering years 1-2)

<sup>2</sup> Grant agreement signed by the Secretariat, committing funds for 2-year term of grant

<sup>3</sup> Amount transferred to recipients – disbursed incrementally based on performance

<sup>4</sup> Calculations based on grants which have received one or more disbursements

At its Seventh Meeting, the Board instituted an Additional Safeguards Policy (ASP) for countries in which I determine the environment to be particularly challenging. The Secretariat has signed a grant agreement in one country where the full ASP has been applied (Myanmar) and has progressed towards signing in two others (Iran and Sudan North). Two more countries (Cuba and Ukraine) have grants that were signed before the ASP was approved by the Board, and grants in these countries are progressing satisfactorily under close scrutiny from the Secretariat. Assessments have been progressing slowly in another ASP country (North Korea). The Secretariat has established regular reporting to the Governance and Partnership Committee on grant activities related to these countries and additional briefings have been provided following requests from Board Members and other stakeholders.

## Malaria reprogramming

The reprogramming of existing grants from chloroquine and SP to ACT treatment regimens has made important progress since we last met in June. The number of countries engaging in reprogramming is 20, out of the 28 for which the review of resistance data suggested a need to move to ACT as the first-line drug. In June the Board approved the bringing forward of \$90 million from Phase 2, and a further \$115 million is available from the allocation for ACT in successful Round Four proposals. There is, however, still a substantial funding shortfall to allow for full reprogramming. Round Five will be critical to address this shortfall.

The Global Fund is already by far the world's largest source of financing for procurement of ACT. To meet the demand created by the ongoing reprogramming and Round Four malaria grants, global production of ACT needs to increase drastically. Since ACT is based on a natural ingredient and has a limited shelf life, scaling up ACT production is challenging. In order to provide more predictability in demand, the Secretariat in August asked the Trustee to establish a memorandum account of \$205 million for procurement of ACT. Procurement of ACT by recipients will continue to take place under the normal tender rules and arrangements.

## Phase 2 Renewals

Efforts to ensure appropriate and timely management of Phase 2 Renewals are well under way. Invitations to submit the Request for Continued Funding were sent to CCMs for 31 grants by 4 October. Grant Performance Reports (GPRs) for each of the grants, accompanied by the invitation letters, are being published on the Global Fund website.

The submission deadline for Requests for Continued Funding for the first 31 grants is December 2004 (18 months after the program start date) to ensure recommendations for continued funding are made by February 2005 (month 20). In parallel, other grants will reach their renewal application dates (16 months after the program start date) on a rolling basis - an estimated 25 additional grants by the end of 2004, and a further 112 grants by the end of 2005.

A Phase 2 project team was created in mid-October to set up the systems required for transparent and accountable recommendations to the Board on continued funding. Upon Board decision on the Phase 2 process, these structures and processes (including guidelines, forms/templates, IT tools and quality assurance mechanisms) will be finalized in advance of the February deadline, and will become an integral part of the Secretariat's day-to-day grant management through the Operational Policy Manual and the training of relevant staff.

## Facilitating accelerated grant implementation and donor harmonization

Since our June Board Meeting, I have visited eight recipient countries – Ethiopia, Ghana, India, Russia, Sri Lanka, Thailand, Togo and Uganda – all of which have sizeable Global Fund grants. During these visits I have met with all parties involved in making grant implementation work at country level – the CCMs, Principal Recipients, Sub-Recipients, Ministries of Health and Finance, civil society and people living with the diseases, our partners providing critical technical support and finance, and our Local Fund Agents (LFAs).

I returned from these visits inspired by the energy and innovation with which local actors and partners are moving ahead in the implementation of grants and the real difference that Global Fund money is beginning to make to people's lives.

However, my visits also highlighted what we all know – the importance of scaling up the technical and managerial support for grant implementation, and the need for increased donor harmonization.

We have built effective systems to process grants and disburse money. The next urgent frontier to cross is to make this money work towards results on the ground. It is clear that the Global Fund, as a financing institution, cannot deliver on this goal alone. The Ad Hoc Working Group on Technical Support emphasized this at its meeting in Geneva in September. This group has also provided valuable guidance on ways to improve the technical support to Principal Recipients, Sub-Recipients and CCMs.

Responding to the need to work more closely with partners and CCMs to ensure systematic support to countries and programs in a timely manner, the Operational Partnership and Country Support Team under As Sy was created as part of the May 1 Secretariat reorganization. The objectives of this team are to identify programs in difficulty, to work with CCMs, Portfolio Managers and partners to complete the necessary diagnosis, and to systematically engage and mobilize our network of technical partners. Since the team started its work in May much progress has been made. Let me highlight a few areas.

First, an **early warning system** is in development to enable the Secretariat to identify problems when they are still nascent in order to mobilize partners to address issues before continued financing is endangered. The system will be integrated into our IT-based grant management tool and driven by existing data, as well as by input from our partners. This system will be fully operational early next year.

Second, much effort has been made both to **strengthen and systematize our collaboration with technical partners, and to broaden our partner network for country level technical support** throughout the life cycle of the grant. Over the past months our collaboration with UNAIDS has intensified in various areas. UNAIDS will be providing critical support to CCMs in preparing grant performance reports for Phase 2 Renewals, leveraging about 30 new monitoring and evaluation officers who are being posted in-country. In addition, we have agreed to develop tailored plans for intensified capacity-building support in countries where UNAIDS is scaling up its involvement and country staff. Finally, Peter Piot and I are coordinating our country visits wherever possible so that we can send aligned messages and address issues together. The first of these joint visits, to Ethiopia, was successful and we are planning several more in 2005. The UNAIDS and WHO country offices have provided invaluable support during the many country visits undertaken by me and my colleagues this year, and we are grateful to be able to utilize their in-country infrastructure.

We are also working closely to expand and intensify our collaboration with WHO at all levels. During 2004, the Stop TB Department, in collaboration with the Global Stop TB Partnership, has moved to a more proactive approach in providing the technical support required by countries during the development of applications to the Global Fund and their implementation. We agreed on concrete support plans and staff assignments to accelerate TRP clarifications for all Round Four TB grants. The Intensified Support and Action Countries Initiative is supporting 17 Global Fund recipients to achieve more rapid and effective program implementation. Stop TB is also supporting about 50 countries, including Category 3 countries in Round Four, in developing their applications for Round Five. Finally, the Global TB Drug Facility will be working with recipients in six to eight priority countries to identify bottlenecks in the procurement and supply management systems and to implement solutions.

Over the past months, our collaboration with Roll Back Malaria (RBM) has also reached another level, specifically with regards to the reprogramming to ACT, with 26 countries having been directly assisted. RBM recently provided critical technical support in the preparation, execution and follow-up of the reprogramming meeting in Nairobi, including the development and circulation of a questionnaire to assess the level of country preparedness for rolling out ACT. The purpose of this is to allow targeted technical assistance by RBM partners for the reprogramming effort. RBM has also provided valuable support during a joint Global Fund/RBM in-country assessment of the Tanzania National Voucher Scheme and in developing an approach for accelerating implementation. Finally, RBM is intensifying its technical support for countries in Round Five,

focused on low income/high endemic countries whose proposals to the Global Fund have failed repeatedly.

Our efforts in working with the WHO HIV Department and the 3by5 initiative have been similarly reinforced. The WHO 3by5 team has added 20 new “treatment and prevention scale-up” officers at country level. All of them have been fully briefed and instructed to help countries access and effectively use Global Fund grants. A joint effort is underway to develop comprehensive technical support plans for accelerated scale-up of antiretroviral therapy and prevention services in 15 to 20 priority countries. The support of the 3by5 team, like that of RBM, in accelerating TRP clarifications for Round Four grants has also been invaluable. In addition, WHO will immediately hire 10 new staff at the regional and country level with expertise in procurement and supply-chain management, whose top priority will be to help countries devise and implement procurement and supply-chain management plans that will allow them to quickly utilize Global Fund monies. On December 2, 2004, a workshop, co-organized by the World Bank, WHO and the Global Fund, will be held in Nairobi, for 12 countries, to strengthen the planning and implementation of these activities. Four more such workshops in different regions of Africa are planned during 2005.

With bilateral partners, we have intensified dialogue on concrete coordination, information exchange and assistance in program countries. We draw on substantial support from these partners, including CDC, CIDA, DfID, GTZ, SIDA, USAID, our French partners (DGCID and AFD) and others, in training and technical support for the Global Fund application and implementation process, and in participation in CCMs. These partners are also critical in providing early warning signals to us about problems in programs we support.

The Global Fund is broadening and deepening its collaboration with NGO partners and the private sector, based on the valuable lessons on comparative advantages and synergies learnt over the past two years. A letter of agreement with the French-led ESTHER initiative was recently signed to support Global Fund processes through technical assistance on high quality treatment and care for people living with HIV/AIDS. ICASO is providing support in translating CCM guidelines and working to increase civil society and community involvement in CCMs. A constructive dialogue continues with Médecins sans Frontières on important in-country issues, in particular concerning malaria and TB drugs. We have also developed a collaboration plan on drug prices and other support with the Clinton Foundation for a number of African countries. In working with the private sector, substantial effort has been made to accelerate engagement in-country and co-investment discussions with corporations which have operations and expertise in developing countries. As described in my most recent Board Update (No. 21), a number of promising initiatives are underway in Côte d'Ivoire, Kenya, Malawi and Niger in the areas of proposal development, grant negotiation, implementation and program retrofitting. These efforts need to be further strengthened, and I encourage all partners to recognize the opportunity of co-investment collaborations and to realize this potential at the country level. The Global Business Coalition on HIV/AIDS and the World Economic Forum are our essential partners in this undertaking.

Third, I should mention our **efforts to strengthen CCMs**. As a follow-up to the recommendations of the Eighth Board Meeting and the Partnership Forum, we have developed a CCM assessment tool using the checklist developed by the Technical and Evaluation Reference Group (TERG). A baseline assessment, to be field tested in 2004 and implemented early in 2005, will cover all 128 CCMs. The information we obtain will highlight strengths and weaknesses in our current system, and will be an indispensable tool to inform efforts to optimize this critical component of the Global Fund architecture.

Further, we are facilitating with partners a sharing of lessons learned and best practices through a series of CCM workshops accompanied by field visits to well-functioning CCMs. Funding has been provided by the Johnson & Johnson Foundation for the first two workshops. The first one, hosted by Zambia and involving Ghana, Malawi, South Africa, Tanzania and Uganda, will be held early in 2005.

The final area I want to address under this section is **harmonization**. We have stepped up our efforts to achieve greater harmonization of Global Fund financing with other donors and existing systems at country level. We are fully committed to becoming a mechanism that seamlessly funnels resources into the scaling up of existing responses to the diseases, rather than establishing parallel activities. To date, we are part of SWAPs or Common Funds in Ghana, Mozambique and Zambia, are integrating into the Malawi SWAp, and are ready to join other SWAPs if there is demand by the country and the SWAp is operational. We will be adjusting our operational guidelines to allow a more systematic approach for aligning with SWAPs.

Beyond SWAPs – which are limited to a small subset of our 128 recipient countries - many other efforts to improve harmonization are under way. For HIV/AIDS we are working under the leadership of UNAIDS to ensure that we support the Three Ones. With the US President's Emergency Program for AIDS Relief (PEPFAR), in-country information exchange and collaboration is intensifying, and Global Fund portfolio managers and PEPFAR staff will meet in January to chart collaborative ways forward. For the health sector more generally, we are in dialogue with bilateral and multi-lateral partners on approaches and leadership for particular countries. To be able to measure progress and hold ourselves accountable, we have now agreed with partners – under the guidance of the TERG and the oversight of MEFA – on a set of core indicators for measuring the degree of harmonization of Global Fund financing with existing efforts. This is part of an overall effort to develop indicators to measure system-wide effects of the Global Fund, with a particular focus on harmonization, partnerships, sustainability and additionality.

In addition, we have worked to harmonize our monitoring and evaluation frameworks with partners, building on the M&E toolkit. This has included joint M&E training of field officers (with UNAIDS and PEPFAR), and planning for joint analysis of data with PEPFAR, UNAIDS and WHO in December to ensure there is as much consistency as possible, as described further below. Recent collaboration with UNAIDS, WHO and PEPFAR has led to the planning of a joint facility to broker M&E requests and coordinate support at country level. The joint facility will be fully functional at the end of the first quarter of 2005.

Finally, the paper for consideration at the Board Consultation (GF/B9/5) includes several possible modifications to our current architecture – particularly the move from a project approach to a program approach to financing – which would enable greater harmonization in the future.

## **1.2 Measuring Results**

The core principle of the Global Fund is performance-based funding. Achieving and documenting results is thus at the heart of our business. We have a young portfolio with most grants less than one year old. As you know, when we approved the first rounds of grants, there was no framework ready to establish core indicators and measure results. Meanwhile, the Secretariat has devised, and the Board has approved, a highly transparent, rigorous and consistent performance-measurement system. This system is now being put in place, and we have reached the reassuring point where we can say that no grant will receive Phase 2 funding without having been thoroughly evaluated based on a clear set of performance indicators. We can now also say that no grant is being signed without such agreed performance indicators. We are thus positioned to receive systematic, rigorous results from all grants. My next report to the Board in April will focus on communicating these results.

At the Partnership Forum and AIDS Conference in Bangkok in July, I reported on the progress of the 25 early grants which had passed their first birthday by April 2004.<sup>1</sup> Thirty one grants are now being evaluated for Phase 2 Renewal recommendations in February. By the time of the Board

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<sup>1</sup> 'A Force for Change : The Global Fund at 30 Months'

Meeting in April 2005, 134 grants will have passed their first birthday and I will report on these in detail as soon as results are collated. In advance of these developments, I want to give you our initial view on results and on how we are working with partners to improve accuracy and harmonize reporting.

Overall, our current best estimates of people reached are 63,100 people on ARV treatment, 225,000 people treated under DOTS, and 4.7 million insecticide nets distributed. As our portfolio is still very young and grants report at different times, these figures are estimates. They are supported by the success rate of our older grants in reaching targets, and by disbursement rates. For people on ARV treatment, preliminary data from grants substantiate the estimate and suggest it may be conservative. We plan to analyse data jointly with PEPFAR and WHO in early December to come up with consistent results for wider circulation. These data will avoid double and triple counting, and indicate where we are joint funders. They will communicate that, in focus countries, we are often contributing to a common effort and to a harmonised program.

### **1.3 Mobilizing Resources**

Some of our resource mobilization activities have been reported on in my last Board Update (No 21). I focus here on the challenges and opportunities that lie ahead.

The imperative for the Global Fund to maintain momentum through new rounds of grant approvals means a sustained focus on resource mobilization for 2005. If the Board decides to launch Round Five at its meeting in November, we would ideally need \$2.5 billion in pledges for the coming year. Assisted by the already substantial contributions from non-G8 countries, it is critical that the G8 meeting in Gleneagles in 2005 becomes a refinancing moment for the Global Fund.

With its strong leadership, the Replenishment Mechanism will also be a force in mobilizing greater and more predictable resources for the Global Fund. The Secretariat is preparing reports on the impact of the Global Fund's investments in-country and is working with partners, in particular UNAIDS and WHO, to prepare a joint assessment of the scale of the three epidemics and the financial resources required to combat them, for the first meeting of the Replenishment Mechanism, to be hosted by Sweden in March.

### **1.4 Managing and Building the Secretariat**

Since my last report to the Board in June, intensive work has been ongoing to fully capture the opportunities of the new Secretariat structure announced on May 1. Our efforts have broadly focused on four areas: achieving a sustainable resource base, recruiting and developing staff, strengthening internal management capacity and performance management, and improving administrative arrangements, systems and infrastructure.

#### Achieving a sustainable resource base

At the June Board Meeting, the Secretariat laid out some of the short-term risks associated with the accelerating workload over the balance of 2004. The Board was responsive in approving an increase in Operations staffing, achieved through an internal budget transfer, made possible by savings within the LFA component of our total budget. At that time, the Board asked the Secretariat to work with MEFA to develop budgets for 2005 and beyond which would fund a Secretariat capable of delivering against its current responsibilities with speed, quality and the required level of risk management.

After extensive discussions, including a special budget-focused pre-session, we are pleased that MEFA is bringing a consensus recommendation to the Ninth Board Meeting. Under this

recommendation, staffing would grow from 118 fixed-term positions by the end of 2004 to a maximum of 150 positions in 2005. Without new rounds, the Secretariat budget would increase to \$62.6 million with an ambitious efficiency target of \$1.6 million (2.5%), which we are committed to meeting. This equals a 15% increase over 2004, or a 10% increase when the whole-year cost of the June adjustments is taken into account.

Based on guidance from MEFA and in line with our articulated priorities, the key driver of headcount growth is Fund Portfolio Operations, with 18 additional positions to be established in 2005, incremental to the 23 posts added in 2004. This will bring our Operations team to the critical level required to appropriately manage our current workload. M&E also adds a further five positions in 2005, consistent with the required emphasis on this area. In planning our 2005 resource allocation, the majority of new positions are at mid-professional and support level, driving down the average cost per employee each year.

#### Staff recruitment and development

At the June Board Meeting, the Board approved 29 new fixed-term positions in order to meet immediate needs directly related to core operations. To date, 20 of these 29 new positions have been filled, with highest priority given to the Operations Unit. All new Portfolio Managers and Program Officers have been recruited, and having these new staff on board is already beginning to make a difference in our daily work. We are aiming to have all open positions filled by the end of the year, which would bring us to a total staff of 118.

Diversity has remained a central consideration in our recruitment. The diversity profile of all current fixed and short-term staff is shown in the table below.

| <b>Region</b>                | <b>% of staff as at 5-11-04</b> |
|------------------------------|---------------------------------|
| Africa                       | 19%                             |
| East Asia and Pacific        | 4%                              |
| Europe                       | 44%                             |
| Latin America and Caribbean  | 3%                              |
| Middle East and North Africa | 4%                              |
| North America                | 15%                             |
| South Asia                   | 9%                              |

In addition, 56% of our staff today are women. At level P5 and above, 28% of our staff are women. We have developed ambitious targets to increase diversity further and I stand accountable for achieving them as part of my own performance targets shared with the Board for 2005.

Much energy has been devoted to initiating a Development and Learning Program for Global Fund staff. This program includes an induction course for all new staff, alignment training for current staff, functional training in the core business areas (including proposals management, grant negotiation and initial disbursements, financial management, procurement), generic skills (management and leadership, languages, IT), and training in new policies and special priority areas. The first new staff induction course took place on November 1, and these will be held regularly based on demand. We launched the functional training for the Operations Unit on November 4. It is mandatory for all new operations staff and optional for all other staff. All functional trainings are being developed and executed in-house and will be fully rolled out for all business areas by the end of the first quarter of 2005. However, some of the envisaged externally-sourced training, for example on leadership development and negotiations, will need to be scaled down or delayed, given reductions in the 2005 training budget.

We are also reinstating weekly individual management coaching for all EMT members and selected other staff with significant management responsibility, as well as team-building workshops where required.

#### Strengthening management capacity and performance management

In the context of my reappointment in June, the Board requested that I appoint a Deputy Executive Director to support me in the internal management of the Secretariat and to provide continuity of leadership during my absences. The solution laid out in my email of October 27 to all Board Members is based on a thorough analysis of existing options and experiences of other organizations, advice from external management consultants, and the full involvement of my Executive Management Team. We are in strong agreement on the critical importance of this role in building the organizational capacity of the Secretariat, and are convinced that the proposed solution will best facilitate this. I and my senior colleagues are fully committed to giving the position the standing, authority and support that it needs to succeed, and I stand ready to be held accountable for the outcome.

Connected, yet separate, is the development and implementation of a best practice annual performance measurement system for the entire Secretariat to ensure alignment of objectives and behaviors, accountability and continued learning across the organization. A helpful catalyst for this effort has been the request by the Board in June to develop a system for measuring my performance as the Executive Director of the Global Fund. This work has been led by the Private Sector delegation in close collaboration with the Secretariat, and with pro bono support from McKinsey and Company. The proposed framework, incorporating both individual objectives and key performance indicators (*what* is achieved) and competencies and behaviors (*how* objectives are achieved) will be presented at this Board Meeting.

Once the Board has approved the overall approach, we will work rapidly to cascade the system through all levels of the organization, with pro bono support from experts at Egon Zehnder International. We are aiming to implement the new system in the first quarter of 2005.

#### Improving infrastructure, systems and administrative arrangements

To ensure efficiency in all our operations – in particular in performance measurement and tracking – it is crucial that we are able to effectively harness cutting edge technology and integrate a range of information technology and management tools. Over the past months, we have begun to build a modular, open environment, for maximum flexibility as we rapidly evolve our core business processes, both in grant-making and performance tracking. Development is well underway in the highest priority areas (grant management and reporting tools, M&E data capture and systems). By the end of 2004, we will have taken a number of significant steps forward, including the establishment of an all-grant-data warehouse, automated reporting and grant-tracking tools for performance management, and the design of the first elements of integrated core process interfaces. From there, we will expand to other areas, including the definition and implementation of a more comprehensive knowledge-management platform.

The growing Secretariat has placed considerable pressure on office space. We have begun discussions with the Swiss authorities for more suitable accommodation for the Global Fund. In the interim and to meet our immediate needs, we have entered into a rental agreement for additional space in a neighboring building.

The Headquarters Agreement has been approved by the Canton de Genève and is expected to be approved by the Swiss Confederation on November 18. We are in the process of finalizing a date for signature in December. In light of this change in status, the groundwork has been laid for

alternative arrangements to some aspects of the current Administrative Services Agreement with WHO. These alternatives will provide the Secretariat with options that should simplify and rationalize administrative work. The paramount concerns in pursuing these options are to enhance efficiency, to ensure that administrative procedures maintain their rigorous standards, and to maintain staff security and benefits.

## **2.0 OUR SHARED VISION FOR THE GLOBAL FUND**

Let me now turn to our vision for the Global Fund. When the Transitional Working Group met in Brussels in the autumn of 2001, it had the challenging task of melding many different visions of the Global Fund. These visions came from the G8, Secretary General Kofi Annan, civil society, the community of activists campaigning for a serious international response to the devastation of HIV/AIDS, and others. In bringing these visions together, in order that the Global Fund could be launched in January 2002, the Transitional Working Group enunciated some basic principles, in which we still believe and to which we still adhere. These include that:

- the Global Fund will act as a financial instrument rather than as an implementing agency;
- the Global Fund will base its work on programs that reflect national ownership and respect country-led formulation and implementation processes;
- the Global Fund will focus on performance by linking resources to the achievement of clear, measurable and sustainable results;
- the Global Fund will operate in a balanced manner in terms of different regions, diseases and interventions, and will pursue an integrated approach covering prevention, treatment, and care and support;
- the Global Fund will support programs that focus on the creation, development and expansion of partnerships, and that strengthen the participation of communities and people infected and directly affected by the three diseases; and
- the Global Fund will make available and leverage additional financial resources.

We have now had nearly three years of experience in translating these principles into operational realities. We have grown fast; we have begun to make an impact; and we have learnt a lot. This is a time for stepping back, for sober consideration of where we are heading, and for developing a consensus concerning the evolving role, size and shape of the Global Fund.

### **2.1 The Global Fund's Role in the Larger Development Agenda**

The Global Fund plays a single role - financing - focused on one of the Millennium Development Goals (MDGs). We must constantly remind ourselves that we are a small part of a much larger picture. What matters is sustainable development and the achievement of the Millennium Development Goals broadly.

While noting this, we must also recognize that the goal of conquering AIDS, TB and malaria is fundamental to the achievement of many of the other Millennium Development Goals, especially in Africa. For example, the education MDG cannot be achieved if school teachers are being killed by HIV at twice the rate that they are being trained, as in Zambia. The child mortality MDG cannot be achieved in Africa if malaria continues to be responsible for one quarter of all childhood deaths. And so on. Especially in Africa, substantial progress with AIDS, TB and malaria is critical for sustainable development and for the MDG agenda more broadly.

The role of the Global Fund is to raise, invest and account for large amounts of additional finance to bring to scale interventions that work. We are not a development agency. We do not provide technical assistance. We do not express technical opinions or give guidance to countries

concerning what particular steps they should take to fight the three great pandemics. We employ no one outside of Geneva.

Our role in financing malaria and TB is strikingly different from our role in financing HIV/AIDS. For malaria, current estimates suggest that external financing currently totals roughly \$290 million on an annual basis. The Global Fund's contribution to this is already 45% percent. In other words, we are the major financer of malaria control and treatment worldwide and this dominant position is growing. We are the leading funder of the necessary but expensive shift away from chloroquine and sulfadoxine-pyrimethamine and towards artemisinin combination therapy for the majority of the 40 countries around the world that have already adopted these newer and more effective drug regimens.

For tuberculosis, the picture is similar. Of total external financing in 2004 of approximately \$200 million, the Global Fund will provide roughly 55%. Once again, this dominant position in financing tuberculosis control and treatment is growing steadily. Recent estimates from the Green Light Committee indicate that the Global Fund is already supporting roughly half of all MDR TB treatment in the developing world.

For HIV/AIDS the situation is different. Total external flows equal \$3.7 billion for 2004, according to a recently published UNAIDS report. The three main sources are the Global Fund, PEPFAR and the World Bank MAP. There are also many other significant funders of HIV/AIDS work, including bilateral aid agencies and the Gates Foundation. The balance between them varies greatly from country to country. In some regions, such as Eastern Europe and Latin America, the Global Fund is the largest external financier of prevention and treatment against HIV/AIDS. In other regions, especially in Africa, the Global Fund is one source among many.

We need a shared vision of our role alongside others. Should the Global Fund be financing the gap in some countries and some regions? If so, we need to agree on the gap. Is the Global Fund the major financer in some regions? If so, we need to agree on this and to avoid unnecessary duplication. Most challengingly, in the multiply-assisted countries, where finance is provided by the Global Fund, PEPFAR, the World Bank, the EU and many bilaterals, how can we ensure that policies are aligned, that procedures are harmonized, and that local leadership, both governmental and non-governmental, is firmly in the driving seat? In parallel, how can we ensure that our technical partners have the capacity and finance to provide the inputs that are essential if Global Fund and other investments are to have maximum impact? Despite our good intentions, we have a long way to go in this arena.

## **2.2 How Large a Global Fund?**

At present, neither the Board, nor our partners in Geneva and elsewhere, nor our stakeholders more broadly, share a common vision of the optimal medium-term and long-term size of the Global Fund. While the longer term, say 2010 and beyond, contains many imponderables and may not be a productive focus for debate at this time, the medium term, shall we say the next five years, is of great importance and it affects decisions that we will take here in Arusha and it affects resource mobilization efforts in 2005.

On the one hand, we have the achievement of a steady state as described in detail in the diagnostic section of the document which we will discuss on Saturday (GF/B9/5). Based on a number of well known assumptions made in this document, we would plateau in 2008 at an income and expenditure of roughly \$3.3 billion per year.

There are three points to note about this scenario. First, this plateau is roughly twice our current size. To achieve it is therefore challenging. Second, this plateau is roughly the size of the Global Fund (an income of \$3 billion a year) which was called for by several world leaders, including

Presidents Chirac and Prodi, at the time of the G8 Summit in Evian in 2003. It is achievable within the current Official Development Assistance (ODA) envelope. Third, it is a plateau far lower than the founding mothers and fathers of the Global Fund had in mind and it is far less than would be needed to fill the gap based on any of the various estimates concerning the scale of the financial needs.

UNAIDS, WHO and the Global Fund are working together with other partners to improve estimates of financing for HIV/AIDS, TB and malaria. Domestic sources are important. Overall, they should increasingly pick up the lion's share of needed finance. Only through this can sustainable finance be assured.

However, for the short term in middle income countries, for the medium term in larger low-income countries, and for the longer term in the smaller and lowest-income countries, external finance will be essential. Without it, the diseases cannot be prevented, the drugs cannot be purchased, and the orphans cannot be cared for.

Investment in these diseases pays off. Since our last meeting in June a panel of eight of the world's leading economists – including three Nobel laureates - from China, India, Switzerland and the USA debated detailed evidence concerning 17 high priority areas for global investment and were asked to consider how an additional \$50 billion per year could be best allocated. The panel concluded that, among the 17 priorities, there were four outstandingly good investments; the control of HIV/AIDS, provision of micronutrients, trade liberalization, and the control of malaria.

The outcome of importance is that this external financing need is met. It does not matter, fundamentally, whether it is met through mechanism A or through mechanism B. The great majority of needed resources come from a single source; the tax payers of the high income countries. The major vehicles for channeling these resources today are PEPFAR, the Global Fund, the International Development Association (IDA), the European Commission and many bilateral programs. What is our preferred balance among these vehicles and what role in this panoply of funders should the Global Fund play?

Based on the latest published estimates by UNAIDS<sup>2</sup> and WHO<sup>3</sup> the total financing need for all three diseases, not including infrastructure costs, is approximately \$26 billion per year by 2007. This is about a fourfold increase from the \$6 billion spent in 2004. About 40% of current spending comes from domestic sources. Assuming African governments respond proactively by increasing domestic funding for health to meet the Abuja targets, domestic spending could possibly increase threefold. With such an increase, domestic resources could cover about one third of the total needs in 2007. The remaining share of some \$17 billion will need to be borne by the international community. Under the leadership of UNAIDS for HIV/AIDS and WHO for TB and malaria, partners are currently working to further refine estimates of resource requirements and to arrive at a consensus recommendation on appropriate financial shares of the bilateral and multilateral institutions involved in combating the diseases.

Whatever the final number, it is clearly a far cry from where we are today. Funding at this scale is not possible within the current ODA envelope. ODA is growing too slowly towards 0.7% of GNI to allow the accommodation of such large investments so quickly. As the French Government and others have pointed out, financing AIDS, TB and malaria, along with the financing the Millennium Development Goals in general, requires new sources and front loading. There are a variety of imaginative ideas on the table to provide new funding streams and front loading. The most

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<sup>2</sup> Joint United Nations Program on HIV/AIDS (2004) "Financing the Expanded Response for AIDS", Prepublication Draft UNAIDS/04.39E, and information from UNAIDS, November 2004.

<sup>3</sup> Stop TB Partnership, World Health Organization (2004) "Progress Report to the Global Plan to Stop TB"; WHO/UNICEF 2003 "Africa Malaria Report"; and information from Stop TB and Roll Back Malaria, November 2004.

advanced is the International Finance Facility, led by Chancellor Gordon Brown and his team at the UK Treasury, with the support of France. Discussions are underway concerning which other countries may be willing to join the IFF and whether it will be possible to launch the IFF in 2005. My opinion on this is clear and I have stated it frequently in public. The IFF, or an equivalent mechanism, is essential to put the Millennium Development Goals back on track. More specifically, it is essential to fully finance the fight against AIDS, TB and malaria.

The voice of this Board on these matters is critical. Others will not provide the vision for us. If we do not enunciate what level of resources is needed and how large we need to be, then attention will turn to other agendas and the finance will not be available to effectively combat AIDS, TB and malaria. The ball is in our court.

### **2.3 How Should the Global Fund Conduct its Business?**

The architecture and business model of the Global Fund was designed in outline in Brussels in late 2001, elaborated and piloted by the embryonic Secretariat in 2002, and fully operationalized in 2003 and 2004. We have learnt a lot and gained much experience. We have made numerous changes to improve our business model and the services that we provide to our clients. We have strengthened our commitment to donor harmonization and alignment with existing country processes. In many countries, we are working hard to provide maximum support to harmonized arrangements which either are in place, or are being put in place.

As the Global Fund grows and as we learn lessons, it is becoming increasingly clear that the current business model brings disadvantages both to our clients, our partners and to the Secretariat. These issues are discussed further in the paper presented to the Board Consultation on Saturday (GF/B9/5). I will not cover this ground here.

One option is to stick to our current business model, and to improve it at the margins to deal with the expanding transaction volumes that will be generated. The alternative is to evolve the model based on an agreement that other ways of doing business may be preferable in the medium term. If this is our view, these other ways of doing business need to be developed and piloted soon. For example, we could choose a number of countries which are strong performers and have a good track record in their relations with the Global Fund. In those countries we could establish and test new business models, of the kinds foreshadowed by the Transitional Working Group in Brussels and discussed in Board paper GF/B9/5. A learning process of this kind could bring us to decisions concerning a future architecture with a longer-term horizon.

In debating our business model, support to our clients should be paramount. There is no doubt that at present some aspects of our procedures are onerous and difficult to live with, even with the most imaginative modifications. A second major consideration is donor harmonization and alignment with country processes. The third consideration should be the reduction of transaction costs at the Secretariat and our collective goal to remain the leanest and most efficient of all development financing organizations.

### **3.0 CONCLUSION**

In conclusion, let me stand back for a moment and consider two realities.

First, no one would have believed in Brussels in 2001 that within three years the Global Fund would have become as large as it has, would have developed from scratch a new way of conducting the business of development finance, or would have begun to have substantial impacts in many countries all over the world. Despite our challenges and failures, this is a remarkable achievement which the Board, the Secretariat, and our many partners, supporters and

stakeholders worldwide should keep in view. For example, despite the numerous criticisms of CCMs, CCMs are a positive innovation and have changed the dynamic of stakeholder relations in many countries. There is more good news than bad news about CCMs and most CCMs that have faults are moving towards better practices and self-generated reforms.

Second, despite all our efforts and despite the Global Fund, malaria rolls on out, TB is not stopped, and HIV/AIDS rampages around the world, with only a handful of countries showing major national-scale successes. The task is huge and urgent and, at this time, the international community is failing miserably.

We know how to beat malaria. In the few places where it is being done, the impacts are large and quick. We just need to focus on implementing the known effective interventions on a large scale in many places. With TB and HIV/AIDS, we know more and more about what works, we have better and better tools. What we lack is ambition and scale.

This is at the heart of the task of the Global Fund – to provide the finance to enable us to go to scale. We have made a modest step in this direction. We have crossed the plain, forded the river and are in the foothills. The mountain looms above us. Most of the challenges lie ahead, but we are prepared and fit for the task. If we are bold, and if we share a compelling vision, we can and will succeed.

Many thanks to all my friends and colleagues on the Board. I look forward to three days of productive discussion under the excellent leadership of our Chair and Vice Chair.