



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

**Thirteenth Board Meeting
Geneva, 27 - 28 April 2006**

GF/B13/5

REPORT ON PERFORMANCE BY THE EXECUTIVE DIRECTOR

Outline: This document contains the performance report of the Executive Director of the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

Part 1: Introduction

1. I am pleased to provide this review of my work as Executive Director since my initial appointment in July 2002, with a focus on the period following my reappointment in July 2004. As a framework for this assessment, I use the Key Performance Indicators (KPIs) set by the Board at its 9th meeting in Arusha to measure my work in 2005. These KPIs represent the range of operations of the Secretariat and responsibilities of the Executive Director as defined in my Terms of Reference. A full description of those indicators, as well as a measurement of my performance in meeting the specific targets set for 2005, is included in Annex 1.

2. The Global Fund has come a long way since I first joined it nearly four years ago. It is important to recognize that this progress is the result of not only the efforts of the Secretariat which I have led, but also a range of individuals and institutions committed to the goals of the Global Fund, including members of the Board and the Technical Review Panel, our technical partners, and our recipients in affected countries. Throughout my tenure as Executive Director, I have, working alongside the Board, strived to strengthen these local and global partnerships, which are critical to the success of the Global Fund's mission and model.

3. While the Global Fund has made great strides over the past four years, there is still much more to be done. Accordingly, in my assessment below, I also note areas where we have not achieved the desired level of progress and which must be a priority for my work and that of the whole organization going forward. This assessment follows five key areas of operation contained in the KPIs – results and impact, core business, development and innovation, leading and managing the Secretariat, and supporting the work of the Board.

Part 2: Results and Impact

Objective	Relevant Key Performance Indicator		
	Indicator	2005 Target	2005 Actual
Finance the rapid scale-up of effective means to prevent and treat the three pandemics	<ul style="list-style-type: none">percentage of agreed targets reached by grants in Phase I (based on 18 months' performance evaluation)	<ul style="list-style-type: none">65% across portfolio	<ul style="list-style-type: none">74% (108 Phase 2 grants at year end)

1. Ultimately, my primary objective as Executive Director is to ensure that Global Fund resources have the greatest possible impact on the burden of the three diseases around the world. This is a responsibility which, as the KPIs note, I share with our Board members, many of whom represent agencies and organizations with the capacity and mandate to respond to the country-level challenges that impede effective implementation.

2. At the time of my reappointment in July 2004 our portfolio was still young, with active grants on average just nine months old, and few grant results to report. Since that time, we have witnessed marked growth in the provision of essential interventions across our portfolio, including antiretroviral (ARV) treatment, Directly Observed Treatment Short-course (DOTS), and insecticide-treated bed nets (ITNs) (see Figures 1a, 1b and 1c). In addition, as of December 2005 programs financed by the Global Fund had reached 7 million people with HIV prevention outreach, provided care and support to nearly 400,000 orphans and trained 300,000 health professionals and volunteers. Millions more people have been reached with a wide range of other interventions financed by our grants, from effective malaria treatment to HIV voluntary counseling and testing.

3. It is still too early to determine the impact these results are having on the prevalence and burden of the three diseases, with a few notable exceptions. However, we are ensuring that most of our grants include impact indicators so that, as they mature, we will be able to evaluate their performance in this area.

4. These portfolio-wide results reflect strong individual performance by our grants. Of the 117 grants which had reached Phase 2 review by March 2006, 74 percent had met or exceeded their targets (A or B1); 21 percent had underperformed, but demonstrated success in some areas (B2); and 5 percent had significantly underperformed (C). In total, the 106 of these grants which had reached Phase 2 by the end of 2005 had met or exceeded 72 percent of the nearly 1,500 targets set to measure their work, surpassing the target included in the 2005 KPIs (see Figure 2). To be sure, not all of our grants are performing well and there is room for improvement for many of those that are. While some variation in performance is to be expected in a portfolio of more than 300 grants across 130 countries, we can and must do more to ensure our recipients have access to the technical resources they need to accelerate implementation. I discuss this challenge and our response to it further below.

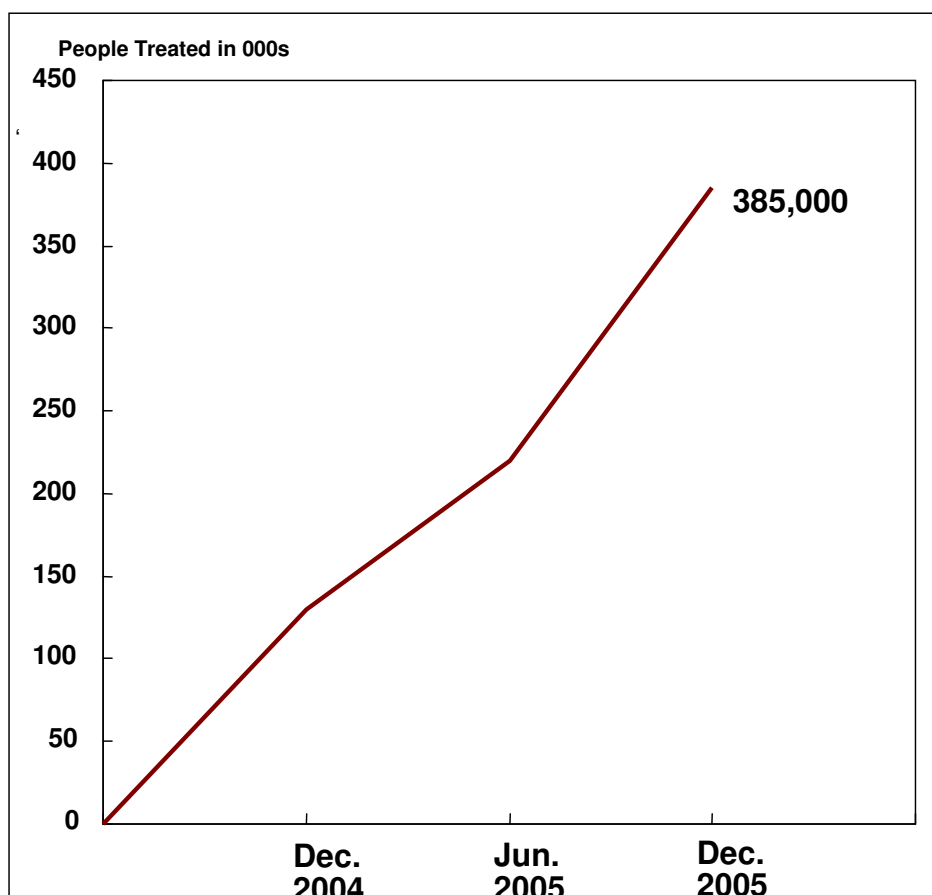


Figure 1a: Number of people living with HIV/AIDS receiving anti-retroviral treatment supported by Global Fund financed programs.

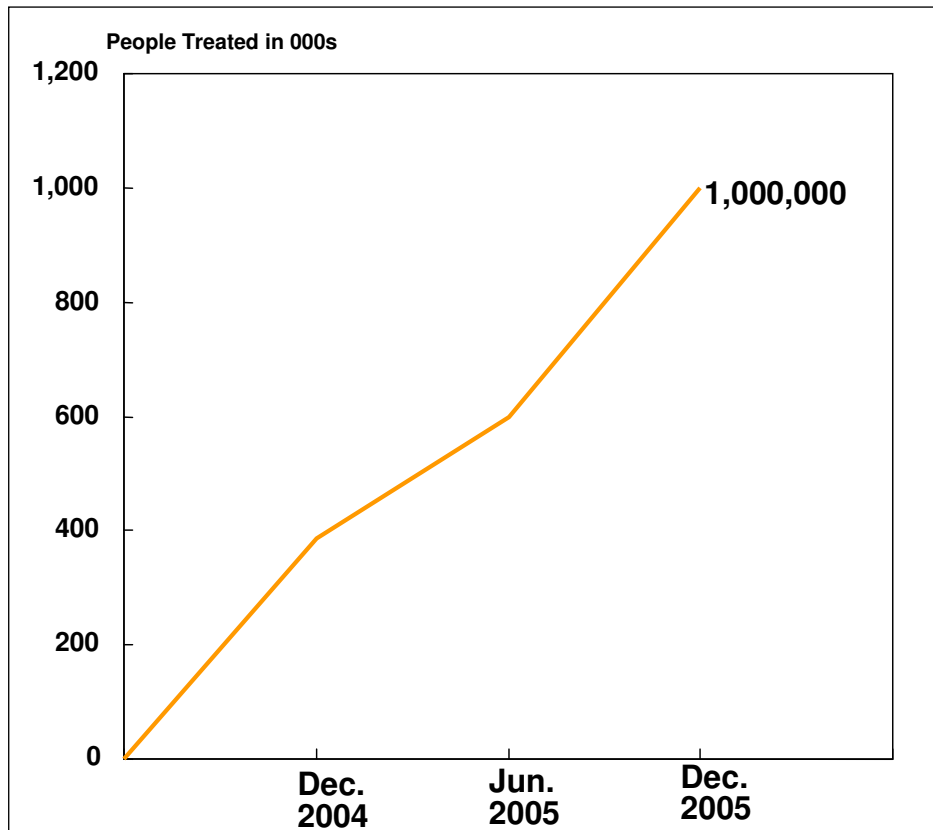


Figure 1b : Number of people with TB receiving DOTS provided by Global Fund financed programs.

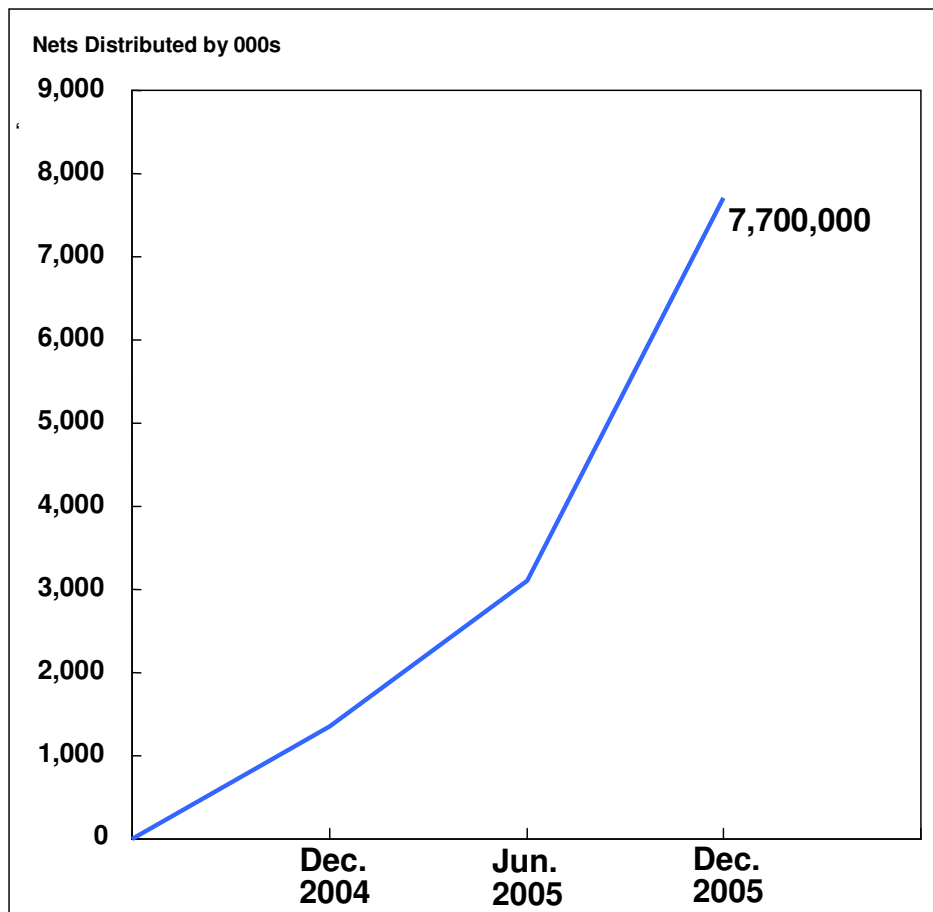


Figure 1c : Number of insecticide-treated bed nets distributed or re-treated by Global Fund financed programs.

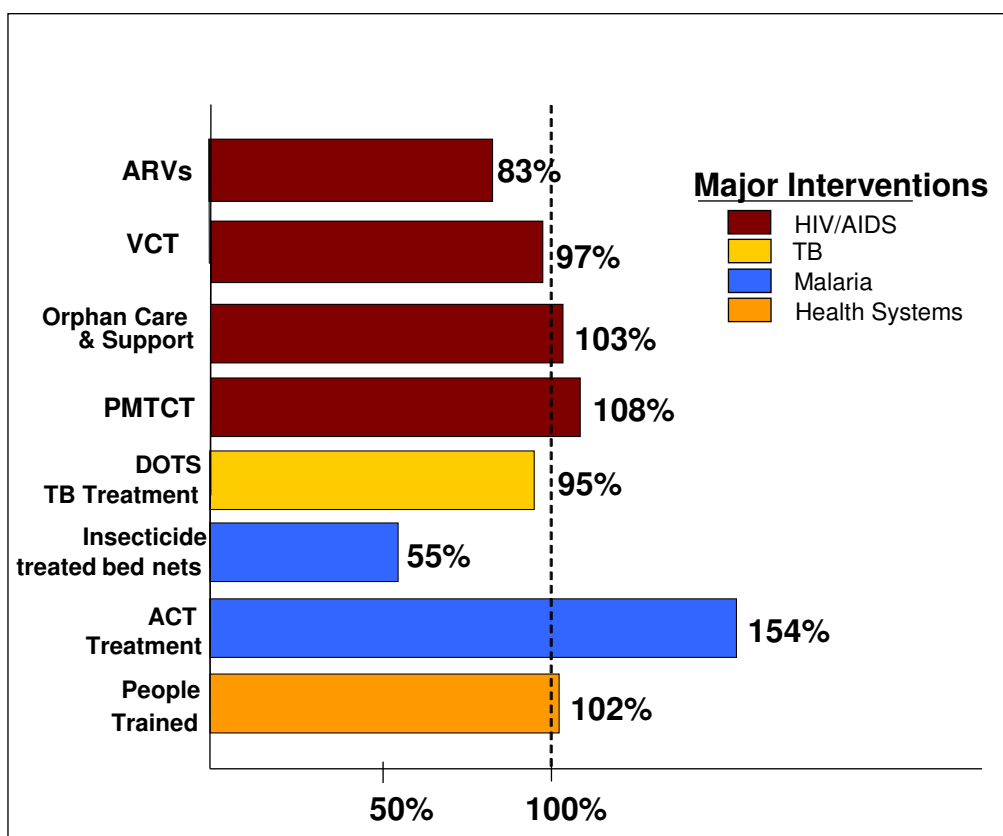


Figure 2: Percent of aggregate two-year targets reached by the 117 grants reviewed for Phase 2 by the Secretariat as of 1 March 2006.

Part 3: Core Business

1. In measuring the core functions of the Secretariat, and thus myself, the KPIs follow the basic mantra I set for the work of the Global Fund – “raise it, spend it, prove it” – with a fourth heading, “communicate it,” added to capture the centrality of communication in our work. I review progress in each of these areas below.

Raise it

Relevant Key Performance Indicators			
Objective	Indicator	2005 Target	2005 Actual
<i>Raise it:</i> Mobilize sufficient resources to implement GF mission	• percentage of 2005 funding needs contributed	• 100%	• 100%
	• percentage of 2006 needs for current and next rounds pledged	• 70%	• 65%

2. Over the past four years, I have worked alongside the Board and advocates throughout the world to raise additional funds to support the work of our recipients. In that time, the total assets of the Global Fund have increased five-fold to US\$ 8.8 billion¹ today, while resources received have increased from none at the end of 2001 to US\$ 4.8 billion at the end of 2005 (see Figure 3). Through 2005, contributions had fully met the needs of our new and existing grants, and 69 percent of the funds required for 2006 were paid or pledged by the end of 2005, thus achieving the targets set in the KPIs, for which I share responsibility with the Board. This growth in income has been led by significant increases in both the number and size of government contributions, from 25 donors contributing an average of US\$ 30 million in 2002 to 54 donors contributing US\$ 50 million on average in 2005.

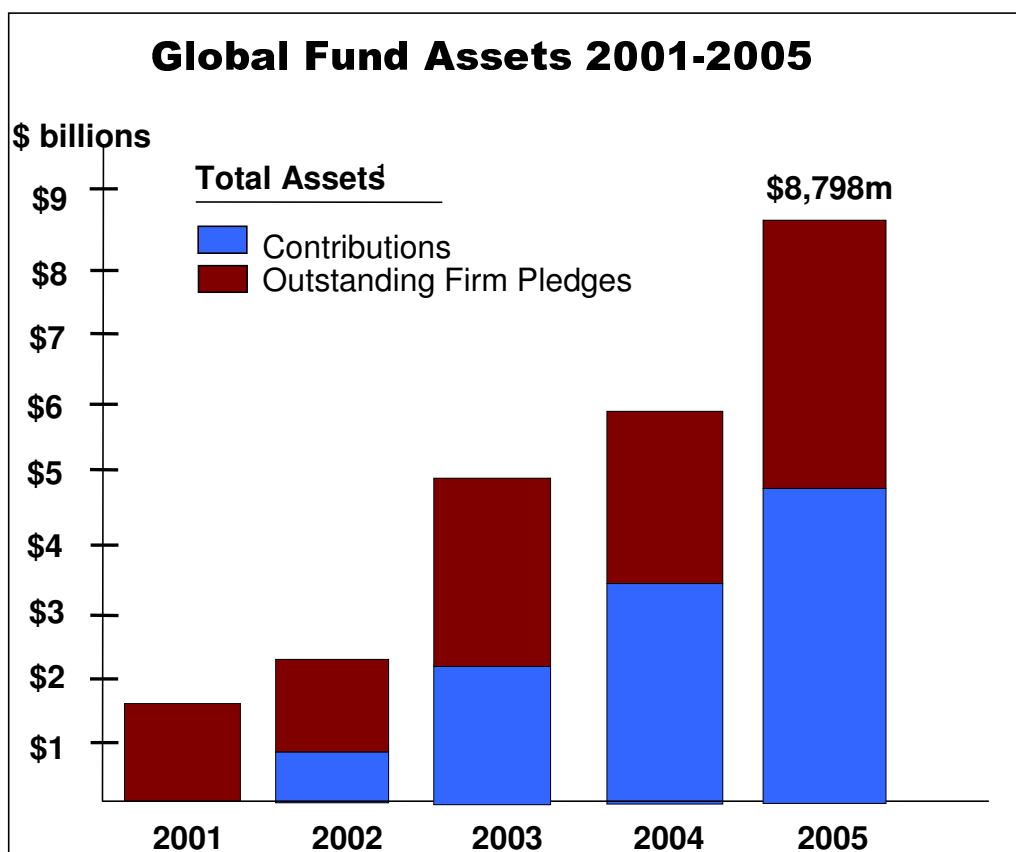


Figure 3 : Total value of payments made to the Global Fund's trustee account and remaining firm pledges through 2008 at the end of each calendar year

3. While private sector contributions have not risen at a similar pace to date, we have received substantial pro bono support for the work of the Secretariat and there have been a number of promising developments in the past year. The most significant was the launch of (Product)^{RED}, an innovative initiative with the potential to raise substantial new funds from private corporations and individuals and significantly raise the profile of the Global Fund around the world. There are still difficult challenges to increasing the private sector's support for the Global Fund, but I am hopeful that with the leadership of our Private Sector Board Delegation, which presented a new strategy in this regard last September, and strong support from the Secretariat, we will make much additional progress during 2006.

¹ Amounts listed as pledges are firm commitments by sovereign governments. Through 2005, 97 percent of pledges had been converted into cash contributions.

4. Last year, we also took an important step in increasing the financial sustainability of the Global Fund through the completion of the first voluntary replenishment process. This process, for which we provided donors with detailed analyses of the Global Fund's performance and needs, resulted in US\$ 3.6 billion in new pledges, most of them for multiple years. However, we still face a shortfall of US\$ 2.7 to US\$ 3.1 billion for 2006-2007. I have set filling this gap as a top priority for the work of the Secretariat this year and efforts to do so are underway through the cultivation of new donors, engagement with innovative financing mechanisms, and preparation for the mid-term Replenishment Conference to be held in Durban in July, 2006.

Spend it

Relevant Key Performance Indicators			
Objective	Indicator	2005 Target	2005 Actual
<i>Spend it</i> : Scale up disbursement through effective grant management	• Amount disbursed to Rounds 1-4 grants	• \$1.1 billion	• \$1.05 billion
	• Avg. time between grant approval and 1st disbursement	• <6 months	• 11.2 months (see Annex 1)

5. As Executive Director, it is my responsibility to lead the signing and management of the grants approved by the Board. When I first joined the Secretariat in July 2002, we had not signed a single grant or disbursed a single dollar and the structures and systems for these core processes were not yet in place. Building an effective system for grant management and rapidly and accountably channeling money to our recipients was the principle focus of my first years at the Global Fund, and at the time of my reappointment we had signed grant agreements totaling US\$ 1.4 billion to 158 grants in 86 countries and disbursed US\$ 445 million. Today, we have committed US\$ 3.6 billion (see Figure 4) to more than 350 grants in 130 countries (see Figure 5) and disbursed US\$ 2 billion (Figure 6). Our disbursements have closely tracked the implementation needs of our recipients – currently, 61 percent of average grant values have been disbursed compared to 65 percent of average grant time elapsed. Moreover, we have met or fallen just short of the disbursements targets I have set for the organization every year, including the target of US\$ 1.1 billion contained in the KPIs (see Figure 6).

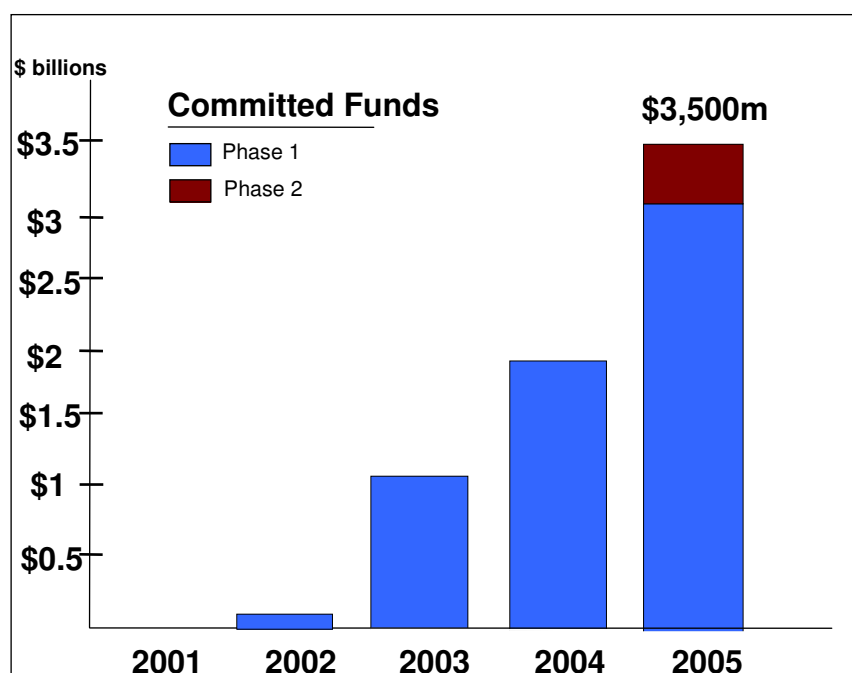


Figure 4: Grant commitment (all funding committed through signed grant agreements) at end of each calendar year

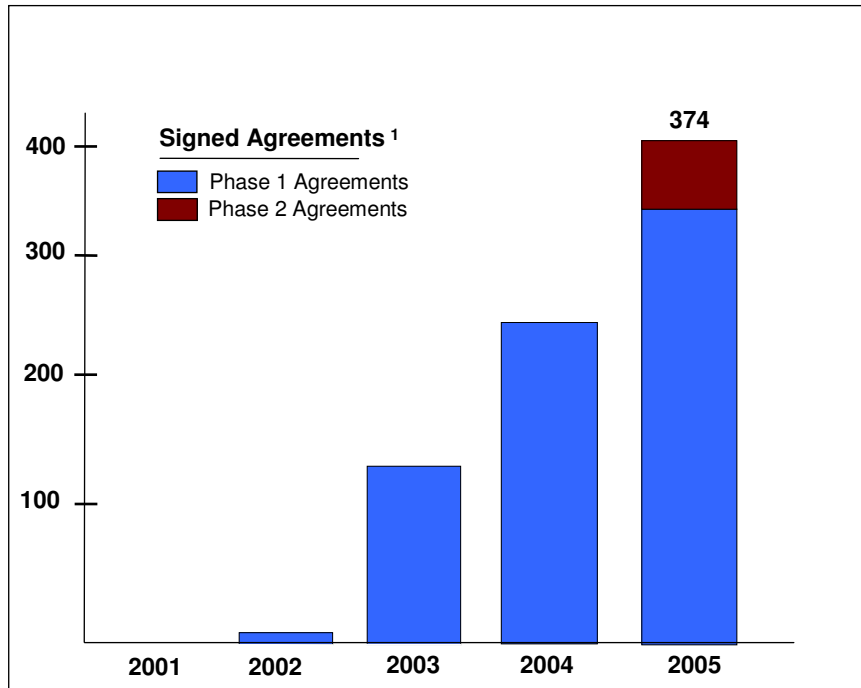


Figure 5: Cumulative grant agreements signed with Principal Recipients at end of each calendar year

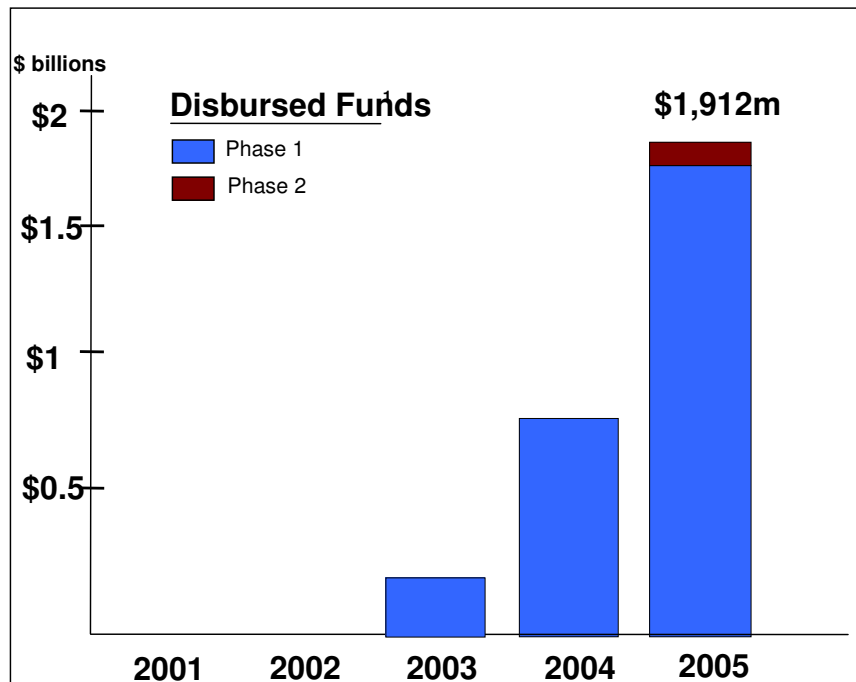


Figure 6: Cumulative disbursements to Principal Recipients as of the end of each calendar year

6. As our portfolio has grown, we have continually refined our internal grant management processes in order to reduce the time between Board approval of a proposal and the first disbursement of funds – an objective also set in the KPIs. While there has been steady improvement (on average, Round 4 grants were signed 34 days faster than those in previous Rounds), we fell significantly short of the target set in the KPIs. This was in part due to the time required for the Technical Review Panel (TRP) to conduct clarifications of proposals with recipients, a process in which the Secretariat is not substantially involved (see Annex 1)². However, there is still much we can and must do to improve the efficiency of our internal operations. We have already introduced a new Principal Recipient (PR) assessment tool to accelerate signing of Round 5 grants, which we are currently negotiating, and will be exploring further steps to streamline the process in the coming months.

7. A major challenge faced by the Secretariat during my second term was the development and implementation of the Phase 2 review process. In 2004, we constructed a system to ensure rapid and thorough collection and evaluation of grant performance information for subsequent review and decision-making by the Board. Since that time, we have processed 117 Phase 2 requests through this system and have signed 61 new agreements with those programs approved by the Board. While there have been some delays, the majority of requests have been processed according to schedule, ensuring that there is no interruption in the implementation of successful programs. Based on the experience of the past year, we are taking steps to further streamline our internal management of this system, such as strengthening information management systems, as well as implementing recent Board decisions regarding the decision-making processes and procedures.

8. While we are principally a financing mechanism, we have increasingly recognized over the past four years that the Global Fund has a number of critical roles to play in enabling the performance of its recipients. The first of these is communicating and coordinating with our technical partners to ensure rapid and robust responses to the challenges faced by our recipients. Early in my tenure, our approach was relatively ad hoc, though we made significant progress with generous support from a range of partners. In the past year, we have moved to systematize these efforts through the development of the Early Alert and Response System (EARS) and our active participation in the Global Implementation Support Team (GIST).

9. EARS is now operational, tracking key quantitative and qualitative performance indicators for all grants in our portfolio and alerting the Secretariat when grants are facing challenges in implementation. However, I believe this is an area where performance can still improve significantly. Much work remains to be done to ensure EARS has the necessary impact on grant implementation, including effectively fitting it with our operations and processes and those of our partners and recipients. As a first step, we have begun to strengthen the capacity of the team which manages EARS and will be taking additional action over the course of the year.

10. A second area of work in maximizing the impact of our investments is ensuring that our operations are aligned and harmonized with those of our recipients and partners in a manner that is true to the core principles on which we were founded. Our efforts in this area have gained momentum in the past two years. At the global level, we have been active participants in major processes such as the Global Task Team on Improving AIDS Coordination (GTT) and the High-level Forum on the Health MDGs. Implementing the recommendations of the GTT has been a particular focus for our work and we have made steady progress through, among others, active contribution to the GIST and the completion of a joint study with the World Bank on the comparative advantages of our institutions.

² Most proposals approved by the Board are those that the TRP has recommended for approval only after certain clarifications are made by the applicant and approved by the TRP. In 2005, this process took, on average, 3.3 months – roughly one-third of the total time from Board approval to first disbursement.

11. We have also made some progress at the country level, such as in Malawi and Mozambique where we are now channeling our investments through funding baskets alongside other donors. In addition, we have organized several consultations between our Fund Portfolio Managers and their counterparts with U.S. bilateral programs and the World Bank which have led to greater communication and coordination in countries where we are mutually investing. However, there is a natural limit to how far we can take alignment and harmonization within our current business model. The strategy development process, for which I currently lead the Secretariat's contributions, is currently considering possible shifts in that model and I look forward to engaging with the Board further on this topic through this year.

Prove it

Relevant Key Performance Indicator			
Objective	Indicator	2005 Target	2005 Actual
<i>Prove it:</i> Make performance-based funding a reality	<ul style="list-style-type: none"> Second and subsequent disbursements based on evidence of performance and expenditure (including disbursement to sub-recipients) 	<ul style="list-style-type: none"> 95% 	<ul style="list-style-type: none"> 94%

12. One of my principle responsibilities has been to effectively operationalize the principle of performance-based funding at the heart of the Global Fund's model. Our efforts to do so have focused primarily in three areas.

13. The first has been to gather robust and accurate data on the performance of our grants and ensure that all funding decisions are based on that information. Early in my tenure, I placed an emphasis on developing the systems to collect and verify information from our recipients, including implementing the Local Fund Agent (LFA) model and regular reporting for disbursement requests. In subsequent years, we have focused on more systematically incorporating the growing amount of data generated by our grants into core decision-making processes through, among others, the grant performance reports used for Phase 2 review and a new disbursement tool. As a result, an analysis of the 546 disbursements made in 2005 indicates that 94 percent were made based on concrete evidence of performance and expenditure, just short of the target set in the KPIs (see Annex 1).

14. Our experience to date has shown that money has indeed followed results, though there is room for improvement. Through the Phase 2 review process, US\$ 153 million has been cut from poor-performing grants through cancellations and budget negotiations, with a further US\$ 53 million recommended for cancellation currently under consideration by the Board. As a result, there has been a significant shift in the balance our investments from poor- to well-performing programs entering the second grant phase. Due to cancellations and budget cuts through the Phase 2 process, grants rated A and B1 are receiving an eight percent greater share of our total Phase 2 investments than was scheduled in their original proposals, while the share allocated to B2- and C-rated grants has decreased by a similar amount (see Figure 7). Our ongoing disbursements have also tracked performance, with A-rated grants which have entered Phase 2 having on average received 91 percent of their total Phase 1 budgets while grants rated C received 58 percent (see Figure 8).

15. A second focus of our work in "proving it" has been to aggregate and analyze grant performance data and effectively communicate that information to our Board members, donors, and other key stakeholders. During the replenishment process last year, we prepared three comprehensive progress updates which included a variety of analyses of the financial and programmatic performance of our portfolio. Other studies examined the initial impact of our investments in fragile states and our progress in improving the alignment and harmonization our investments. A range of other key indicators are regularly measured and reported through mechanisms such as the annual report and the Executive Dashboard on our website.

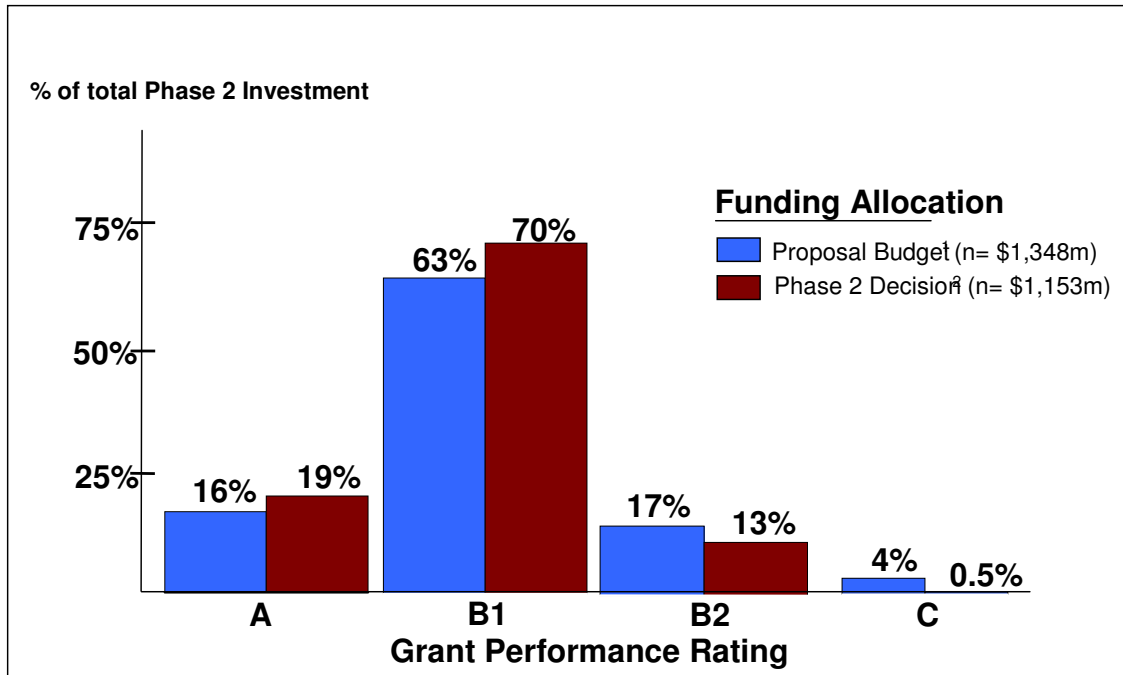


Figure 7: Shifting investment to performance

¹ Total Phase 2 budget included in original proposals submitted by recipients

² Allocation of Global Fund Phase 2 investments based on final Board decisions on 114 Phase 2 proposals as of 1 March 2006.

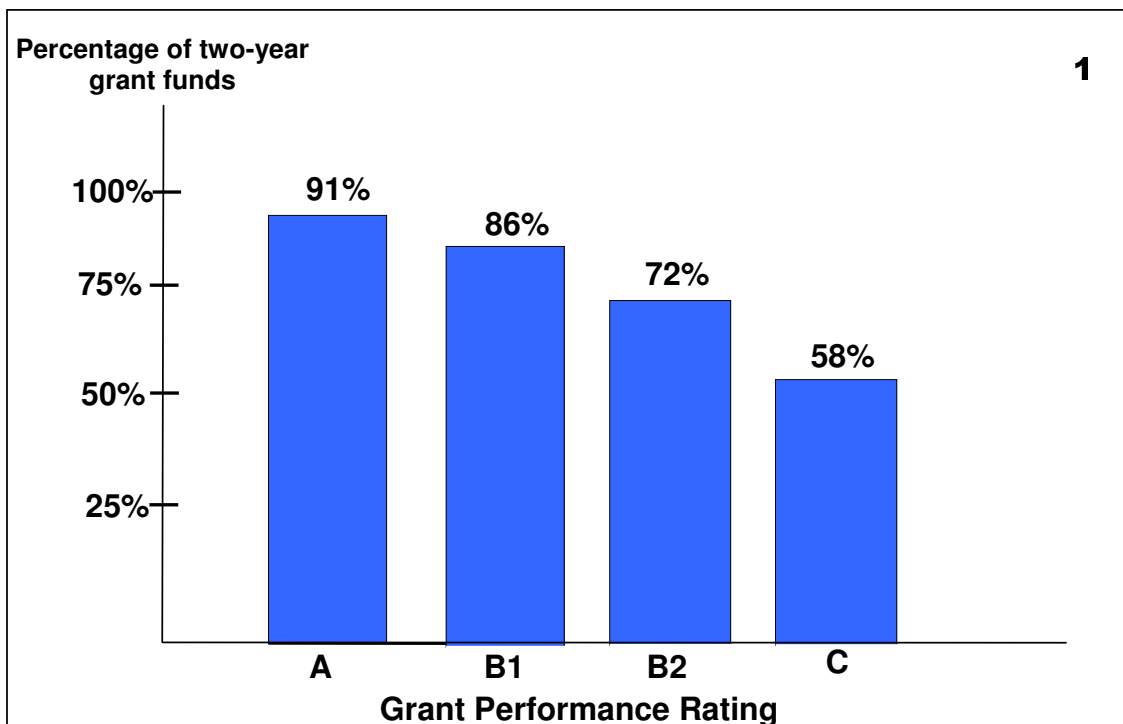


Figure 8: Disbursements by grant performance (median percent of 2-year Phase 1 grant commitments disbursed to the 121 grants with Phase 2 requests reviewed by the Secretariat as of 1 March 2006).

16. The final area of focus has been to encourage and support independent evaluations of our systems and structures. Over the past four years, numerous studies of the Global Fund's work have been conducted by outside experts, including two reports by the U.S. Government Accountability Office (GAO). In keeping with our commitment to transparency, we have provided all these researchers with full access to relevant information in the organization. We have also strived to learn from and act on the findings of these studies. For example, the development of a new disbursement tool this past year followed a recommendation by the GAO to improve our documentation of decision-making processes. To provide us with a more regular and formal source of independent evaluation, we have, under the guidance of the Board, supported the creation and ongoing operation of a Technical Evaluation Reference Group (TERG) composed of nine experts from around the world. In addition to identifying our continuing challenges, many of these studies have recognized the progress of the Global Fund to date. Keith Bezanson, for example, concluded his study for the first replenishment meeting in March 2005 by noting: "The Global Fund has come a very long way in the short space of three years. In many respects, its trajectory has been unprecedented in the history of international development. It has become what other organizations talk about — a learning organization."³

Communicate it

Relevant Key Performance Indicator			
Objective	Indicator	2005 Target	2005 Actual
<i>Communicate it:</i> Drive consistent external communications	<ul style="list-style-type: none"> All major reports, including periodic grant progress updates, produced and available on website in a timely manner 	<ul style="list-style-type: none"> 80% on time 	<ul style="list-style-type: none"> 100%

17. Supporting these areas of work has been the rapid and thorough communication of the Global Fund's activities and needs. Our website has set a new standard of transparency, with every grant agreement, disbursement request, and performance report (among others) available for download within days of its finalization. We have also produced regular updates and detailed analyses of the progress achieved by our grants and the Global Fund as a whole. In 2005, we produced a total of 15 such reports, all of which we completed and distributed according to schedule, thereby surpassing the target in the KPIs.⁴ We have also stimulated significant media coverage of the work of the Global Fund and its recipients. During my first 18 months with the organization, the Global Fund was included in roughly 2,000 stories produced by media outlets in both donor and developing countries. This coverage has steadily grown, with the Global Fund included in more than 3,000 stories in the last 8 months alone.

Part 4 : Development and Innovation

Relevant Key Performance Indicator			
Objective	Indicator	2005 Target	2005 Actual
Develop strategy for sustainable success	<ul style="list-style-type: none"> Completion of well defined four-year strategy, including future rounds, with targets and milestones 	<ul style="list-style-type: none"> Strategy document completed for Board review by July 2005 	<ul style="list-style-type: none"> Timeline extended to Nov. 2006 by Board

³ Replenishing the Global Fund: An Independent Assessment, by Keith A. Bezanson

⁴ Includes the 2004 Annual Report, the Global Fund brochure, three Progress Reports, and a range of other analytic reports for use at the Replenishment Conferences in March, June, and September 2005. Does not include papers prepared for Board meetings or committees.

1. The success of the Global Fund relies, in part, on our ability to consistently adapt our operations to respond to the evolving challenges in the fight against the diseases. Accordingly, in late 2004 it was decided that the Global Fund should develop a strategy to effectively guide its work for the following years, building on lessons learned from our experiences to date. The newly-formed Policy and Strategy Committee (PSC) of the Board assumed leadership of this task in April 2005 and the deadline for completion of the process was subsequently extended to November 2006. The Secretariat's role, which I have personally led since Helen Evans assumed the responsibility of Interim Chief of Operations, has been to support the committee's deliberations on the complex strategic issues. For example, last year we prepared 18 background papers to assist the committee in setting and prioritizing the specific strategic questions to be examined during this process. I have set continued effective support for this process as a top priority for the work of the Secretariat in 2006 and I look forward to working further with the Board in this area throughout the year.

2. Our commitment to innovation has extended beyond strategy development. Throughout my tenure, I have sought to develop innovative operational solutions to the challenges faced by the Global Fund. Procurement has been a particular focus of our efforts to innovate. For example, in 2004 we launched the Price Reporting Mechanism, a web-based tool designed to significantly increase transparency by capturing and openly reporting prices paid by our recipients. To date, 44 countries have reported prices for 167 commodity purchases and we are seeking to increase usage of the tool through our grant management processes. We also led the development of a business plan for a Global Electronic Marketplace (GEM), which could greatly improve the efficiency of commodity procurement while maintaining country ownership. Other areas of innovation include our participation in (Product)^{RED}, which is pioneering a sustainable approach to private sector fundraising, and our contributions to the Joint Monitoring and Evaluation Facility.

Part 5: Leadership and Management of the Secretariat

1. As Executive Director, it has been my responsibility to build and effectively manage a strong Secretariat to implement the core operations of the Global Fund and the decisions of the Board. In doing so, I have pursued two primary objectives: developing and managing a high-performing staff, and ensuring efficiency by building effective systems and structures.

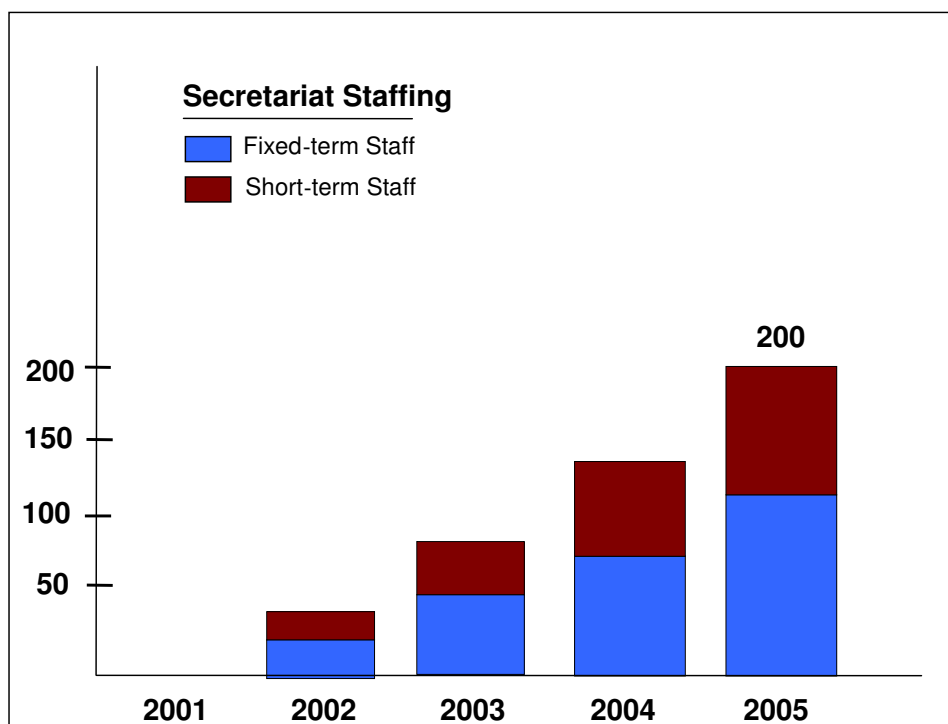
Developing and Managing a High-Performing Staff

Relevant Key Performance Indicators			
Objective	Indicator	2005 Target	2005 Actual
Develop organizational capacity and people to benefit mission	• Percentage of staff with defined objectives and reviews of results and development	• 90%	• 91%
	• Internal staff survey on professional satisfaction and motivation	• 70% "high" or "very high"	• Satisfaction 57% ¹ • Motivation 67% ²
	• Performance against three agreed diversity targets (gender, ethnicity, communities)	• 80% of targets met	• Gender: 64% • Region: Annex 1 • PLWHA: 100%

¹ Percent of staff responding "better" or "much better" to the statement "Compared to my previous work experience in other organizations, the overall experience of working at the Global Fund is..."

² Percent of staff responding "agree" or "strongly agree" to the statement "I feel motivated to work at the Global Fund."

2. Recruiting, developing, and managing a first-class group of staff to run the daily operations of the Global Fund has been one of my central responsibilities as chief executive. When I first joined the organization, there were fewer than 20 staff members driving forward the initial mandates of the Board. All were on temporary contracts. Over the past four years, we have, within the budget approved by the Board, recruited additional staff to build essential capacity within the Secretariat, to a total of 117 fixed-term staff at the end of 2005 (see Figure 9). This growth in staff has closely followed the increasing demands of our expanding grant portfolio, with the ratio of funds disbursed to fixed-term staff remaining consistently above US\$ 5 million to 1 and at times rising as high as US\$ 11 million to 1.



3. In building this staff, we have sought to recruit individuals with a broad range of backgrounds to reflect the global and multi-sectoral nature of the Global Fund's work. This objective was captured in the 2005 KPIs through three specific targets: that women represent one-third of our managers; that our staff represent a range of geographic regions⁵; and that at least two staff members be recruited from communities affected by the diseases. While we achieved or surpassed almost all of the targets regarding geographic and community representation (see Annex 1), we fell short of our gender target with only 21 percent of managers being women at the end of 2005. However, recruitments already completed in 2006 have increased this number to 30 percent and we will be recruiting an additional seven managerial positions throughout the year, which may alter this figure further. In total, 58 percent of our staff members are women and 46 percent are from regions outside of North America and Western Europe – significant increases over levels in 2003. We have also ensured a diverse staff in areas not captured in the KPIs. For example, 43 percent of staff have joined us from the UN system while 41 percent come from the private sector or nongovernmental organizations.

⁵ The specific target was to have at least 7% of staff from Eastern Europe, 6% from the Middle East and Northern Africa, 6% from East Asia and the Pacific, and 4% from Latin America and the Caribbean.

4. One particularly significant recruitment was that of our first Deputy Executive Director Helen Evans in 2005. Helen has assumed leadership of our efforts to further develop the Secretariat and she has made strong progress in a number of areas during the ten months she has been with us. Following the departure of Brad Herbert as Chief of Operations, Helen also took on the assignment of Interim Chief of Operations from December 1, 2005.

5. My focus has been not only to recruit additional staff but also to ensure that our current employees are well-managed and motivated. To ensure that the Secretariat operates with the speed and flexibility necessary to fulfill the Global Fund's mandate, I have pursued an approach to management wherein individual managers and staff are empowered to make decisions with necessary but not excessive consultation and the guidance of an overarching policy framework. The success of this approach is dependent on each staff member having clear responsibilities and objectives and receiving consistent evaluation and feedback on progress towards those objectives. In 2005, 91 percent of staff had these reviews through our Performance Management and Development System (PMDS), surpassing the target of 90 percent set in the KPIs.

6. In our first two years, the Global Fund was driven forward by a small group of individuals working long hours to turn the vision of the organization into reality. We have since sought to a construct a more sustainable and supportive work environment. To guide these efforts, we have held staff retreats each of the past two years, enabling us to thoroughly consult with staff about their concerns, challenges, and ideas. A number of initiatives have emerged from these retreats, including the formation of a Staff Council to more effectively represent staff interests and concerns. Since its inception late last year, the Staff Council has played an active and welcome role in ensuring that staff are engaged and consulted in a wide range of issues concerning the development of the Secretariat.

7. As a measure of our progress and a further input into this process, annual surveys of staff opinion have been conducted by external consultants. In 2003-2004, these surveys indicated that staff were satisfied in their work at the Global Fund (60 percent each year rated their overall experience at the Global Fund as better or much better than that of past jobs), but were concerned about issues such as workload and communication and coordination of work within the Secretariat. Another such survey was conducted in March 2006 by the Monitor Group following a competitive tender. In this survey, 57 percent of staff rated their overall experience of work at the Global Fund as better or much better than their previous work experience, a small decline over previous years and short of the target set in the 2005 KPIs. One quarter of staff rated their experience as worse or much worse than previously, a small increase from surveys in 2003 and 2004 (24 and 22 percent respectively rating worse or much worse). The 2005 KPI also requires measurement of staff motivation and in the recent survey 67 percent of staff agreed or strongly agreed with the statement "I feel motivated to work at the Global Fund," just short of the target. In general, the 2006 survey indicated that staff feel well about the strategic direction of the organization and the operation of their specific teams, but are significantly less satisfied with cooperation between teams, opportunities for career development, and their levels of stress. These results have been shared with all staff and discussions are currently underway with the Staff Council on the best methods for addressing the key issues highlighted.

8. While we have made progress in the last two years, effective management and the development of a sustainable work environment are areas where our performance must significantly improve. This imperative was accentuated by the Report of the WHO's Office of Internal Oversight Services (IOS) in November 2005, which found that there had been cases of insufficient compliance with policies and procedures by the Secretariat, particularly in relation to contracting and recruitment. We have begun implementation of a set of actions to address the specific findings of the Report and will present a full report of our progress at the Thirteenth Board Meeting. In addition, we will seek to address the underlying causes of the weaknesses identified by the IOS Report through the broader organizational development efforts which Helen Evans has been leading and on which she will report to the Board at its 13th meeting in April.

Ensuring Efficiency by Building Effective Systems and Structures

Relevant Key Performance Indicators			
Objective	Indicator	2005 Target	2005 Actual
Develop organizational capacity and people to benefit mission	• Operating expenses as a percentage of grants under management and as a percentage of total expenditures	• <3%, <10%	• 1.8%, 3.9%
	• Completion of plan for transition to a fully independent entity following signature of headquarters agreement	• Complete plan by Nov 2005	• Scope and deadline altered by Board

9. In leading the development of the Secretariat over the past four years, I have maintained a constant focus on ensuring that we operate with a high degree of efficiency in every aspect of our work. Since we began disbursing funds in 2003, our annual overhead costs – operating expenditures for the Secretariat and Local Fund Agents – have remained at or below three percent of the value of our grants under management and below five percent of our total expenditures, exceeding the target set for 2005 in the KPIs (see Figure 10).

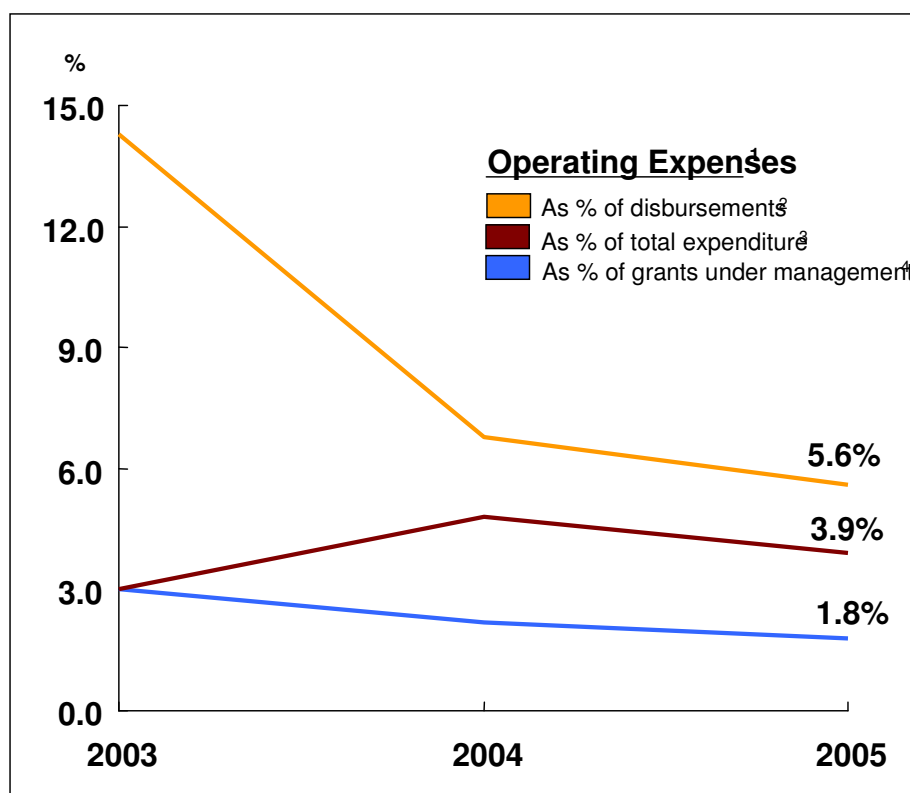


Figure 10 : Global Fund Overhead Expenses 2003-2005

¹ Operating expenses comprise Secretariat expenses plus fees of Local Fund Agents in the year

² Amounts disbursed to Principal Recipients in the year

³ The amount of new grant commitments plus operating expenses in the year

⁴ Cumulative amount of funds committed to active grants

10. We have maintained this low overhead, in part, by establishing systems and structures which have enabled our lean staff to effectively carry out the mandate of the Global Fund. Early in my tenure, I placed a heavy emphasis on implementing one such critical system: the Local Fund Agent (LFA) model. In 2003, following a global tender, we established framework contracts with a range of public and private organizations to provide us with LFA services and developed clear definitions of their responsibilities and modes of operation within the Global Fund system. These organizations have conducted essential local grant management operations, including capacity assessments and ongoing financial and programmatic monitoring, for 325 grants in 130 countries around the world at an annual cost of roughly 0.5 percent of the value of our grants under management. However our experience to date has shown that we are not consistently receiving the desired quality of service from these providers across our portfolio. Last year, we launched a number of initiatives to improve our interaction with and management of our LFAs, beginning with the recruitment of an experienced staff member dedicated to LFA management, and we will be exploring possible adjustments to the model over the coming year.

11. I have also sought, under the guidance of the Board, to ensure that the Secretariat operates within the optimal administrative framework. During the inception of the Global Fund, the Board decided to accept WHO's offer to supply the Secretariat with essential administrative services. Throughout my tenure, we have worked closely with our colleagues at WHO to develop effective working arrangements within this framework which meet the operational needs of the Global Fund. Following a decision by the Board, I signed a Headquarters Agreement with the government of Switzerland in January 2005, granting to the Global Fund a wide range of privileges and immunities. With this agreement in place, we began to explore alternative arrangements to the Administrative Services Agreement (ASA) with WHO and, as the KPIs show, we were mandated by the Board to have a full transition plan in place by the end of 2005. During the course of 2005, the Board decided to change the scope of this project to an assessment of options for the provision of administrative services for review and decision making by the Board at its Fourteenth Board Meeting in November 2006. We have moved forward with this Transitions Options Project (TOP) with the assistance of an experienced human resources consulting firm and expect to have a final report completed by the deadline.

12. A final priority in maximizing the cost-effectiveness of the Global Fund has been to develop efficient management systems within the Secretariat. When I joined the Secretariat, the basic systems for the management and monitoring of our grants were not yet in place. Since that time we have put in place a range of processes to effectively execute the core functions of the Global Fund from grant signings and ongoing disbursements to Phase 2 review and consistent monitoring and analysis of our portfolio's performance. Drawing on lessons learned from our experience and analyses by independent experts, we have continually sought ways to optimize these processes. However, the Reports by the IOS and the GAO in 2005 highlighted the need for continued improvement in this area, indicating that at times the imperative to move quickly has come at the expense of due process. We have initiated – and in the case of the finding of the GAO, completed – the development of a number of new tools to address the issues raised in these reports and will be exploring broader solutions in the coming months.

Part 6: Supporting the Work of the Board

Relevant Key Performance Indicator			
Objective	Indicator	2005 Target	2005 Actual
Facilitate best-practice corporate governance	<ul style="list-style-type: none"> Regular review of quality of Secretariat support to Board and committees 	<ul style="list-style-type: none"> 70% rating “satisfactory” or “very satisfactory” 	<ul style="list-style-type: none"> 71%¹

¹ Percent of Board members, alternates and focal points responding “better” or “much better” to the statement “Compared with other governing bodies I have been involved with, Secretariat support for the Board is...”

1. One of the primary responsibilities of the Secretariat, and therefore the Executive Director, is to effectively support the ongoing work of our Board. I have ensured that this responsibility has constantly remained a priority across the organization. Since I joined the Secretariat, we have organized and supported ten Board Meetings, including three in recipient countries, and dozens of committee meetings. In the past two years, we have produced a total of 437 papers in preparation for these meetings. And, most importantly, we have sought to rapidly and effectively implement the decisions reached by the Board over the past four years, which are too numerous to enumerate here.

2. It is for Board members to inform me of my performance in this area. In line with the KPIs, we contracted with the Monitor Group to conduct a survey of Board members, alternates, and focal points in April 2006 to assess the Secretariat’s performance in supporting the Board and identify areas where Board governance might be improved. Overall, 71 percent of respondents to the survey stated that Secretariat support for the work of the Board was “better” or “much better” than their experiences with other governing bodies, meeting the target set in the KPIs. The remainder of respondents categorized Secretariat support as the “same” as their previous experience. In total, the survey included questions on 11 areas of Secretariat support for the Board and, on average, 64 percent of respondents “agreed” or “strongly agreed” that support was good, while a further 18 percent “slightly agreed.” Respondents were most satisfied with support for Board and committee meetings, but were less content with the level of detail and timeliness of Board documents.

Annex 1: 2005 KPIs FOR EXECUTIVE DIRECTOR

 Shared responsibility with Board

Objective	Metric (KPI)	Target 2005	Weighting	Progress to Date
<ul style="list-style-type: none"> Finance the rapid scale-up of effective means to prevent and treat the three pandemics 	<ul style="list-style-type: none"> % of agreed targets reached by grants in Phase I (based on 18 months performance evaluation) 	<ul style="list-style-type: none"> 65% across the portfolio 	20%	<ul style="list-style-type: none"> 74%¹
<ul style="list-style-type: none"> Raise it: Mobilize sufficient resources to implement GF mission and meet country needs 	<ul style="list-style-type: none"> % of '05 funding needs contributed % of '06 needs for current and next rounds pledged 	<ul style="list-style-type: none"> 100% 70% 	40%	<ul style="list-style-type: none"> 100%² 65%³
<ul style="list-style-type: none"> Spend it: Scale-up disbursement to well-performing grants through effective grant management 	<ul style="list-style-type: none"> Amount \$ disbursed to Rounds 1-4 grants Average time between grant approval and first disbursement 	<ul style="list-style-type: none"> \$1.1 billion ('05 only) < 6 months 		
<ul style="list-style-type: none"> Prove it: Make performance-based funding a reality 	<ul style="list-style-type: none"> Second and subsequent disbursements based on evidence of performance and expenditure (including disbursement to sub-recipients) 	<ul style="list-style-type: none"> 95% 		<ul style="list-style-type: none"> 94%⁵
<ul style="list-style-type: none"> Communicate it: Drive consistent external communications 	<ul style="list-style-type: none"> All major reports, including periodic grant progress updates, produced and available on website in a timely manner* 	<ul style="list-style-type: none"> 80% on time 		<ul style="list-style-type: none"> 100%⁶
<ul style="list-style-type: none"> Develop strategy for sustainable success 	<ul style="list-style-type: none"> Completion of well defined 3- year strategy, including future rounds, with targets and milestones 	<ul style="list-style-type: none"> Strategy document completed for Board review by July 2005⁷ 	20%	<ul style="list-style-type: none"> Situational assessment completed⁸
<ul style="list-style-type: none"> Facilitate best-practice corporate governance 	<ul style="list-style-type: none"> Regular review of quality of Secretariat support to Board and committees 	<ul style="list-style-type: none"> 70% rating "satisfactory" or "very satisfactory" 	20%	<ul style="list-style-type: none"> 71%⁹
<ul style="list-style-type: none"> Develop organizational capacity and people to benefit mission 	<ul style="list-style-type: none"> Completion of plan for transition to a fully independent entity following signature of headquarters agreement % of staff with defined objectives and annual reviews of results, competencies and development Internal staff survey on professional satisfaction and motivation Operating expenses as % of grants under management and as a % of total expenditures Performance against 3 agreed diversity targets (gender, ethnicity, communities)* 	<ul style="list-style-type: none"> Complete plan by Nov '05¹⁰ 90% 70% rating "high" or "very high" < 3%, <10% 80% of targets met 		<ul style="list-style-type: none"> Consultant selected and work begun¹¹ 91% Satisfaction 57%¹² Motivation 67%¹³ 1.8%, 3.9% Gender: 64%¹⁴ Region: attached PLWHA: 100%

* Detailed targets are available

Notes

- 1) Analysis is of the 108 grants that have completed the 18 month performance evaluation as of December 31.
- 2) 2005 need is calculated at \$1.67 billion, including full funding of Phase 2 renewals and all Round 5 proposals recommended by the TRP. Total contributions available for 2005 are \$1.56 billion as of December, 5.
- 3) 2006 need is calculated at \$2.85 billion, including full funding of Phase 2 renewals and a new Round of funding pending Board decision. Calculated pledges of \$1.86 billion include a \$450 million commitment from the U.S. and half of two-year pledges made for 2006-2007.
- 4) See attached memo
- 5) For 21 disbursements since November 1, measurement of the three key areas – performance, expenditure, and SR disbursements – has been through the new disbursement tool. For the remainder of the year, a random sampling of 28 disbursements have been analyzed using LFA reviews, FPM memos, and disbursement forms.
- 6) Based on 14 major reports prepared in 2005, including the Annual Report and numerous progress updates and other analyses prepared for the Replenishment Conferences.
- 7) At its 11th meeting, the Board agreed to extend the timeline for completion of a full strategy document until September 2006.
- 8) By the end of the year, the development and endorsement of a prioritized set of issues and corresponding key strategic questions will be completed to guide further strategic development.
- 9) Percent of Board members, alternates and focal points responding better or much better to the statement “Compared with other governing bodies I have been involved with, Secretariat support for the Board is...”

Notes (continued)

- 10)** The Finance and Audit Committee has agreed to extend work on the transition plan. Completion of the plan is now expected in mid-2006.
- 11)** The consultant firm Hewitt Associates was selected to assist in the Transitions Options Project (TOP).
- 12)** Percent of staff responding better or much better to the statement “Compared to my previous work experience in other organizations, the overall experience of working at the Global Fund is...”
- 13)** Percent of staff responding agree or strongly agree to the statement “I feel motivated to work at the Global Fund.”
- 14)** Percentage has decreased in past year due to departure of 5 senior female managers: Elizabeth Hoff, Mariangela Bavvichi, Arletty Pinel, Doris D’Cruz-Grote, and Kristin Kalla.

Detailed Diversity Targets

Indicator	2004	2005	2005 Result	2006	Today (Mar. 2006)	2007
% women in management (P5+)	29	33	21	37	30*	40
% staff from regions						
- E Europe	5	7	8	9	8	10
- MENA	4	6	5	7	5	8
- EA & Pac.	4	6	14	7	14	8
- LAC	3	4	4	5	4	6
Recruitments per year from communities affected by the pandemics, esp. PLWAids		2 - 3	2	2 - 3	1	2 - 3

* 7 positions graded P5 and above are scheduled to be filled by the end of 2006, which may significantly alter this figure.