



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

**Fourteenth Board Meeting
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Information Only**

OPERATIONS UPDATE

Outline: This note provides an overview of the progress made in Operations since the last Board meeting in April 2006.

Part 1: Introduction

1. During 2006, the Operations Unit continued its focus on accelerating grant implementation, improving the quality of results data received from in-country and documentation of performance-based funding decisions.

2. The focus of the latter half of 2006 was the signing and disbursement of funds for Round 5 proposals and Phase 2 grants. To date, 54 out of the total approved 68 grants (from 67 components), - or 81 percent - of approved grants have been signed; 119 Phase 2 grant agreements have also been signed. Although the Secretariat had hoped that all Round 5 grants would be signed by May of this year, significant delays in the grant negotiation process were encountered. Similarly, delays were also encountered in signing Phase 2 grant agreements. The Secretariat is presently undertaking a critical review of its grant negotiation processes to extract lessons and enhance overall efficiency.

3. The Operations Unit continued to work proactively with bilateral and multilateral partners to advance the coordination of activities in recipient countries, and to facilitate in-country support to Principal Recipients (PRs) and Country Coordinating Mechanisms (CCMs). The Operations Unit, with the support of other units across the Secretariat, organized regional meetings in the latter half of 2006 in five regions to strengthen support to in-country partners and address grant management issues and specific bottlenecks. A recent meeting with 50 Country Desk Officers of the European Commission (EC), Brussels, covering African, Caribbean and Pacific countries, is an example of efforts to increase partner cooperation to strengthen Global Fund-supported investments at country level.

4. The Operations Unit continued its efforts to effectively implement Board decisions including quality assurance, CCM compliance and initial strategy decisions with operational implications. Increasing workloads resulting from additional tasks mandated by the Board where human resources implications are often underestimated and from preparations for Phase 2 renewal process, Round 5 grant negotiation process and harmonization and alignment efforts with partners, remain a concern.

5. Under the leadership of the newly-appointed Director of Operations initiatives are being undertaken to increase greater alignment in units' contributions to efficient operational outcomes, with particular focus on quality grant signing, disbursements and the tracking of results produced by CCMs.

Part 2: Portfolio Update

Grant Agreements and Disbursements

1. As of 13 October 2006, a cumulative total of 383 grant agreements in 132 countries had been signed. To date, 100 percent of all 327 approved grant agreements from Rounds 1 to 4 have been signed. Fifty-four Round 5 grant agreements have been signed. A total of 119 Phase 2 grant agreements have been signed.

Grant Agreements By Rounds status as of 9 October 2006				
Round	No. of approved components	No. of grants	Signed	% Signed
Round 1	56	68	68	100%
Round 2	98	102	102	100%
Round 3	70	75	75	100%
Round 4	72	82	82	100%
Round 5	67	68	54	79%
Phase 2		172	119	70%
Total		567	500	88%

Figure 1: Status of the Global Fund grant agreements

2. As of 13 October 2006, the Secretariat had disbursed US\$ 894 million of its annual target for the year 2006 of US\$ 1.5 billion. A total of US\$ 2.8 billion had been disbursed against a cumulative target of US\$ 3.4 billion for the end of 2006. The Secretariat has so far achieved 82 percent of its US\$ 3.4 billion target. In order to evaluate progress, the Secretariat examines the proportion of disbursed funds against total committed funds and compares this with the proportion of time elapsed since the signing of grant agreements. The current rate of disbursement is 67 percent of signed grant values disbursed at an average elapsed time of 73 percent.

In US\$ millions, as of 13 October 2006

	Current Grants (including approved Phase II renewals)						Phase II Renewals					
	Approved ¹			Signed ²	Disbursed ³	Mean % Disbursed ⁴	Mean Time Elapsed ⁴	Already approved in		Projected to be approved in ⁵		Total Phase II
	Phase I	Phase II	Total					2005	2006	2006	2007	
Round 1	576	729	1,305	1,182	708	74%	90%	675	54	3	3	734
Round 2	852	719	1,571	1,327	853	69%	78%	341	378	124	58	900
Round 3	628	357	985	855	506	77%	87%	1	356	345	58	761
Round 4	1,009	6	1,015	1,009	584	62%	68%	0	6	568	1,099	1,673
Round 5	770	-	770	552	155	37%	12%	0	0	0	30	30
Total	3,835	1,810	5,645	4,925	2,806	67%	73%	1,017	793	1,041	1,248	4,099

Totals may appear not to add because of rounding

Add: Already approved in 2006

	793	
Allowance for postponements to following year	(78)	78
Total need for Phase 2 in 2006 and 2007	1,756	1,325

¹ Proposals approved for funding by the Board (initially for two years, with an extension (Phase II) 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 - as % of "Signed"

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

⁵ Assuming that 85% of grants (by \$ value) will qualify for renewal, with the timing of renewal based on when grants received or are expected to receive their first disbursement

Figure 2: Current Financial Status of the Global Fund

3. The total cumulative amount of US\$ 2.8 billion disbursed to Principal Recipients (PRs) in 128 countries represents 57 percent of the total commitment in signed grant agreements of US\$ 4.9 billion. Of the disbursed amount, 55 percent of funding has been disbursed to sub-Saharan Africa, 15 percent to East Asia and the Pacific, 11 percent to Latin America and the Caribbean, 10 percent to Eastern Europe and Central Asia and nine percent to South Asia, the Middle East and North Africa.

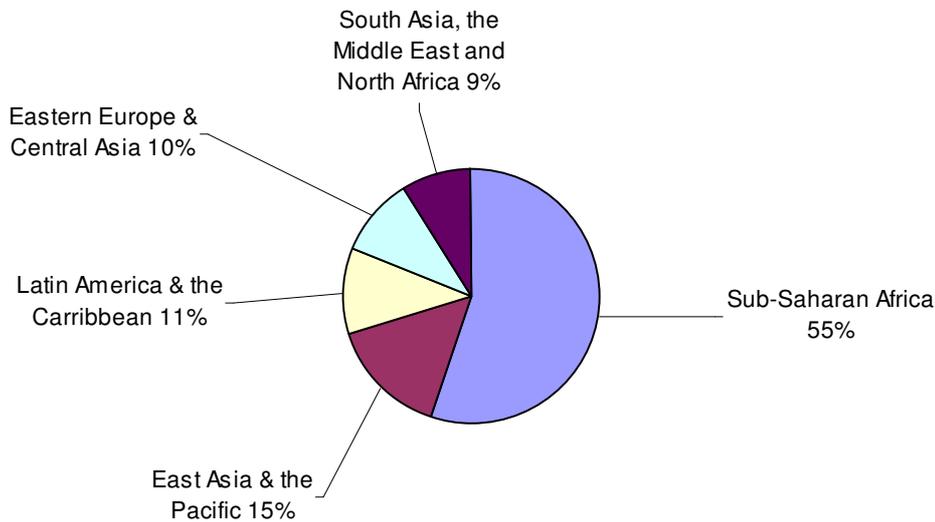


Figure 3: Percentage of total amount disbursed to geographic regions

4. The average (mean) amount of elapsed time between Board approval of a proposal and grant signing and between grant signing and first disbursement continues to improve. While the average time required from Board approval of proposals to grant signing of Round 1 grants was 357 days, this currently stands at 217 days for Round 5 grants. The average time from grant signing to first disbursement improved from 73 days from Round 1 grants to a current average of 28 days for Round 5 grants (see Figure 4). These averages for Round 5 will increase as remaining grants are signed.

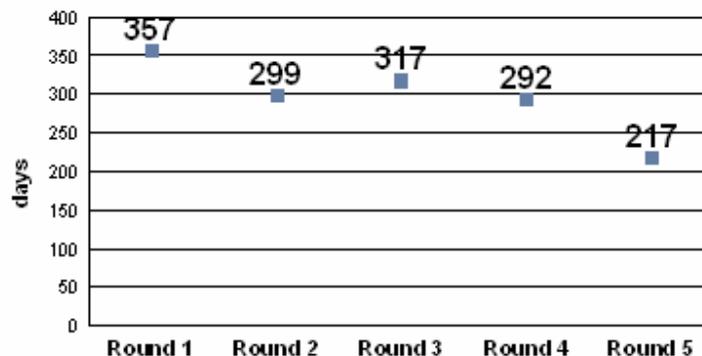


Figure 4: Mean number of days elapsed between Board approval and grant signing per round

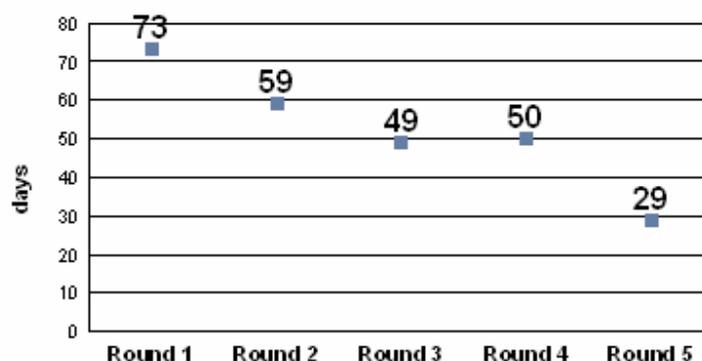


Figure 5: Mean number of days elapsed between grant signing and first disbursement per round

Round 5

5. Concerted efforts of the Operations Unit in collaboration with other units of the Secretariat intensified during the second half of 2006 to finalize negotiations for the signing of Round 5 grants. Of 67 components approved at the Eleventh and Twelfth Board Meetings in September and December 2005 and including four appeal grants also approved at the Twelfth Board Meeting, 54 grants had been signed at the time of preparing this update. On 19 September 2006 the Secretariat requested an exceptional three-month extension to the signing deadline for six components/ten grants for Brazil, Democratic Republic of Congo, Nigeria and Zimbabwe which would otherwise have expired on 30 September 2006.

6. A high-level analysis was undertaken to better understand the factors associated with delays in signing Round 5 grants. Thirty-six grants which had not been signed within 7.2 months after Board approval were included in the analysis.¹ Data was collated on time elapsed to complete Technical Review Panel (TRP) clarifications, LFA assessments, in-country negotiations and Secretariat review. In addition, contextual information provided by Fund Portfolio Managers (FPMs) was explored to explain the delays. The crux of the issue is that negotiating grants is becoming more complex as a result of increased quality assurance requirements of the Secretariat in completing documents (including Attachments 1 and 2). Grants are being negotiated in increasingly complex in-country environments where Global Fund Secretariat staff and national partners are attempting to manage and align a number of Global Fund grants, including their indicators, and align and harmonize Global Fund programs with the initiatives of partners.

7. The primary reason for delays cited by portfolio staff was inadequate in-country capacity or preparedness to satisfy a priori requirements needed for grant signing, and in particular, to address key areas of weakness identified in LFA assessments in a timely fashion. These include a lack of management capacity and/or an absence of key personnel in program management units; higher-than-anticipated workloads for CCMs, PRs and Secretariat staff due to simultaneous, concurrent and parallel requirements for Round 5 grant signing, Round 6 proposal development and the Phase 2 review requirements of existing grants; delays with LFA assessments; complying with CCM requirements and substantial efforts required to strengthen sector-wide approaches (SWAp) and integrate Global Fund programs into SWAps. However, most importantly, quality assurance and review processes of the Secretariat and managing higher than anticipated workloads of FPMs and other Secretariat staff contribute significantly to delays in grant signing.

¹ A key performance indicator agreed for 2006 requires that the average time between Board approval of a proposal and the first disbursement following grant signature is 8.2 months for Round 5 grants. Experience of previous rounds shows that it takes approximately one month to make the first disbursement after grant signature, thus leaving an average target of 7.2 months for the time between Board approval and grant signature.

8. To the extent it can, the Secretariat will work towards resolving some of these delays - in particular, working with partners for their more focused support to national partners during the proposal development process and with necessary technical assistance during the grant negotiation phase. The Secretariat will also look to increasing its guidance and support to national partners despite current workloads of portfolio staff. However, it must be recognized that the majority of reasons for delays as provided above relate to in-country capacity limitations and requirements the Board and Secretariat places on in-country national partners before grants can be signed. The Secretariat therefore advocates the notion of "responsible speed" in grant signing which may, as applicable, require more time upfront to strengthen in-country systems in order to facilitate more effective grant implementation and the achievement of results in the longer term.

Results

9. The Secretariat announced portfolio-wide results at the end of June 2006 after conducting a joint data-sharing and analysis session with partners (including WHO, UNAIDS and the U.S. President's Emergency Plan for AIDS Relief (PEPFAR)). Results show a substantial acceleration of implementation during 2006 and that as of 1 June 2006 Global Fund grants provided:

- 544,000 people with ARV treatment for AIDS (a 42 percent increase compared to figures obtained as of 31 December 2005);
- 5.7 million people with counseling and voluntary HIV tests;
- 1.43 million people with tuberculosis treatment using DOTS (a 43 percent increase compared to figures obtained as of 31 December 2005);
- 11.3 million insecticide-treated bed nets to families (a 47 percent increase compared to figures obtained as of 31 December 2005).

A full analysis of results is provided in our progress report, *Investing in Impact: Mid Year Results Report 2006*.

Part 3: Phase 2 Renewals

1. As of end September 2006, the Secretariat's Phase 2 Review Panel (the Panel) had reviewed 177 grants. Their recommendations (including five "No Go" recommendations) were approved by the Board for budgets totaling over US\$ 1.8 billion. Approximately 15 percent of the total budget amount requested was reduced.

2. To date, the Board has concurred with five "No Go" recommendations submitted by the Secretariat.² Since adoption of the new Board policy for "No Go" recommendations at the Eleventh Board Meeting in September 2005, eight Requests for Continued Funding have been referred back to the CCM where the Panel reached an initial understanding that it would not be appropriate to continue funding for Phase 2. These procedures allow the CCM a four-week period within which to respond to the Secretariat's proposed "No Go" recommendation and to provide further information to clarify any outstanding issues and highlight remedial action that has since been taken to address programmatic weaknesses. After consideration of additional information received from some CCMs, the Secretariat revised its initial "No Go" recommendations to "Conditional Go" for five grants, however it maintained its "No Go" recommendations for three grants based on insufficient evidence of performance to warrant continued funding for Phase 2.

² A Round 1 malaria grant for Senegal; a Round 1 HIV/TB grant for South Africa; a Round 2 malaria grant for Pakistan; two Round 1 grants for Nigeria for HIV/AIDS.

3. As of 13 October 2006, 119 Phase 2 grant agreements have been signed. One recommendation of the Panel is pending: the CCM for South Africa submitted a four-year Phase 2 request which was referred by the Secretariat to the Portfolio Committee (PC) for consideration. The PC will make a recommendation on how to proceed with the Phase 2 request to the Board at the Fourteenth Board Meeting.

Phase 2 Policy Development

4. Recognizing the need to undertake an in-depth analysis of the internal (Secretariat) Phase 2 review process over one year after its inception in order to better understand and address challenges with the process and operational policy gaps, the Secretariat established a cross-functional internal working group in April 2006 with strong participation of the Operations Unit and the Performance, Evaluation and Policy Unit (PEP). The work of this group has fed into but also complements efforts of the PC and its sub-working group on Phase 2, which is examining key architectural issues of the Phase 2 review process and the decision-making process external to the Secretariat and involving the Board.

5. As of 13 October 2006, 119 of 172 approved Phase 2 grant agreements had been signed. An analysis was undertaken in August 2006 to understand the extent of delays in the signing of Phase 2 grants and possible reasons. Findings of the study indicate that approximately 25 percent of Phase 2 grants only are signed before the end of Phase 1. A strong correlation exists between the recommended category and time required for the grant negotiation process. Grants with a "Conditional Go" recommendation take longer to sign than grants with a "Go" recommendation. Grants with a B2 rating take longer to sign than A or B1-rated grants. Significant delays are caused by slippages in the Phase 2 review dates, as countries require longer to prepare necessary documentation. Another primary reason is conditions agreed by the Panel and specified in Grant Scorecards which must be addressed before the Phase 2 grant can be signed. The current structure of the Phase 2 review cycle allows 1.5 months for the negotiation of Phase 2 grants, an amount of time which is clearly insufficient. Outcomes of this study are currently being addressed by the Phase 2 working group. Significant improvements are expected through a change in the review date to two or three months later in the process, as is being recommended by the PC for decision at the Fourteenth Board Meeting. The working group is presently studying performance ratings, recommendation categories and investment decisions across the portfolio of grants.

6. The Phase 2 working group recommended changes to the Terms of Reference (TORs) of the Panel, including its composition. These recommendations were endorsed by senior management in July 2006. The Panel now consists of five voting members and is chaired by the Deputy Executive Director.

Part 4: Round 6 Update

1. After the call for proposals for Round 6 at the Thirteenth Board Meeting in April, the Secretariat proactively undertook a number of steps to support country partners and CCMs in developing proposals. An extensive "Frequently Asked Questions" (FAQ) was published in six official languages on the website. An information email hotline was established and enquiries responded to in no later than one business day. The Secretariat participated in a number of regional meetings organized by technical partners soon after the call for proposals to help explain the Round 6 proposals process to in-country partners and applicants. The Secretariat specifically prioritized its support to regions with comparatively lower success rates during previous rounds of funding.

2. During the TRP review period from 4 to 15 September 2006, the Operations Unit provided the TRP with substantial support, leveraging lessons learned from previous review sessions. The Operations Unit also ensured the TRP was provided with relevant country contextual information including on past performance of current grants.

Part 5: Operational Policy Developments

1. The Secretariat has focused its efforts on ensuring that quality data underpins performance-based funding decisions. A LFA data verification template designed in collaboration with the PEP is now being implemented across the portfolio. The exercise requires that data reported for each grant be verified by an LFA once per year. The template has been tested and is now being rolled out. A tool to encourage PRs to engage in a self-assessment exercise of their monitoring and evaluation (M&E) capacity prior to grant-signing or a Phase 2 review process, the M&E Strengthening Checklist, has been piloted in seven countries and will be rolled out through 2007 (subject to budget decisions). The operational policy team has also focused on grant closure and operationalizing outcomes of recent Board strategy decisions including on Exceptional Extension Funding and Continuity of Services.

Part 6: Local Fund Agents

1. The LFA model and the performance of LFAs is presently being examined through four separate and distinct evaluations/audits being undertaken by the Inspector General of the Secretariat, the U.S. Government Accountability Office (GAO), the Technical Evaluation Reference Group (TERG) and the Operations Unit. Their results are expected between November 2006 and March 2007. The Secretariat is undertaking an analysis of the objectives and methodologies for each evaluation to help highlight areas of potential overlap and gaps in research. A matrix reflecting objectives and areas of overlap and gaps will be made public on the website. This will enable interested parties to provide any relevant information directly to the person/entity carrying out the evaluation. The outcomes of these four evaluations/audits will help further refine the LFA model and feed into the re-competition process for LFA contracts during 2007.

2. The Secretariat has continued with efforts to develop a unified payment structure establishing fixed fees for services. LFAs have been requested to submit proposals for the costing of specific services. Negotiations to agree on costings with LFAs have commenced and also involve the Contracts team of the Secretariat.

3. The Secretariat continues to meet with and support training sessions of LFAs to ensure their understanding of Global Fund policies and procedures, including new Global Fund policy developments or processes. Information and FAQs explaining the role of LFAs have been prepared and posted on the Global Fund website in all relevant languages.

4. LFAs are currently using a number of new tools developed to assist their capturing accurate reports of results and accurate assessments of in-country capacity, including the LFA Data Verification Form and the M&E Self-Assessment Checklist described above.

Part 7: Update on Grant Consolidation

1. The Policy and Strategy Committee (PSC) intends to propose to the Fourteenth Board Meeting a decision point to allow the Secretariat to conduct a grant consolidation pilot project. This pilot project would aim to assess the added value and feasibility of grant consolidation, to identify the specific permanent policy and architectural changes required to enable routine grant consolidation across the Global Fund portfolio and to draw operational lessons from the pilots.
2. Following the PSC and PC discussions on the costs and benefits of grant consolidation and the cost of the Grant Consolidation Pilot Project, the Secretariat further reviewed the pilot project internally with the aim of reducing its costs without unduly compromising either the pilot project or the quality of the lessons that can be learned from it. The decision point contained in the Report of the PSC to the Fourteenth Board Meeting now reflects a lower budget than that initially proposed and a shorter timeframe.³ Internal discussions are ongoing to also see if it is possible to responsibly reduce the time required to complete the pilot project and facilitate the timely rolling out of grant consolidation (and its benefits) across the portfolio of grants.

Part 8: Progress on the Early Alert and Response System

1. Since April 2006, the Secretariat has made significant progress in the rollout of the Early Alert and Response System (EARS). The EARS operational plan was finalized in June 2006 and the Operational Partnerships and Country Support team (OPCS) launched a new series of Grant Support Meetings with each of the eight cluster teams, during which the newly-introduced Portfolio Monitoring Report (PMR) was discussed. The PMR is an internal monitoring tool that “color codes” grant status indicators to help focus discussion on those grants facing implementation challenges. These meetings, now scheduled on a bi-monthly basis, identify grants in need of implementation support and consider the type and source of support to be pursued. Under EARS, OPCS and cluster teams have jointly reviewed the status of 109 grants, 27 of which now require follow-up assistance through the cluster, OPCS or an external technical partner. Ten of these grants in need are in their first year of implementation.
2. OPCS is establishing a contracting mechanism to allow it to field pre-qualified consultants who will complement the Secretariat’s capacity to support countries in a range of Fund Portfolio Management activities. These include diagnostic and remedial action planning and support to CCMs to improve their governance and oversight functions. This mechanism will enhance the Secretariat’s ability to work effectively with partners and mechanisms such as the Global Implementation Support Team (GIST) to mobilize appropriate technical support and to respond to emerging challenges in a timely fashion
3. In early July 2006, grant performance ratings have become more easily accessible on the Global Fund website. Integrated into the “Grants in Detail” report, it is updated in real time by the Finance Unit. Future plans include an automatic notification via email to CCM members (or others who wish to subscribe) whenever a Grant Performance Report for a particular country is updated and available on the website.

³ The cost reductions result from adding pilot project responsibilities to the workload of existing staff and from reducing the budget for PR consulting support.

Part 9: Strengthening Partnerships to Achieve Results

1. The Secretariat continued to work on strengthening its relationships with bilateral and multilateral partners to better coordinate activities in countries, provide technical assistance to CCMs and PRs and to accelerate implementation of grants.
2. The Secretariat continued to play an active role in the GIST. A strategy meeting in June 2006 helped redefine the mission and goals of this problem-solving team. GIST members committed to expanding its meetings to include representatives from bilateral donors and civil society. The first expanded GIST meeting is scheduled for on 10 November 2006 in Geneva.
3. In October 2006, the Secretariat met with 50 Country Desk Officers of the EC in Brussels covering the African, Caribbean and Pacific regions. Efforts are now underway to strengthen the partnership to further align EU financing and technical assistance with country-led implementation of GF-supported activities.
4. OPCS served as the focal point for the Office of the U.S. Global AIDS Coordinator (OGAC) in support of the U.S. government's technical assistance mechanism, which provides support to Global Fund grants facing implementation bottlenecks in 38 eligible countries. Of the total of 24 country requests received this year, 14 have been approved and the remaining ten are awaiting clarifications or final approval.
5. In June of this year, Secretariat staff participated in the PEPFAR Implementers' Meeting. The Global Fund participated in an organizing committee for the Implementers' Meeting, the "Advisory Committee", which also included the World Bank. This meeting represents a further step in institutional collaboration between the three agencies for more effective and efficient partnerships at the country level. Consultations were held on Global Fund operations, opportunities for collaboration, prospects for greater private sector involvement and specific country issues.
6. Following a meeting of senior staff with UNDP in March 2006, a number of follow-up consultations have taken place to follow up on outcomes and finalize key documents. These include guidelines on cost recovery policy and a protocol regarding ad hoc site visits. A guidance note on UNDP's exit strategy is currently being finalized. The partnership between the Global Fund and UNDP and their key role in facilitating grant implementation in complex countries was reinforced.
7. Four regional meetings have been held this year in collaboration with partners of the Global Fund for the West and Central African region, South and West Asia and East Asia and the Pacific. Meetings are planned for the Middle East and North African region and Eastern Europe and Central Asia before end 2006. These meetings have been co-financed and/or supported by partners.

Part 10: Examples of Harmonizing and Coordinating with Partners

1. The Secretariat continues to make progress in aligning and harmonizing programs with partners. Please find some examples to illustrate this below.

Nepal

2. The Global Fund has one Round 2 HIV/AIDS grant in Nepal which is incorporated into the national HIV/AIDS response. It also has a Round 2 malaria grant. Nepal was highlighted in the Operations Update of December 2005 to illustrate the concerted efforts of the Global Fund with partners in addressing governance and implementation challenges due to significant political problems in the country. Donors continue to align activities and directly support the implementation of Global Fund programs. Almost one year later, results now clearly demonstrate the positive impact of collaboration with partners and the high-level political support mobilized. Specifically, 80 percent of targets have been achieved within an eight-month period of accelerated implementation prior to the Phase 2 review process for the HIV/AIDS program and 70 percent of targets for the malaria program. This has had a significant impact and helped solicit a positive outcome, including the positive decision for continued funding of the programs.

3. UNDP in the role of a management support agent to the Ministry of Health for the HIV/AIDS grant helped to rapidly scale up implementation via (30) local NGOs and partners since August 2006. As part of this effort, they provided capacity building to the local NGOs and partners on financial management, M&E and procurement. Since January 2006, DFID has been using the same modality for channeling its HIV/AIDS funds to the grassroots level which has helped to increase the number of active NGO sub-recipients from 30 to 68 in a coordinated approach. UNAIDS is leading the development of one national M&E framework in Nepal. WHO is providing strong technical assistance to the National AIDS Center of the Ministry of Health and the program. Further strong support is provided by USAID to the program, including funding of qualified staff to the Ministry of Health.

4. To facilitate accelerated implementation of the malaria grant, Population Services International (PSI) had been introduced as a second PR to rapidly procure and distribute Long-Lasting Insecticide Treated Nets to outreach communities, conduct behavior change communication activities and provide training of private health sector providers via a local NGO private sector network. Once this new structure became operational in December 2005, the new grant achieved all targets in a four-month period only, ahead of the malaria season. The two PRs, governmental and nongovernmental, continue to work in a complementary fashion bringing together civil society partners and the public sectors in an innovative manner. UNICEF is supporting procurement activities. WHO works as a technical partner to strengthen M&E capacity, create strategy plans and assist in the development of training tools and manuals.

Guyana

5. Guyana has two Round 3 grants (HIV/AIDS and malaria) and one Round 4 tuberculosis grant. The largest is the HIV/AIDS grant with a total of US\$ 8.8 million approved funding for Phase 1. This grant is currently going through the Phase 2 process.

6. With The Global Fund as the largest procurer of first-line ARV treatment in Guyana, the importance of an effective procurement system is vital to the success of the grant. Cooperation between partners has been highly instrumental in establishing one common procurement plan for ARVs in Guyana. In collaboration with PEPFAR, the U.S. Supply Chain Management System (SCMS) includes a warehouse to process and store all ARVs in Guyana with an effective system for managing stock. Feedback from the Ministry of Health in Guyana on the system has been extremely positive. Presently, SCMS is working to organize a joint mission of the World Bank and the Global Fund to meet with local partners and the United States Government team in Guyana.

Part 11: Procurement Initiatives

1. The Secretariat procurement team has been strengthened through the recruitment of three additional staff to provide more comprehensive and faster support to countries and other parts of the Secretariat, including portfolio teams. These positions also focus on global health supply policies and technical aspects of quality assurance of pharmaceutical products.

2. To facilitate implementation of the decision on quality assurance of pharmaceutical products as adopted by the Board at its tenth meeting, the Secretariat is in the process of finalizing a permanent agreement with third parties for the sampling and testing of single- and limited-source pharmaceuticals procured by countries under the new option C. The quality control agent is expected to be fully operational from end October 2006. Tools have been developed and activities have been initiated by the procurement team to help PRs comply with the quality assurance policy. Similarly, tools have been developed to help the Secretariat better monitor and track countries' compliance. PRs have been trained on the quality assurance policy in regional and local workshops. A list of pharmaceutical products which comply with the quality assurance policy, the "Global Fund Compliance List", is now publicly available on the Global Fund website. A database has been developed to track notifications of PRs which intend to procure pharmaceuticals under option C.

3. The Price Reporting Mechanism (PRM) is an important tool for countries, as it provides a wealth of valuable information on prices PRs have negotiated with suppliers for health products, which strengthens the negotiating power of PRs. Since August 2006 the Secretariat has required the reporting of prices on the PRM before disbursing funds. This has improved the quality and quantity of data available in the system, which now records prices and other relevant information of health products amounting to a procurement value of US\$ 256 million. In total, 78 out of 108 countries with grants through which health products are procured have reported prices in the PRM. This figure is expected to increase further. The PRM also enables the monitoring of compliance of PRs procuring pharmaceuticals under option C based on information of past procurement. A working group has been established including local users from regional clusters and the procurement team to improve the value and effectiveness of information recorded in the tool and to improve the tool/system.

Part 12: Country Coordinating Mechanisms

1. During August 2006 a review of the Secretariat's experience with implementing CCM eligibility requirements as adopted at the Ninth Board Meeting for Round 5 proposals was carried out. The compliance status of CCMs which applied for Round 5 funding was analyzed and compared with baseline data provided in the TERG Report of December 2005. Changes over time in CCM eligibility compliance between June 2005 and September 2006 were highlighted and trends identified. In addition, selected Secretariat staff were interviewed to identify factors associated with compliance and challenges. The review found that CCM eligibility requirements have reinforced principles laid out in the Framework Document of the Global Fund to Fight AIDS, Tuberculosis and Malaria. Their enforcement has contributed substantially to the positive reform of CCM composition; the representative and active participation of various stakeholders; and formalized and transparent operating procedures.

2. For Round 6, the Secretariat constituted a Screening Review Panel with clear TORs and finalized an Operational Policy Note (OPN) on Evidence and Compliance of Country Coordinating Mechanisms and Eligibility for Funding of Proposals. Support from the Secretariat will focus on sustaining reforms and aligning CCMs with existing country mechanisms. Transaction costs for countries as well as various units of the Secretariat to implement and verify compliance were substantial and underestimated. They explain some of the delays in grant signings and in countries' submissions for Phase 2 funding.

Part 13: Review by the U.S. Government Accountability Office (GAO)

1. The GAO commenced its third study of the Global Fund in July 2006. Its present foci are on model applications of performance-based funding, decision-making for disbursements, the LFA model, cooperation between the Global Fund, WHO and UNAIDS, and Phase 2 reviews.

2. A draft report will be available early 2007 and the Secretariat will be invited to comment on outcomes. The final report is expected in April 2007. The Secretariat welcomes the comprehensive analyses undertaken by the GAO and its recommendations as these highlight areas where the systems and processes of the Secretariat can be improved and strengthened.

Part 14: Continuing to Strengthen the Operations Team

1. Significant progress has been made in filling new positions created in the Operations Unit during 2006 and vacancies occurring due to staff leaving. Recruitment actions for all FPM, Program Officer and Fund Portfolio Assistant posts have either been completed or are in the process of being finalized. Both OPCS and PSP have been considerably strengthened throughout 2006 and only have a small number of posts to be filled. The Director of Operations assumed his position on 10 July 2006.

2. Shortly after taking up responsibilities at the Global Fund, the Director of Operations facilitated a two-day retreat of senior management staff and a number of FPMs, Program Officers and Portfolio Assistants. The objective was to define strategies that intensify the use of existing talents to enhance organizational performance. Participants focused on grant-related decision-making processes, roles and responsibilities of various players in the decision-making processes and how best to leverage the collective talents of the Operations Unit and the Secretariat as a whole.

3. In order to ensure that the outcomes of the retreat are implemented directly or further developed where necessary, a number of working groups including colleagues from units across the Secretariat have been established with clear terms of reference, defined deliverables and timelines for delivery. A working group on quality was established to systematize routine processes inherent in the grant management cycle with a view to increasing efficiencies. One of the expected outcomes is to improve consistency in performance across teams and more efficient processes leading to timely grant signing and disbursements. A second working group is developing an Operations Balanced Scorecard to further align operational strategies and activities implemented to produce results at the country level. Measurements and indicators will be identified to track performance of internal processes and performance at critical steps of the grant management cycle.

4. Work has commenced to prepare a unified risk management framework that combines several risk reduction practices across the Secretariat. With the Operations Unit in the lead, steps will be taken with outside expertise to assess existing risk management practices and produce recommendations with an action plan to further enhance current risk prevention and/or mitigation efforts within the Secretariat.

5. The Secretariat is committed to increasing the tracking of financial expenditures of in-country partners. This would not only enable the Secretariat to respond to requests for information from stakeholders but also provide the Secretariat with information for strategic and management purposes. A working group is developing strategies on how best to collate this information across the portfolio of grants with minimized transaction costs to PRs and the Secretariat. Initial progress results on the outcomes of this initiative will be presented at the Fifteenth Board Meeting.

6. The Operations Unit will remain focused on results, responsible speed in grant signing and disbursements, and improved quality of Secretariat processes and partnerships. Leadership across clusters and the Operations Unit as a whole will be nurtured. Active steps are currently being taken to continue to build on prior investments and further enhance inter-unit collaboration necessary for accelerated grant signing and the disbursement of funds. However, higher than anticipated workloads and human resources implications due to increased grant management activities in more complex in-country environments, the Phase 2 review process, implementation of Board decisions including strategy decisions and the requirement to align and harmonize activities with partners, remain a major concern.

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