



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

**Tenth Board Meeting
Geneva, 21-22 April 2005**

GF/B10/3

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 Tenth Board Meeting.

Good morning, Ladies and Gentlemen, and welcome to the Tenth Meeting of the Board of the Global Fund to Fight AIDS, Tuberculosis and Malaria. May I add my voice of welcome to that of our Chairman and say how much I appreciate all the dedicated work that Board Delegations and Committee Members have undertaken since our last meeting in Arusha, Tanzania.

In this report, I start by presenting to you a brief update on the core business of the Global Fund. I then report to you on the significant progress and actions taken under the three major corporate priorities for the Global Fund in 2005.

1.0 UPDATE ON CORE BUSINESS PERFORMANCE

In the months that have passed since the Ninth Meeting of the Board in Arusha, there has been substantial progress in taking forward the core business of the Global Fund. I present these results to you under the headings of:

- grant agreements and disbursements,
- results,
- Phase 2 Renewals,
- Round 5,
- tsunami response,
- investment strategy and the Comprehensive Funding Policy, and
- strategic planning.

1.1 Grant agreements and disbursements

Considering grant agreements by Round, we find the following picture. All 68 grant agreements for Round 1 have now been signed, with the exception of Democratic People's Republic of Korea (DPRK) where negotiations were cancelled because requirements under the Additional Safeguards Policy were not met. For Round 2 we have signed 98 grant agreements out of a total of 100 (Malawi Malaria will be signed within a month, and South Africa HIV/TB before the end of June). For Round 3 we have signed 71 out of 72 grants (the remaining unsigned grant is the Andean Regional Project on Malaria Control, which was given a three month extension by the Board on its March 19 deadline). Two grants, DPRK TB and Iran HIV/AIDS, were cancelled in January after extensive negotiations failed to resolve the remaining obstacles to grant signing. For Round 4 we have signed 30 grant agreements out of a total of 78. Up until the date of this report, we have signed 29 grant agreements in 2005. We expect to sign all the remaining Round 2, 3 and 4 grants by the end of June 2005, with the exception of two Round 4 grants, which may require a Board approved extension due to particular circumstances.

The signing of Round 4 grants has progressed since the last Board Meeting, but the number of signed grants is behind where we should be, nine months after Board approval. The delay results from the efforts that we have been making to recruit a large number of new portfolio managers and related positions as well as the demanding introduction of the Phase 2 Renewal process. As the Operations team is now near full strength and the Phase 2 process is more firmly established, we expect the pace of grant signings to speed up substantially over the coming three months.

As of the date of this report, cumulative disbursements had reached \$1.1 billion, out of a total commitment in signed grant agreements of \$2.3 billion. This equals 54% of the \$2 billion targeted to be disbursed by the end of 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. The current results are in line with previous calculations done for my report to the Ninth Board Meeting in November last year and for the progress report published in

February this year. As at April 8, we had 52% of signed grant value disbursed at an average elapsed time of all signed grants of 54%.

Disbursements by Round						
<i>\$ figures in millions, as of 08 Apr 2005</i>						
Round	Date	Approved¹	Signed²	Disbursed³	Mean Disbursed⁴	Mean Time Elapsed⁴
Round 1	Apr-02	\$ 697	\$ 562	\$ 412	75%	88%
Round 2	Jan-03	\$ 876	\$ 829	\$ 418	52%	63%
Round 3	Oct-03	\$ 634	\$ 619	\$ 186	36%	27%
Round 4	Jun-04	\$ 1,020	\$ 253	\$ 69	33%	10%
Total		\$ 3,227	\$ 2,263	\$ 1,085	52%	54%

¹ Proposals approved for funding by the Board (initially for two years, with an extension to five years where approved)

² Grant agreement signed by the Secretariat, committing funds for the term of the grant

³ Amount transferred to recipients – disbursed incrementally based on performance

⁴ Calculations based on grants which have received one or more disbursements

While second and subsequent disbursements have always been based on programmatic updates and performance assessments made by LFAs and the Secretariat, concrete steps have been taken to more systematically document and capture such information in a transparent information management system. This information management system will be the basis for the creation of ongoing Grant Performance Reports and the early warning and response system. Already, for all grants entering into the Phase 2 Renewal process, Grant Performance Reports are generated and the Secretariat is working to expand the system to all grants (independent of grant age) with the goal of having all grants fully included in this system by September 2005.

The system will also track consistently the expenditures from PRs to sub-recipients. An analysis of the grants currently under management has shown that 60% of the resources disbursed to PRs have been transferred from the PR's accounts, either for direct expenditures or to sub-recipients. This is a high expenditure level considering that a) it is sound Global Fund policy that PRs always have a buffer of resources for three months of program implementation, and b) a substantial proportion of the (40%) of disbursed funds that remain in PR accounts have been committed to procurements and contracts entered into but not yet completed and paid for.

Since November, the Secretariat has signed five grant agreements in three countries where the full Additional Safeguards Policy has been applied (Myanmar, Iran and Sudan North). As mentioned above, three grants, two to North Korea and one to Iran, were cancelled on January 15 after the extended deadline for Round 3 grant signings passed without having reached an agreement with sufficient safeguards. The Governance and Partnership Committee has been kept regularly informed on grant activities related to the Additional Safeguard Policy countries and additional briefings have been provided on request to Board Members and other stakeholders.

1.2 Results

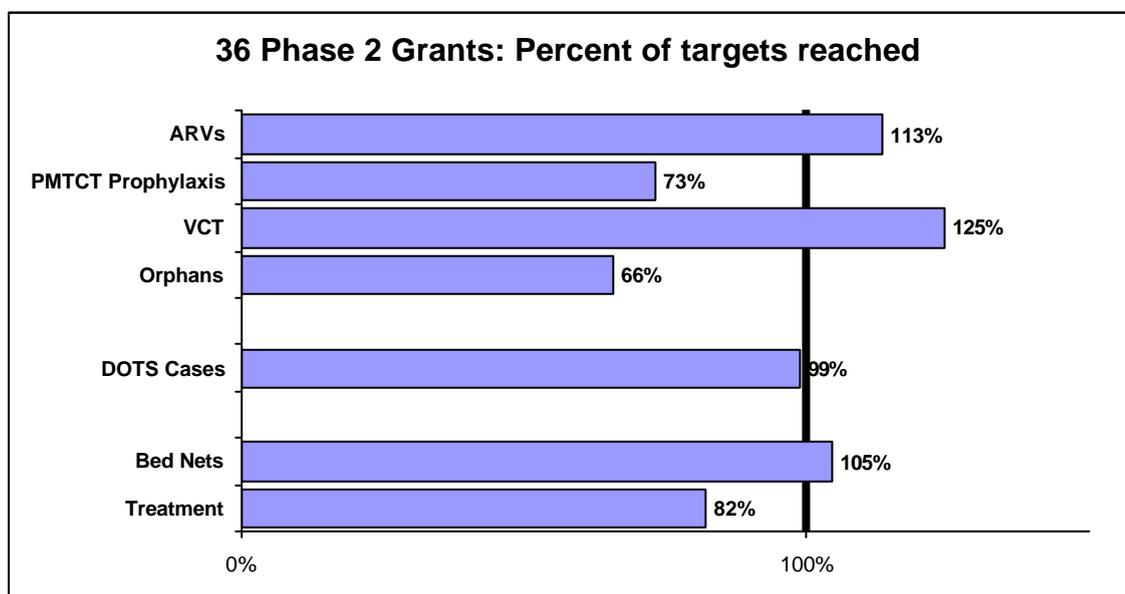
In December 2004, the Secretariat undertook a first "results audit" for all programs. This audit was based on actual, reported results from program activities supported by the Global Fund in all countries where we have working grants. For HIV/AIDS, this was a joint exercise with WHO,

UNAIDS, the World Bank, and the US President's Emergency Plan for AIDS Relief (PEPFAR) as well as with the Principal Recipients involved. Collaboration was close and constructive and provided an excellent base for further joint efforts in results monitoring and reporting. As a result of this audit, we presented the following figures at a joint press conference with UNAIDS, WHO and PEPFAR at the end of January:

- 130,000 people with antiretroviral treatment for AIDS,
- more than one million people with voluntary HIV testing,
- 385,000 patients with treatment under the DOTS strategy for tuberculosis control,
- more than 300,000 people with highly effective artemisinin-combination treatments for malaria, and
- more than 1.35 million families with insecticide-treated mosquito nets.

A more detailed analysis was made of the progress of 27 grants that had reached 18 months of program life by December 2004. This analysis is described in detail in the report entitled *“Investing in the Future: The Global Fund at Three Years”* which was produced for the first Replenishment Conference held in Stockholm from March 14 to 16.

Since then, the number of grants analyzed has increased to 36 grants for which a Phase 2 recommendation has been prepared by the Secretariat and submitted for Board decision. The overall analysis of these grants shows that on average between 66% and 125% of targets set for key services in the grant agreements have been achieved. Targets for VCT (125%), ARV treatment (113%) and bed net distribution (105%) exceeded targets set or were on target (DOTS), while performance in other areas was below expectations, with PMTC prophylaxis reaching 73% and orphan programs 66%, across these 36 grants. Overall, 28 of the 36 grants (77%) have performed well or adequately. The eight grants which are substantially underperforming contributed significantly to the shortfall in overall results.



One of the immediate lessons that can be drawn from this analysis is that efforts need to be taken to ensure timely financing and simpler procedures for well-performing grants to allow them to perform beyond targets. An early warning and response system, and a focus on speeding up procurements, will be crucial to reduce the number of underperforming grants. It is also worthwhile to highlight that civil society PRs have a better record of performance than Government and other PRs. While the sample is too small to draw any strong conclusions, it provides encouragement for continuing and expanding the trend towards multiple PRs, including civil society PRs.

While the success of the Global Fund depends on more than simple measures of people reached, it is crucial that we continue to record hard evidence of returns on our donors' investments. We will therefore provide such results updates at regular intervals. In parallel, we are finalizing the measurement tools for the more complete measurements of overall systems-effects and disease impact. By the end of the year, we will be able to provide better measurements of the total impact that Global Fund financing is having on the health situation in our client countries.

1.3 Phase 2 Renewals

By January, the first 31 grants in our portfolio reached their eighteen-month mark and applied for Phase 2 funding. This was the first test for our Phase 2 review system. By the time this report was written, 36 performance reviews had been finalized and submitted to the Board for approval, and one grant (Indonesia Malaria) was sent to the TRP for review as a "Revised Go". Four grants which had reached the time for Phase 2 review – all in Sri Lanka – were granted a postponement due to the tsunami disaster. Of the 36 finalized grants, 32 were approved for continued funding ("Go" or "Conditional Go"), and one was approved as a "No Go". Three grants were sent back by the Board to the Secretariat for reconsideration, after the Board failed to approve the "No Go" recommendations of the Secretariat. For two of these, the Secretariat, having reviewed all evidence and submissions, has maintained its "No Go" recommendation, while the Secretariat has revised its recommendations for the third, in light of additional information, to a "Conditional Go".

Given the novelty of the process and the circumstances surrounding Round One grants, which have required special efforts to establish the ground work for performance measurement, the Phase 2 process has taken up substantial time within and outside the Secretariat. Despite challenges faced in the initial stage, it is encouraging that Phase 2 Renewals are now running more smoothly after fine-tuning based on the initial experience. It is anticipated the process will be further streamlined as the Global Fund fully establishes systematic performance management throughout the grant cycle.

Based on the experience over the past quarter, the Secretariat has identified a number of lessons learned, some of which are presented also in the Operations Update (GF/B10/5). I summarize the main points below:

- The Phase 2 decision is to be made based on the evidence of performance, and not merely on potential. To ensure renewal recommendations are robust, the Secretariat needs to receive quality data in a more timely manner. Information is going out to CCMs and LFAs to stress the need for timely submissions. Major efforts are being undertaken to assist PRs and LFAs in submitting better quality data. This is clearly a long-term process, but it is being systematically pursued in our work with all new and ongoing grants.
- The process starts at the time of grant signing. Our early warning and response system (see details in section 2.2 of this report) will be helpful in mobilizing assistance to PRs and CCMs well in advance of Phase 2 review and allowing remedial measures to be undertaken.
- By the time of the first Phase 2 recommendations early February, work to identify savings and present revised budget proposals for Phase 2 was not ready. To ensure that Global Fund resources are put to best use across the portfolio, this work is essential. From March 1 onwards, recommendations have included savings and revised budgets ceilings, and a number of improvements have been made to ensure a better overview over grant expenditures and needs for Phase 2.

- The role of the TRP in the Phase 2 process needs to be adjusted. The Secretariat has begun discussions with the TRP and the relevant Board committees about a clarified role for the TRP in the Phase 2 process, focusing on reprogramming.

The Secretariat is looking forward to the Board's guidance on several of the issues which have been identified through this first three-month experience with the Phase 2 renewal process. Phase 2 renewal remains the central test of the Global Fund's commitment to performance-based funding and is a demanding and pioneering process. The Board is right to wish to consider at this meeting modifications to the process that will safeguard objectivity and rigor.

1.4 Round 5

The call for proposals for Round 5 was issued on March 17 as scheduled, following the Board approval of the Guidelines for Proposals. Leading up to the call, the Secretariat collaborated extensively with WHO, UNAIDS and others in organizing two workshops in Geneva and Harare to brief in-country resource people and consultants on significant changes to the Guidelines for Proposals, the application form, and supporting software. Another workshop is planned for April 19, in Paris, for francophone countries.

1.5 Tsunami response

On December 26, the tsunami disaster struck the countries surrounding the Indian Ocean. The Global Fund is supporting programs in all of the four hardest hit countries -- India, Indonesia, Sri Lanka and Thailand. It soon became clear that our grants could be most helpful in the relief and rehabilitation efforts in two countries: Indonesia and Sri Lanka. In Indonesia, \$1.5 million were freed up through program savings and exchange rate gains in the TB and malaria grants to assist in rehabilitation of health centers and training of new health workers in Aceh and North Sumatra, where nearly 1,000 health workers had been lost in the disaster. Funds were also used to ensure additional spraying and other malaria prevention activities in camps for displaced people. In Sri Lanka, the four grants coming up for Phase 2 review were granted a three month extension and minor reprogramming of one of the grants assisted the Ministry of Health in rebuilding its malaria and TB programs in the affected areas.

1.6 Global Fund investment strategy and Comprehensive Funding Policy

In response to the request made at the Ninth Board, the Secretariat has been facilitating the work of outside consultants - PricewaterhouseCoopers (PwC) - on a review of the Global Fund's fiscal management, including the Global Fund's investment strategy and scope for adjustment of the Comprehensive Funding Policy. PwC have interacted extensively with members of the Secretariat, Board, the World Bank and others in preparing their report, which is the subject of a pre-Board information session on April 20.

We extend our sincere appreciation to PwC, who are conducting this work on a pro bono basis. Board members who attend the information session may wish to consider in particular what immediate action and/or decisions may need consideration based on the PwC report and which aspects may require further reflection.

1.7 Development and innovation – the Strategic Plan

I have committed to developing a three-year strategic plan for the Global Fund this year. An important initial step was for the Secretariat to build its internal strategic planning capability. To this end, we have recently recruited a Manager, Business Strategy who will drive our efforts in this area, under the guidance of the Deputy Executive Director. The approach to developing the strategy places emphasis on working closely with the relevant Committee of the Board, and on consultation with key partners and stakeholders. I intend to share a substantial progress report

with the Board at our next meeting with the aim of having a full plan for your consideration at the December Board Meeting. Donors will also be updated on our progress at the June and September Replenishment Conferences.

2. CORPORATE PRIORITIES 2005

Board Members will recall that I have set three corporate priorities for the Secretariat for the year 2005. These are:

- doubling Global Fund income between 2004 and 2006,
- accelerating implementation and harmonization at the country level, and
- strengthening the capacity and performance of the Secretariat.

Some of the details of these corporate priorities are reflected in my key performance indicators for 2005 which were agreed by the Board at its Ninth meeting in Arusha. In the three sections that follow, I report to you briefly on progress and challenges with each of our three main priorities.

2.1 Resource mobilization – doubling income

In 2005, the Global Fund is facing a steep increase in the amount of resources needed to cover its commitments and my first corporate priority for this year is to secure this increased income. In 2004 resource needs were \$1.3 billion and these needs were met. Indeed, a \$100 million surplus could be carried over to 2005. Due to Phase 2 Renewals and Round 5, resource needs for 2005 are \$2.3 billion. For 2006 and 2007, needs increase to \$3.5 billion and \$3.6 billion, respectively. By the time this report was written, pledges for these three years stood at \$1.4 billion, \$0.7 billion and \$0.4 billion, respectively.

A central element in our resource mobilization strategy is the Replenishment Mechanism, which is now underway. The Replenishment Mechanism focuses on resource needs for the biennium 2006 -2007, but is also drawing attention to the unfulfilled needs of 2005. The first of what now will be three Replenishment Conferences was hosted by the Swedish Government in Stockholm on March 14 to 16. The Conference was led by the Vice-Chair of the Replenishment, Mr Sven Sandström, while Deputy Secretary-General Louise Fréchette represented the Chair, Secretary-General Kofi Annan. 35 delegations representing donor countries, the private sector, private foundations, civil society and partner organizations attended, as well as observers from most Board delegations.

With detailed guidance from Mr Sandström, the Secretariat prepared four separate reports for the conference participants. The report *“HIV/AIDS, Tuberculosis and Malaria: The Status and Impact of the Three Diseases”* summarized the latest epidemiological information and the importance of further interventions and was produced in close collaboration with UNAIDS and WHO. A progress report, *“Investing in the Future: The Global Fund at Three Years”*, explained the principles of performance-based funding as it relates to the Global Fund and provided a snapshot of results as of the end of 2004. *“Addressing HIV/AIDS, Malaria and Tuberculosis: The Resource Needs of the Global Fund 2005 – 2007”* took current operational projections for The Global Fund, and situated them in a larger framework of the total global resource needs for AIDS, TB and malaria as calculated by UNAIDS, WHO and the Stop TB and Roll Back Malaria Partnerships. *“A Technical Note on Financial Management of the Global Fund”* provided an overview of the Global Fund’s fiduciary arrangements including fiscal management, funding policy, and financing options.

In addition, Sven Sandström commissioned an evaluation of the Global Fund, *“Replenishing the Global Fund: An independent Assessment”*, written by Dr Keith Bezanson.

The conference concluded with a “Chair’s Summary” (GF/B10/14), laying out a clear and systematic process for the period leading up to the interim conference from June 20 to 22 and the final conference, hosted by the UK Government in London from September 5 to 7.

The Swedish hospitality and organization, and the strong and confident leadership by Mr Sandström, ensured that the first Replenishment Conference was structured and productive and provided an excellent start to the important task of assuring sufficient resources for the Global Fund in the future.

2.2 Accelerating implementation and harmonization

My second corporate priority for 2005 is accelerating implementation. We have built effective systems to process grants and disburse money. Our focus now is on making this money work for results on the ground. Our record so far is positive. The majority of our grants are doing well. In a number of programs where delays have occurred, long procurement times have prevented program activities from beginning. Once the goods arrive, the pace has accelerated substantially. In other cases, specific bottlenecks, such as ACT reprogramming for malaria, have caused delays, but rapid progress is expected here as well once these specific problems are solved.

Still, the analysis of the first grants which reached 18 months of activities by the end of 2004 shows some early indications of issues that need to be addressed. While there is no clear trend as to which regions are likely to succeed or fail or whether success is likely to follow a country’s income level, HIV/AIDS grants tend to be more difficult to implement, and government PRs tend to be less likely to exceed performance targets. Internal conflict between PRs and sub-recipients or other stakeholders, lack of strong leadership and management capacity, and complex procurement procedures, are among the most frequent causes of underperformance.

The importance of scaling up the technical and managerial support for grant implementation and the need for increased donor harmonization cannot be overemphasized. It is clear that neither the Global Fund, as a financing institution, nor the PRs, can succeed on their own. To respond to the challenges, a number of actions have been taken.

Early warning and response system

There has been significant progress in the development of an early warning and response system to identify and respond to problems when they are still nascent. It will serve as the basis for a tailored approach to portfolio management, enabling portfolio management staff to adapt their work with CCMs, PRs, technical partners and LFAs based on the Global Fund’s risk exposure. The basic design of this system has now been completed. Based on fifteen triggers, “alert” flags with three escalation levels (yellow, orange or red) will automatically go up in the grant management tool to indicate when a grant is moving too slowly and requires special attention. The timing and the escalation level will depend on a country and grant risk rating. For example, a yellow flag in a low risk setting, would likely be an orange flag in a high risk setting. When a yellow, orange or red flag comes up, there is then a standard process for response (staff involved, diagnosis, reporting, partner involvement, country communications) that will be followed based on the level of escalation. The system allows the escalation and de-escalation of the response based on certain conditions, and enables documentation of decisions and action taken. While the basic system is driven by existing performance data, a more advanced version will also allow contextual input from our partners.

A first version of the system has now been integrated into our IT-based grant management tool. We expect to pilot test, validate and finalize the tool and to fill remaining data gaps over the next two months. The modalities for the inputs of partners need to be further defined, and it has to be defined how this will be possible within the existing infrastructure and partner resources.

Collaboration with partners

The effectiveness of the early warning and response system will both enable and depend on strong and systematized collaboration with partners for country-level technical support throughout the life cycle of the grant. When a flag is raised for any given country, the ideal situation would be one where strong relationships with the relevant technical partners to address a particular problem already exist and resources can be deployed quickly to address the issue at hand. Work has been undertaken with partners to discuss their role and possible contribution in responding to problems concerning grant implementation and risky situations. Discussions have focused on developing a mechanism that can assist partners to coordinate and provide technical assistance as required to address the specific needs of a grant. This stream of work will be intensifying over the coming weeks and months, and will include a mapping of key partners by country and functional expertise.

In the context of efforts to facilitate systematic technical support for Global Fund grants, the Secretariat met with UNICEF's HIV/AIDS advisors to discuss how to better support Global Fund grants. Discussions are also underway with UNAIDS for the provision of technical support particularly for monitoring and evaluation for the HIV/AIDS grants in several regions.

The Secretariat has also collaborated closely with the World Health Organization through two workshops briefing WHO staff as well as WHO consultants on the Round 5 proposal guidelines and forms. Staff presented and facilitated discussions with TB and HIV/AIDS staff in Geneva and with WHO AFRO malaria staff and consultants in Harare. Consultants who participated in these workshops are currently providing support to countries for the preparation of Round 5 proposals.

A number of initiatives for the provision of technical support in the Latin American region are also being worked on with PAHO's Advisory Committee on HIV/AIDS and several agencies including CDC, UNFPA, and UNICEF. The goal is to mobilize technical support for slow performing grants in time to make an impact on preparing them for the Phase 2 Renewal process.

Support to Global Fund processes from bilateral and other partners has also intensified, including from the DFID, the US Office of the Global AIDS Coordinator, USAID and the Clinton Foundation. In order to better support NGO involvement in Global Fund grants the Secretariat is working with the HIV/AIDS Alliance by providing input into the organization's strategy and discussing with country focal points how best the Alliance can support Global Fund grants.

The involvement of private sector partners both with the Secretariat in Geneva and in-country, continues to facilitate better and broader implementation of grants. To better leverage the knowledge and inputs of the private sector, several proposals for co-investment have been initiated. The co-investment approach seeks to ensure that services provided by corporations to their employees and their dependants can be expanded to broader communities. In Kenya, Gabon and Niger, the Global Fund has been working with European members of the Global Business Coalition to allow local branches of their companies to work with recipients of Global Fund Grants. Discussions have also been initiated in China, Equatorial Guinea and India to seek greater involvement of the private sector in the Global Fund programs at country level. It is expected that a number of proposals will be made in Round 5.

In June, the Global Fund, in association with the Global Business Coalition and GTZ, will be organizing the next meeting on co-investment, bringing together multiple organizations, including DFID, AFD, PEPFAR, UNAIDS, WHO, ILO and the World Bank, World Economic Forum, IFC, Abt Associates, Merck and Co, ESTHER, and others in order to come to a greater understanding of roles and responsibilities for building public-private partnerships at country level.

Strengthening CCMs

A third area of work in accelerating implementations is the strengthening of CCMs. Since the Ninth Board Meeting in November we have made substantial progress in laying the ground work for improved CCM functioning and performance, and strengthening participation of the non-government sector. The CCM guidelines were revised to include the Board-approved requirements and were translated into the six official languages. They have been sent to all CCM Chairs, focal points and to CCM members whose contact details were available, and Fund Portfolio Managers have sent letters to CCM Chairs emphasizing the importance of compliance with these guidelines in the context of Round 5 proposals and Phase 2 requests for continued funding (submitted from June 1, 2005).

Discussion papers on the oversight role of CCMs in the implementation of Global Fund programs and on the provision of direct financial support for the establishment and running costs of CCM secretariats have been submitted to the Governance and Partnership Committee for review and endorsement. Following this Board Meeting, the draft CCM toolkit will be finalized with the incorporation of the guidelines for oversight implementation and guidance for support to CCM secretariats and functioning. Contact details for seventy CCMs are now also available on the Global Fund website, and Secretariat correspondence to CCM Chairs is copied to all other CCM members. There is close follow-up with the CCMs who have not, as yet, submitted their contact details. During the next six months, the Secretariat will explore the feasibility of establishing a system which will provide CCMs with the possibility of updating the database themselves. At the same time, the Secretariat will urge CCMs to make public the CCM membership with contact details in their respective countries.

The Global Fund Partnership Forum recommended strongly that the Secretariat provide CCMs with the opportunity to share experiences and lessons learned. In response to this request and to requests from CCMs that the Secretariat facilitate a clearer understanding of roles and responsibilities of CCMs, the first two regional *Workshops on Strengthening CCMs as Public Private Partnerships* were conducted this spring. Fifty CCM members from eight Southern African countries and from Ghana participated in the first workshop, financed by the Johnson & Johnson Foundation, and held in Lusaka, Zambia, from March 16 to 18. The second workshop, with financial support from USAID, GTZ and WHO, took place in New Delhi, India, from March 28 to 30, with 25 CCM members from six countries in South Asia. In both workshops, the participants developed one year action plans for strengthening their CCMs and for the implementation of more inclusive and participatory processes. These action plans include detailed activities, timelines and allocation of responsibility for implementation, and will be presented to in-country partners to mobilize support for their implementation. Similar workshops, with support from multi- and bilateral partners, are being planned for all regions. The next workshop, for 10 countries in West and Central Africa, is scheduled for late June, and another workshop for the countries from Middle East and North Africa will be held at the beginning of July. All CCMs will be given this opportunity for sharing of lessons learned and action planning before the end of 2005.

The Secretariat is also overseeing an assessment by the Futures Group of CCM processes and procedures, including the extent to which CCMs are meeting established guidelines and criteria for their composition, roles and responsibilities. The assessment is intended to provide guidance on areas requiring greater effort and to establish a baseline against which future progress can be gauged. The instruments and methods used in the CCM assessment were reviewed and finalized with guidance from the Technical Evaluation Reference Group and with inputs from the MEFA and the GPC committees. The CCM assessment is comprised of two parts. The first part is a document-verified survey called the "performance checklist" that covers issues such as composition and representation, participation and communication, and governance and management. The second part is a satisfaction survey which allows each CCM member and their respective constituency group to express their degree of satisfaction with specific aspects of CCM operation, including participation in decision-making and their ability to voice their opinions and perspectives within CCM fora. The CCM assessment aims to solicit responses from all CCMs worldwide. In March, the first phase was launched in 40 countries. Final input from CCMs is

expected by June and a final report for both parts will be available in September. Once the final report has been issued, it will be made available to CCMs and to partners.

Streamlining procurement

The fourth area of focus is procurement. Procurement, estimated to account for 40% of the value of grants, has been identified as one of the major bottlenecks in PRs' ability to implement Global Fund grants rapidly. For example, in-country procurement using national competitive procedures, typically takes between 8 to 12 months; lack of capacity in procurement and supply management (PSM) leads to delays as countries are not able to develop and implement PSM plans; the procurement of complicated regimens of ARVs and the purchase of products with inadequate supply, such as ACTs and long-lasting bed nets, presents significant challenges for countries. These challenges have several critical and undesirable implications, most significantly that countries may not be able to meet their targets, and, as a result, may not be approved for Phase 2 funding. Procurement thus is an area requiring systematic strengthening if implementation delays are to be minimized

In order to address these challenges, the Secretariat has been intensifying its work in a number of areas. First, we are working on the strengthening of PSM capacity of the PR through training activities that are being jointly conducted with the World Bank, WHO, UNAIDS, GDF, RBM, and others. Two workshops have already occurred in Nairobi and Addis Ababa, with a total of 29 countries attending, and another five are planned for this year.

Second, the Secretariat is encouraging countries with weak procurement and supply management capacity to use international procurement and supply agencies (for example, Crown Agents, GDF, IDA, Mission Pharma and UNICEF) while they build their own PSM capacity. This has been requested and welcomed by many countries. To support this effort, the Secretariat is in the process of exploring the establishment of Global Long Term Agreements (GLTAs) with various procurement agents for the supply of products with limited availability. A related area of development is the option of direct payment from the Global Fund to the procurement agent or supplier, based on the requests of several PRs to transfer funds directly. This process has multiple advantages and has already been used by a few countries.

A third and critical area of focus is the pooling of demand/procurement in order to ensure access to products with limited supply. The global shortage of ACTs and long-lasting bed nets is a case in point and the focus of our efforts at present. Already in August 2004, I authorized the establishment of a so-called memorandum account of \$205 million for procurement of ACT with the Trustee in order to provide more predictability in demand. This step assisted suppliers to invest in new production facilities in order to drastically increase production for 2006. Despite these efforts, there will be a shortfall in ACTs for 2005 and beyond. Over the past months, we have moved to assist countries in further speeding up ACT procurement (and in doing so, stimulating demand) by engaging our partners and procurement agents, and by transferring funds to these agents directly if so requested by the PR. In coordination with Roll Back Malaria, volumes and delivery schedules for individual programs have been mapped and provided to procurement agents who can place orders based on this information.

Finally, the Secretariat is exploring the development of a web-based tool to aid procurement decision making and simplify the procurement process for PRs, by allowing PRs to make price comparisons, select suppliers and oversee the procurement process. This tool is currently being piloted in the context of long-lasting bednet and ACT procurement and, upon successful completion, will be tested for other product categories.

We believe the experiences now gathered and efforts underway will move us a long way in addressing procurement issues more effectively – in particular, in the case of malaria products in

limited supply. My colleagues provided more details about these efforts during a pre-Board briefing session on Wednesday April 20.

Harmonizing program activities

The final area of focus in the context of accelerated implementation is 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.

We have collaborated with many stakeholders on this issue over the past few months, in particular with PEPFAR, DFID and UNAIDS. With the United States, the dialogue gained momentum through our close collaboration on AIDS treatment results for 2004, where – together with UNAIDS and WHO and the World Bank- a joint methodology was agreed on, all numbers were compared and overlaps in treatment figures in individual countries were captured. This resulted in the joint announcement on AIDS treatment results at the World Economic Forum in Davos, where consistent global HIV/AIDS figures were presented for the first time.

This dialogue was expanded through a two-day meeting in February between Global Fund operations staff and their counterparts at PEPFAR. The consultation sought to increase understanding of each others' structures, working modes, priorities and constraints and to develop collaborative working relationships. A particular focus of the discussions was strengthening coordination and collaboration in country.

This meeting has indeed resulted in intensified collaboration in the field and between the offices in Washington and Geneva. One example among many is Tanzania, where the Global Fund and PEPFAR are coordinating treatment responses for HIV/AIDS – the Global Fund concentrating on the provision of first line treatment and PEPFAR on providing the more expensive second-line treatment. In addition, the Global Fund and PEPFAR are coordinating their use of medical facilities. In Mozambique, the Secretariat is coordinating with local PEPFAR staff as the implementation of a Global Fund grant to the National AIDS Council moves forward. Joint missions are planned for Nigeria and South Africa. For a number of other African countries, including Malawi, Namibia and Zambia, conference calls with PEPFAR program staff have taken place to coordinate efforts and agree on joint actions. The Secretariat is also collaborating with PEPFAR to better coordinate technical support in the Latin American region. As a result, PEPFAR will be using some of its resources to fund the provision of technical support to Global Fund grants in the region.

Serious conversations about harmonizing activities have also taken place with other national and major international partners, including DFID, NORAD, Swedish SIDA, UNAIDS and the World Bank. Collaboration has already been established in Mozambique and Uganda. In China, DFID and the Global Fund intend to share the same management structure, reporting requirements, and M&E plan for the programs. Other countries that are considered for closer collaboration are Ethiopia, Ghana, Kenya, Malawi, Tanzania, and Zambia. The aim is to have concrete results to report to the next Replenishment Conferences.

Separately, the Operations Unit modified its operating policies and procedures last September to enable our direct participation in SWAPs, common funds and other pooled funding mechanisms. The details of participation have to be determined country by country based on consultation with the CCM and other donors at the country level. In Mozambique, for example, the Global Fund contributes directly to a Common Fund for the Ministry of Health and is represented at the working group of the SWAp. In Uganda, we are assessing how the Global Fund grants can be integrated into the SWAp and we expect to solve this issue within the coming weeks.

The Global Fund works in close partnership with funded countries and with other funding and technical agencies to build a "culture" of performance measurement. This work began with the

creation of the multi-party Monitoring and Evaluation (M&E) Toolkit in early 2004, and has been followed by a series of M&E trainings to ensure unified reporting in all countries. The first global training of country level M&E staff of UNAIDS, CDC, USAID, and WHO, took place in August 2004 and will continue throughout 2005. In addition, regional training workshops have been completed in Asia, East Africa and Southern Africa.

In December 2004, the Global Fund, UNAIDS, WHO, the World Bank, PEPFAR, USAID and CDC agreed to collaborate on a joint facility for M&E which was officially launched in March 2005. This is a cornerstone in ensuring and coordinating partner M&E support to countries. It develops a new model to broker M&E requests from countries with provision of technical support from partners, funded by the Global Fund and other donors.

The Global Fund has also actively participated in international efforts to harmonize M&E around the Three Ones, and is taking a central role in the recently established "Global Task Team on Improving Coordination among Multilateral Institutions and International Donors", where it will co-chair the working group on harmonization of M&E. This Task Team was called for during the high level meeting on "Making the Money Work" which was jointly chaired by UNAIDS, the UK, France and the US on March 9 in London. The work of the Global Task Team and its three working groups will directly feed into the work plan established during the first replenishment meeting for the Global Fund in Stockholm.

2.3 Taking the Secretariat from good to excellent

Secretariat staffing

As reported in my March update to the Board, we continue to make progress towards meeting our recruitment objectives, and are well on the way to filling the 150 fixed-term positions that make up the Secretariat's approved 2005 headcount. Of the 150 approved positions, 135 have now been filled on either a permanent or temporary basis. It is anticipated that the remaining appointments will be made between now and July.

With nearly three years behind us, we have also begun to see a number of staff moving on from the Secretariat over the past months. As Sy, the Director for Operational Partnerships and Country Support at the Global Fund, has joined the UNDP Bureau for Development Policy in New York as Director for HIV/AIDS. Eiichi Seki, Director of Portfolio Services and Support and seconded to the Global Fund by the Government of Japan, has been requested to return to Japan to take up a senior management position at the Ministry of Health, Labor and Welfare. He will leave the Secretariat on June 30. Two Cluster Leaders, Elizabeth Hoff and Tom Hurley, will also be joining UNDP, both to support Global Fund programs in country. Elizabeth will be the Global Fund Program Advisor to UNDP Myanmar and Tom will join UNDP as Senior Operational Advisor on the Global Fund for Africa and the Arab States. In addition, a number of our younger staff are leaving us to pursue higher degrees and may, we hope, return to the Global Fund team in due course.

While it is sad to see friends and colleagues leave who have contributed significantly to building the Global Fund, it is also encouraging to see that many of those leaving are moving significantly upward in their careers. We have been privileged to know and work with these highly talented and committed individuals and we look forward to staying in contact with them in their new roles – some of which will indeed keep them in close touch with the Fund.

Deputy Executive Director

As you already know we have conducted an extensive global search over the past six months for an excellent individual to fill the important position of Deputy Executive Director at the Global Fund. This search has involved the use of headhunters (Odgers, Ray and Berndtson), a

call to Board Members and others to inform us of attractive candidates, and much use of Global Fund networks and connections all around the world.

As communicated to the Board on April 5, I have selected Ms Helen Evans as the first Deputy Executive Director of the Global Fund. Helen is an Australian who has had a 30 year career as a senior executive in the Australian Government's health portfolio.

For the last seven and a half years, Helen has been the head of the Australian Government's Office for Aboriginal and Torres Strait Islander Health. The Office is responsible for addressing indigenous health disadvantage through funding and support for over 200 Aboriginal community-managed health and substance abuse services, workforce development, improved health data, and performance measurements. Prior to that, Helen headed the HIV/AIDS and Communicable Diseases Branch of the Federal Health Department where she led Australia's early and comprehensive response to the HIV/AIDS epidemic. This included the development of successive National HIV/AIDS Strategies, considered to be best practice by many countries. In this capacity, Helen also worked closely with AusAid, Australia's development assistance agency, advising on HIV/AIDS programs in the Asia Pacific region. She was involved in the negotiations to establish UNAIDS and was the Australian Government's representative on the first UNAIDS Board.

Helen brings to the Global Fund superb management credentials and a proven track record of leading effective teams in politically challenging environments. She is widely respected for her managerial and strategic skills, and for her personal qualities.

I am asking Helen, as my Deputy, to take full responsibility for the performance and management of the Secretariat and for the achievement of our corporate priority number three: "Taking the Secretariat from Good to Excellent". The members of the Executive Management Team will report directly to Helen in all matters concerning the performance and management of the Secretariat. In addition, she will be responsible for leading our corporate strategy development, and for other areas which may be agreed in due course.

Helen will be a great asset to the Global Fund and will play a strong role in the next phase of our journey. She is attending our Tenth Board Meeting and will join the Global Fund Secretariat on June 1. Please join me in welcoming Helen to the Global Fund.

Strengthening the Operations team

Over the past weeks, I have been working closely with Brad Herbert on actions to strengthen the Operations team. When we announced the new organizational structure on May 1 last year, it was agreed that we would review its functioning after 8 to 10 months to identify what further adjustments might be needed. After careful consideration, a first step, announced on March 11, is the recruitment of a Director of Operational Performance and Deputy Chief Of Operations who will support Brad in the leadership of the unit. As part of this role, the Deputy will be responsible for the day to day management of the unit. In addition, the Director of Operational Performance and Deputy COO will be responsible for developing, implementing and sustaining an annual business plan and systematic performance management across the unit. This will allow the COO to focus on operational policy and strategic issues, complex country challenges, and our relationships with key partners, while ensuring stable and effective management of the unit.

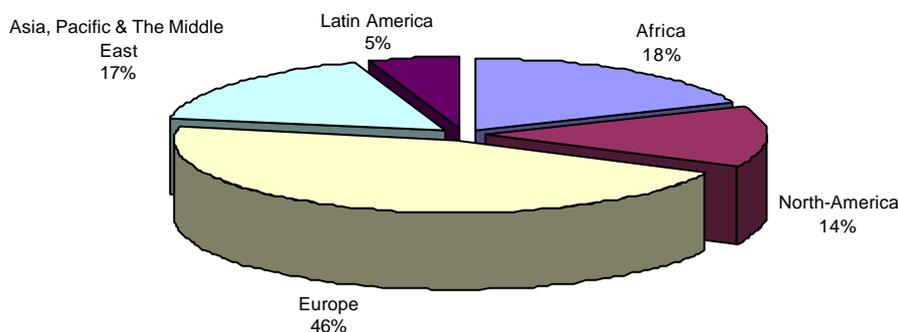
Mike Marchment, who is on secondment to the Global Fund from the United Kingdom's National Health Service (NHS), is acting in the role of the Director of Operational Performance and Deputy COO until his return to the UK in June 2005. Mike was the obvious choice for the interim Deputy COO, given his proven track record as an effective senior manager and his familiarity with the operations of the Global Fund. We have launched the recruitment process for the permanent position and expect to have the Deputy COO in place by the early summer.

Mike, working closely with Brad and my office, has been leading a review of the organizational structure, working mode and interfaces in Operations, to benefit from the experiences and learnings since the reorganization in May 2004. The result of this review are a number of adjustments to the current structure, which will be implemented shortly.

Diversity

At the Ninth Board Meeting, through the iteration of a Global Fund diversity statement and specific targets, we committed to striving for a workforce that includes people living with HIV, greater representation of staff originating from developing countries and increased gender balance in middle and senior management. With regards to gender, the target set for 2007 is an increase of women in middle and senior management (P5 and above) to 40%. At the time of this report, 29% or 12 out of 41 staff in middle and senior management positions were women. This percentage has increased slightly since November, and I am confident we will improve further this year through the upcoming recruitments for middle and senior management positions in the Secretariat. Looking at geographic diversity, the target set for 2007 is to increase minimum representation for each region to 15%. The table below shows that we have made good progress through our recent recruitments and that only Latin America is now below the minimum target. 20% of staff members come from Francophone countries.

Global Fund Staff by Region



The third target is the recruitment of one to two HIV positive colleagues per annum for the next three years. As of April 2005, of the new staff members recruited, two have self identified as people living with HIV although there may be others who have chosen not to identify their status.

Staff development

The implications and opportunities that we face as a consequence of the substantial growth in the Secretariat are considerable. Equally crucial to identifying and recruiting high quality staff is retaining and developing this precious asset. An organization-wide needs assessment by unit/team, in preparation for the roll out our Staff Development and Learning Framework, is currently under way. This initiative is being taken forward under the guidance of an experienced learning specialist who recently joined the HR team. In the meantime, we have successfully piloted an HIV/AIDS sensitization training within the Secretariat (which will be mandatory for all

staff), and are continuing the Staff Induction Program and the Operations Functional Training, gradually introducing more modules.

Information systems and management

During the last months, with the help of external consultants and a new internal team, further steps to enhance our information and process management have been completed.

A new toolset for internal teams is being introduced to provide structured access to all necessary information, enabling better collaboration and sharing of documents even while team members are traveling. The new document management system that is part of the overall Information Management Platform is the first step towards comprehensive electronic record management. Work to capture all strategic information in a consistent and structured way shows good progress. First results are better support of our donor processes through a Donor Database and Management Tool, a Grant Management Tool including management dashboards for progress tracking, and the first version of the early warning system.

Next steps in this arena include full IT support of our disbursement processes to better capture and document performance based funding and disbursement decisions. Tools to support Global Fund teams, the TRP and the Board within the current call for proposals are being delivered or under development.

Office of the Inspector General

The Secretariat has been working with DLA Piper Rudnick Gray Cary, a major international law firm, on a plan for the establishment of an Office of the Inspector General (OIG) for the Global Fund.

The OIG - which will have an internal audit function - will focus on the prevention, detection and resolution of fraud and abuse by recipients of Global Fund grants and within the Global Fund, and on the effectiveness of the Global Fund's internal management processes. The Office will be an independent unit and will interact directly with the Board and, where appropriate, report on the progress of investigations and other work to the Executive Director.

We are grateful to DLA Piper, who have generously taken on the OIG project pro bono, for having prepared a report on this topic. This report will be presented in an information session on April 20. I believe that DLA Piper's report can serve as the basis for the work of a Board Committee in establishing an OIG for the Global Fund over the next few months.

WHO transition plan and office move

Since we last met in Arusha, I have visited Berne to sign the Headquarters Agreement with the Swiss Confederation. With this secured, we have been conducting our groundwork for alternative arrangements to the current Administrative Services Agreement with WHO, exploring options that will simplify and rationalize administrative work. The Governance and Partnership Committee has received periodic briefings and a series of information and discussion meetings have also been held with all staff, to keep them fully in the picture and also to maximize feedback on possible issues and concerns. As mentioned previously, the paramount objectives in pursuing these options are to enhance efficiency, to ensure that administrative procedures maintain their rigorous standards, and to maintain staff security and benefits. I expect we will have a much more detailed scenario and roadmap for implementation of any changes by the time of the September Board Meeting.

One very immediate challenge is the move by the Secretariat into new office accommodation – in the World Trade Centre building, beside Geneva airport. This will be completed by early

July. While this will solve our immediate needs, we are still keen to find and secure a longer-term home for the organization, tailored to meet all possible future needs. Following an initial discussion at the March meeting of MEFA, a sub-group of that Committee has been working on next steps. We expect to hear the conclusions and recommendations from that group shortly, and to bring firm proposals to the Eleventh Board Meeting through the appropriate Committee.

In closing, I would like to extend a heartfelt thank you on behalf of the whole Secretariat to our outgoing Chair and Vice-Chair Tommy Thompson and H  l  ne Rossert-Blavier. They can both take enormous credit for the tremendous progress the Global Fund has seen under their leadership. I also want to thank the outgoing Chairs and Vice-Chairs of our Board Committees for their commitment and engagement: Pasqualino Procacci and Dana Farcasanu for the GPC; Sigrun M  gedal and Rita Arauz Molina for MEFA; Francis Omaswa and Kate Taylor for the PMPC; Stuart Flavell and Flavio Lovisolo for the RMCC; H  l  ne Rossert-Blavier for the Ethics Committee; and Helene Gayle for the Steering Committee on the Partnership Forum. They have steered the Global Fund towards the unique position it has among international organizations and have provided sound and effective leadership and guidance. We are very grateful for their contributions.

This year is a year of consolidation for the Global Fund. We are moving from adolescence to adulthood and we have to get there before the end of 2005. Our income must be adequate and predictable. We can no longer tolerate the annual anxiety of going cap in hand, donor to donor, to obtain the resources needed to continue to support the excellent programs that we are financing and to continue lifesaving therapy for hundreds of thousands (and soon millions) of people whose medications we are financing. We can no longer continue to have onerous procedures and too little harmonization, and nor can we continue with ad hoc systems for identifying problems early and mobilizing the necessary technical assistance.

Procurement, in particular, has got to be hugely improved. There is one country where two rainy seasons have passed and thousands of children have died unnecessarily, because the national procurement system for ACTs was not up to the task. There are many countries in which one rainy season has been missed and many children lost. This is simply not acceptable. We are today the largest source of finance for products for TB and malaria, and one of the three large sources for products for HIV/AIDS. We must use our power in the marketplace to increase competition, supply and quality, and reduce prices. All this is beginning to happen, but our impact could be far larger.

Lastly, our Secretariat which has grown so rapidly and done such a remarkable job, must now settle down, grow up, stabilize and become an efficient, professional and trusted engine for delivering the core business of the Global Fund. I am confident that we will achieve much of this by the end of 2005, with further refinements and improvements coming in 2006.

The June and September Replenishment Conferences will be upon us soon, and between them comes the important G8 Summit at Gleneagles. Let me pause to thank both the Commissioners of the Commission for Africa, and the Secretary-General of the United Nations, for their recent reports which so strongly endorsed the role of the Global Fund and its need for full and sustainable financing. In both June and September, the UN General Assembly will meet to discuss matters with which we are intimately involved, and in late September will come our next Board Meeting. As usual, great strides need to be achieved during these very few months. I have no doubt that I and my colleagues at the Secretariat will receive, once again, the unstinting support of Board Members and Board Committees in driving us forward rapidly and in successfully meeting the challenges that lie immediately ahead.

I look forward to your guidance over the next two days and thank you once again for the time and energy that you commit to the cause of fighting the three great pandemics.