

**REPORT OF THE EXECUTIVE DIRECTOR**

## CONTENTS

<b>Part 1: Introduction</b>	<b>3</b>
<b>Part 2: Results and overview of the portfolio</b>	<b>6</b>
Turning the tide	6
Global Fund results	8
Update on major initiatives	9
Overview of the portfolio	11
Procurement	16
Audits and investigations	18
<b>Part 3: Transforming the Global Fund</b>	<b>20</b>
From emergency to sustainability	20
From reform to transformation	20
The Consolidated Transformation Plan	21
<b>Part 4: Resource mobilization</b>	<b>26</b>
Analysis of funding environment	26
Overview of pledges and contributions	26
Ongoing resource mobilization efforts	27
The private sector	27
Round 11	29
<b>Part 5: The Global Fund strategy 2012-16</b>	<b>30</b>
Investing for impact	30

## **PART 1: INTRODUCTION**

1.1 As 2011 draws to a close, it is clear that this year has brought more than the usual complement of challenges for the Global Fund. This has been a year of unprecedented difficulties, setbacks, reflection and the learning of lessons about the need for significant change. It has been a defining year for our organization. In the words of the High Level Panel, the Fund must “change or wither”. I am fully committed – along with my Executive Management Team and staff - to leading that change.

1.2 The global economy became much more fragile throughout the year and the international economic outlook for the next few years is likely to remain volatile. That this will pose major challenges for the future of the Global Fund – indeed for all international public goods - is self-evident. The magnitude of these challenges was complicated at the beginning of the year by media reports about fraud and corruption in Global Fund grants. This media shock reinforced the urgent need to rectify underlying weaknesses in the Global Fund’s model and fiduciary controls. The broader economic context also requires the Global Fund to demonstrate more persuasively than ever that it delivers exceptional value for money. I am convinced that the Global Fund can meet these challenges.

1.3 In February, I proposed and the Board agreed that the Fund should be the subject of an independent review by a High Level Panel of eminent persons. As the Panel undertook its work between April and September, Secretariat staff continued working hard to implement the major reform agenda set out in the Plan for Comprehensive Reform that the Board approved in May. In parallel, the European Commission undertook its own review of the Global Fund and a number of internal reviews took place in the Secretariat to support implementation of the reforms. Taken together, these review and reform processes illustrate both the period of deep reflection that the Global Fund has been through, as well as the extraordinary opportunity now at hand. The path of change on which the Fund has embarked has been described as transformative because - implemented with our principles always firmly in mind – it will equip the Global Fund to more fully realize the vision that led to its founding ten years ago.

1.4 At this meeting, the Board will review and discuss the draft Consolidated Transformation Plan developed over the last six weeks in an unprecedented collaboration between the Board leadership, Secretariat and Inspector General. The Plan operationalizes the recommendations of the High Level Panel and also brings all reforms underway across the Global Fund together in a compelling way. It provides the framework to guide our transformation over the next 12 to 18 months.

1.5 I am fully aware that the success of the Consolidated Transformation Plan will require strong leadership at the top of the organization. The report of the High Level Panel pointed to an erosion of confidence in the Executive Management Team. I recognize my responsibility to restore that confidence.

1.6 As we move to full implementation of the Transformation Plan, I want to share with the Board my concern that we manage the process with full, informed and careful consideration of the morale and well-being of our staff. Staff members recognize the value and importance of change, however we must also recognize the toll that extensive change can take on staff members and their families.

1.7 This year of transformation has also involved thinking hard about how the Global Fund should position itself strategically in the coming years. Following the Board retreat a year ago

in Sofia, a comprehensive and often inspirational process of strategic planning and consultation took place, including at the Partnership Forum in São Paulo, with the result that at this meeting the Board will also approve an exciting new Global Fund strategy for 2012-16. The strategy and the Consolidated Transformation Plan strongly reinforce each other.

1.8 For its twenty-fifth meeting, the Board comes to West Africa for the first time, and to Ghana, the first country to sign a Global Fund grant, in November 2002. I sincerely thank the government of Ghana for hosting the meeting and I warmly welcome Minister Chireh who will assume the Board seat for the Central and West African constituency when the meeting concludes.

1.9 The Global Fund has committed some \$350 million to Ghana for the three diseases, including \$50 million earmarked through Product RED. Ghana has consistently been willing to innovate, for example, by recently switching to superior care for PMTCT and introducing mobile digital x-ray to increase TB case detection. Ghana was also one of the first countries to participate in the Affordable Medicines Facility for Malaria, and has reported remarkable price reductions for ACTs purchased in the private sector. The private sector is also strongly engaged as principal recipient of a malaria grant and on the CCM. I thank the government for the support that it has shown to the Global Fund by signing the Privileges and Immunities Agreement earlier this year. I also thank the many partners who are working to help implement Global Fund financing in Ghana, including WHO, UNAIDS, USAID/PMI and the Dutch government.

1.10 In August, the new Board Chair, Martin Dinham, stepped down due to ill health. While we understood Martin's decision, we also regretted the lost opportunity to benefit further from his insight and enthusiasm. We continue to extend every good wish to Martin for his recovery.

1.11 I warmly congratulate our new Chair, Simon Bland, on his appointment, and I thank him and the Vice Chair, Mphu Ramatlapeng, for their close engagement and support, especially during the last few very busy and demanding weeks and months.

1.12 Many Board members have made significant contributions to the life and work of the Global Fund this year in areas as diverse as governance reform, the Partnership Forum and the new strategy. I thank all Board members for their efforts. I warmly thank the outgoing Committee Chairs and Vice Chairs, many of whom have served extended terms beyond the call of duty: Suwit Wibulpolprasert and Todd Summers on the Policy and Strategy Committee; Blandina Nyoni and Bernard Nahlen on the Portfolio and Implementation Committee; Karlo Boras and Marijke Wijnroks on the Ethics Committee; Peter van Rooijen and Lars Kjaer Knudsen on the Finance and Audit Committee; Leslie Ramsammy and Kirsten Myhr on the Affordable Medicines for Malaria Ad Hoc Committee, and Oliver Sabot and Shanelle Hall on the Market Dynamics Committee.

1.13 I thank all Global Fund staff for their commitment and hard work in this challenging year, including the members of Executive Management Team and my deputy, Debrework Zewdie.

1.14 Finally, I thank the Fund's major multilateral partners - including WHO, UNAIDS, Roll back Malaria, Stop TB, UNICEF and UNDP – for their constant support on many occasions this year, ranging from convening meetings on subjects such as strategy, the Consolidated Transformation Plan and AMFm, to the invaluable support they provide in many countries. While this report does not contain a separate section on partnerships, the contributions of partners and the numerous opportunities for exchange afforded by this year's Partnership

Forum in São Paulo are an integral part of the report. I thank everyone who helped to make the Partnership Forum a success.

1.15 This remainder of this report is structured as follows:

- **Part 2, “Results and overview of the portfolio”**, summarizes progress in the fight against the three diseases as reported by several partners since the May Board meeting, as well as the June 2011 Global Fund results. As we focus at this meeting on our crucial process of transformation, it is important to recall that thousands of lives are being saved each day, millions of people are accessing treatment, families are safely protected by bed nets and communities are accessing HIV prevention as a result of Global Fund support.

This section also provides an overview of the portfolio and updates on several major initiatives, current issues in grant management and matters arising from the latest reports of the Inspector General.

- **Part 3, “Transforming the Global Fund”**, discusses the Consolidated Transformation Plan that will be the subject of major discussions at this meeting, with a focus on some significant early deliverables by the Secretariat.
- **Part 4, “Resource mobilization”**, provides an analysis of the current funding environment and resource mobilization efforts, and discusses the important and challenging issues related to the financing of Round 11.
- **Part 5, “The Global Fund strategy 2012-16”**, discusses the exciting new five-year strategy for the Global Fund that the Board will review and approve at this meeting.

## **PART 2: RESULTS AND OVERVIEW OF THE PORTFOLIO**

### **Summary**

- The early signs of impact reported in the last few years have given way to sustained, positive, global trends in the fight against the three diseases.
- June 2011 results for the Global Fund showed that the Fund was supporting 3.2 million people on antiretroviral treatment and had financed a cumulative 8.2 million courses of DOTS for TB and the distribution of 190 million insecticide-treated nets, among other interventions, representing further substantial scale-up in the previous 12 months.
- The Affordable Medicines Facility for Malaria has achieved impressive reductions in median prices for ACTs in the eight pilot countries.
- The Global Fund's strategies on Gender Equality and Gender Orientation and Sexual Identities have sent a strong message to implementing countries and partners about the importance of meeting the health needs of these key affected populations.
- 13 countries have participated in the initiative of the Global Fund, UNAIDS and UNICEF to reprogram more than \$80 million for the scale-up of PMTCT programs.
- The Global Fund has now disbursed a cumulative \$14.7 billion through more than 900 grants in 150 countries, of which around 500 grants are active.
- The anticipated disbursement for 2011 is \$2.8 billion, or 90 per cent of target, compared to \$3 billion in 2010 .
- By early November, 36 of 113 Round 10 grants had been signed or were awaiting signature in country; more than 70 per cent of these are single stream funding agreements.
- Value for money considerations are increasingly important in performance-based funding. Since 2008, efficiency gains have increased from around 5 per cent of the amount requested at Phase 2 review, to nearly 30 per cent.
- The PQR shows a continuing downward trend in the cost of the most common ARV regimens in 2010 and 2011.
- The Voluntary Pooled Procurement Mechanism is showing advantageous results in terms of reduced lead-times and lower prices for both large and smaller countries.
- The Secretariat has responded rapidly to the most recent reports of the Inspector General.

2.1 While the transformation of the Global Fund is the priority of the Board at this meeting and in the work of the coming year, the Fund also remains strongly focused on delivering results. I therefore begin this report with a brief summary of progress in the fight against the three diseases.

### **Turning the tide**

2.2 In 2011, the world has reached a point where the early signs of impact reported in the last few years have given way to sustained, positive, global trends in the fight against the three diseases. As the financier of half of antiretroviral treatment and the majority of HIV prevention globally, and the provider of two-thirds of international financing for TB and malaria, the Global Fund has made a major contribution to this progress.

## *HIV*

2.3 In June, UNAIDS reported that in the last ten years, the estimated number of new HIV infections has fallen by 20 per cent, from 3.1 million to 2.6 million<sup>1</sup>. Twenty-two of the 33 countries where HIV incidence has fallen by more than 25 per cent in that period are in sub-Saharan Africa. The global number of AIDS-related deaths has fallen nearly 20 per cent from the peak of 2.1 million in 2004 to an estimated 1.8 million in 2009, due mainly to increased coverage of antiretroviral therapy and improved care and support for people living with HIV in low and middle-income countries. During this period, AIDS-related deaths among children younger than 15 years of age also declined by the same proportion, from 320,000 to 260,000.

2.4 As well as results, 2011 has brought new inspiration to the fight against AIDS, firstly through findings from the HPTN-052 study showing the remarkable preventive benefit of antiretroviral treatment among serodiscordant couples. Secondly, at the High Level Meeting on AIDS at the United Nations in New York in July, countries agreed to inspirational new targets, including - by 2015 - halving sexual transmission of HIV and HIV infection among people who inject drugs, treating 15 million people and eliminating new HIV infections among children.

2.5 As US Secretary of State Hillary Rodham Clinton strongly asserted in her recent speech on AIDS, the progress made in the fight against this disease in the last decade, together with the tools now at our disposal, actually provide the world with the means to pursue and realize the vision of an AIDS-free generation in the coming years.

## *Tuberculosis*

2.6 In October, WHO reported that the absolute number of incident TB cases per year has been falling since 2006<sup>[2]</sup>. The incidence rate per 100,000 population has also been falling by 1.3 per cent per year since 2002, making it likely that the MDG target of reversing TB incidence by 2015 will be achieved. TB mortality is also declining globally. The Stop TB Partnership target of a 50 per cent reduction by 2015 compared with 1990 is likely to be met if the current trend is maintained. However, the WHO AFRO region is less likely to meet this target.

2.7 Despite the progress made, the global rate of generation and transmission of MDR-TB is too high, current coverage of MDR-TB management is inadequate and the pace of treatment scale-up is too slow. The reported number of MDR-TB patients enrolled on treatment with Global Fund support has increased, reaching a cumulative total of 50,000 in mid-2011. But access remains unacceptably low given that an estimated 290,000 cases of MDR-TB occurred among notified TB patients in 2010 alone. The Global Fund and its partners have a key role to play in the dramatic scale-up of coverage needed to control the expanding epidemic of MDR-TB.

2.8 Substantially increased investments in TB research and development over the past decade are beginning to paying off. New diagnostic tests are entering field use and the Global Fund is playing a leading role in supporting the introduction of new technologies, including cartridge-based nucleic acid amplification tests such as GeneXpert. With the drug development pipeline better stocked than ever before, the prospect of shorter and more effective TB treatment regimens is closer.

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<sup>1</sup> *AIDS at 30, Nations at the Crossroads*. UNAIDS 2011.

<sup>[2]</sup> *Global Tuberculosis Control Report* WHO 2011.

## Malaria

2.9 In October, WHO, Roll Back Malaria and PATH reported that the number of malaria deaths has fallen by nearly 20 per cent globally in the last decade<sup>[1]</sup>. Three countries have eliminated malaria since 2007, with 10 more expected to do so in the next five years, including the entire WHO EURO region. Huge progress has been made against the disease in sub-Saharan Africa.

2.10 In African countries with substantial scale-up of interventions, outstanding progress has been made, with at least 11 countries recording a greater than 50 per cent reduction in malaria cases and related deaths. The number of rapid diagnostic tests and ACTs procured has increased significantly, leading to an increase in the percentage of reported suspected cases receiving a parasitological test from 67 per cent globally in 2005 to 73 per cent in 2009. The number of ACT treatment courses procured increased greatly from 11.2 million in 2005 to 158 million in 2009. Globally, the number of malaria deaths fell by 38 per cent reduction between 2000 and 2010, and by 39 per cent in the WHO AFRO region. Overall, child mortality in sub-Saharan Africa dropped dramatically in the last decade by approximately 20 per cent, from 159 per 1000 live births to 127 per 1000 live births.

2.11 According to the 2010 WHO report<sup>[2]</sup>, between 2008 and 2010 alone, a cumulative total of 254 million ITNs were delivered to sub-Saharan Africa with support from a variety of donors, enough to cover nearly three-quarters of the population at risk of malaria and providing a sound basis for efforts to reach universal access. Household surveys undertaken between 2007 and 2009 found that 11 countries had reached a household ITN ownership rate of more than 50 per cent, with an estimated 45 per cent of children younger than 5 years of age sleeping under an ITN in these countries. The number of people protected by indoor residual spraying increased in sub-Saharan Africa from 13 million in 2005 to 75 million in 2009, amounting to protection for 10 per cent of the population at risk.

### Global Fund results

2.12 The Global Fund reports on results from the programs it supports twice yearly. As the results for December are not yet available, I present the results from June 2011 (Table 1). These show the Global Fund contributing significantly to continued scale up for the top three indicators over the previous 12 months.

**Table 1: Global Fund top 3 results indicators, June 2011**

Indicator	Mid 2008	Mid 2009	Mid 2010	Mid 2011	% increase in last 12 months
HIV: People on ART	1.75 million	2.3 million	2.8 million	3.2 million	14 %
TB: DOTS treatment	3.9 million	5.4 million	7 million	8.2 million	17 %
Malaria: ITNs distributed	59 million	88 million	120 million	190 million	58 %

<sup>[1]</sup> *Eliminating malaria: Learning from the past, looking ahead*. Progress and impact series No. 8. WHO, RBM, PATH. October 2011.

<sup>[2]</sup> *Global Malaria Report* WHO 2010



2.13 By June of this year, the Global Fund was supporting 3.2 million people on antiretroviral treatment, or about half of those receiving it globally. The cumulative number of people receiving DOTS for TB with Global Fund support increased by 500,000 in the first six months of this year to 8.2 million. Nearly 30 million additional insecticide treated nets were distributed through Global Fund-supported programs in the six months to June, bringing the cumulative total to 190 million or nearly 60 per cent more than the total number 12 months before.

2.14 The mid-year results for 2011 also showed that the Global Fund has now financed a cumulative 36 million indoor residual spraying services - a 31 per cent increase from 12 months before - and treatment for 210 million cumulative cases of malaria.

2.15 An estimated two-and-a-half million people in Somalia, already suffering from drought, famine and conflict, were at risk of contracting malaria as the rainy season approached in October. To prevent a major outbreak - especially among malnourished children and internally displaced populations - a massive effort to distribute around 350,000 bed nets has been mounted in the last few months by UNICEF, WHO and partners with funding from the Global Fund and DfID, focused on Somalia's south central regions, as well as Somali refugee camps in Kenya and Ethiopia. In the overcrowded informal settlements of Mogadishu, where nets are not practical, a first round of indoor spraying aimed to reach 45,000 households. More than half a million doses of ACTs and one million rapid diagnostic tests are being provided to health facilities and community level health posts.

### **Update on major initiatives**

#### *Affordable Medicines Facility for Malaria (AMFm)*

2.16 By hosting the AMFm, the Global Fund has contributed to another innovative partnership for financing improved access to life-saving treatments. Since Phase 1 began in mid-2010, price negotiations with manufacturers and co-payments have together achieved impressive reductions in median retail prices of ACTs, from a range of around \$5-12 to between 50 cents and \$1.30 currently in eight pilot countries. With a few exceptions, availability of the co-paid ACTs is high. Total co-payments have been approved for around 175 million treatments, with 110 million treatments delivered. More than a third of the ACT orders are for the public sector; in addition, public sector facilities in several countries are buying co-paid ACTs from private sector importers, thereby mitigating potential stock-outs in government clinics. The participating countries are pleased with the results reported to date.

2.17 Increased ACT demand has put pressure on the market, and the AMFm is therefore working to more proactively coordinate its approval of co-payment requests. However, the factors currently influencing ACT prices clearly extend beyond the AMFm. I appreciate the effort recently made by the Roll Back Malaria partnership to convene a meeting to take stock of this complexity.

2.18 Participating countries will require support as they transition from the pilot phase of the AMFm at the end of 2012. The independent evaluation of the initiative will therefore be important to help inform options including the contexts and countries in which the AMFm model might be appropriate in the medium term, and how the model might evolve to include diagnostics. Both the AMFm Ad Hoc Committee and the AMFm Founders group recognize the importance of a responsible transition from the pilot phase. I have asked the RBM Partnership - which developed the AMFm - to convene consultations to develop solutions to these challenges.

## *Independent evaluation of the Global Fund's Gender Equality and Sexual Orientation and Gender Identities (SOGI) strategies*

2.19 The Board initiated these innovative strategies in 2008 and 2009 to help stimulate demand for financing in important but neglected areas of health, particularly the response to AIDS. It also requested that the strategies undergo formative evaluation, which has been completed this year by the Pangaea Global AIDS Foundation, drawing on the experiences of hundreds of Global Fund implementers and partners, including at the Partnership Forum in São Paulo.

2.20 The evaluation report was released this month and provides recommendations for the Secretariat, Country Coordinating Mechanisms and partners. It notes that the two strategies have sent a strong message to implementing countries and partners about the importance of meeting the health needs of these key affected populations. It concludes that the test of the Global Fund's commitment will be sustained implementation of the strategies across all Global Fund structures and continued funding support for this important work. The full evaluation report and the Secretariat's response to it are available on the Global Fund website.

2.21 Because more effort will be needed to build on the gains to date, the Global Fund's gender equality and SOGI work will now move forward in the context of the new strategy for 2012-2016, consistent with its objectives of investing more strategically for impact and promoting and protecting human rights.

### *Prevention of mother-to-child HIV transmission*

2.22 Eighteen months ago the Global Fund launched an initiative with UNAIDS and UNICEF to support reprogramming of Global Fund grants for the scale-up of PMTCT programs. This has been an important effort given that the Fund finances half of all PMTCT globally and shares the goal of eliminating mother-to-child HIV transmission by 2015. Nine countries have completed and four countries are in the course of completing re-programming to the value of \$84 million. The Global Fund and UNICEF have commissioned an evaluation in five countries that have completed reprogramming (Tanzania, Malawi, Lesotho, Zambia and Ghana) to review progress in implementing the WHO 2010 PMTCT guidelines and strategies for the elimination of new pediatric HIV infections and keeping mothers alive and well.

2.23 The Global Fund remains strongly committed to the elimination agenda and to contributing to the work of the Global Task Team on PMTCT that is co-convened by Ambassador Eric Goosby and Michel Sidibè of UNAIDS. Round 11 represents an opportunity for the partners to help improve on the disappointing outcome of Round 10 PMTCT proposals.

### *Youth leadership*

2.24 Two years ago, the Board passed a decision point emphasizing the need to encourage youth leadership and involvement in the response to AIDS, tuberculosis and malaria. The Point 7 delegation has had a youth delegate for the last two years; at this Board meeting, we welcome Annette Remme from Norway as its new youth delegate. The Communities Delegation has appointed a member to follow and address youth issues, while the Developing Country NGOs delegation has named four youth representatives from different regions and networks, two of whom have taken part in Global Fund trainings for youth led by the Youth Coalition on Sexual and Reproductive Health. The Global Fund has recently developed a *Youth Guide to the Global*

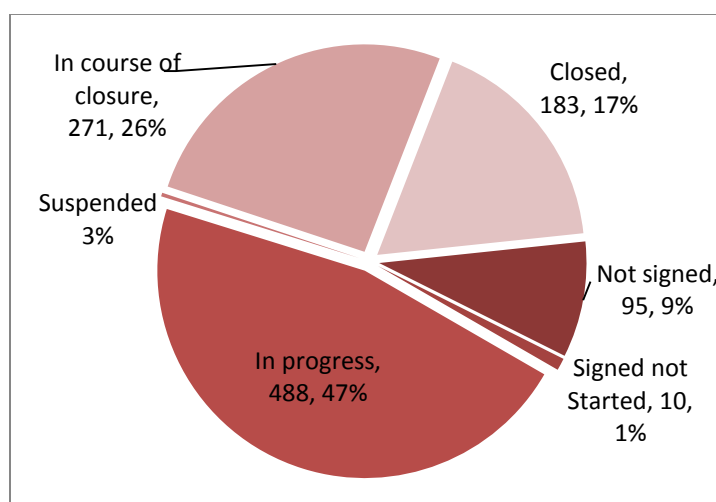
*Fund* which presents the Fund in accessible, youth-friendly language and profiles a number of young leaders in the response to the three diseases.

2.25 Around 25 CCMs now include members from youth-led organizations. An ongoing challenge for the Global Fund is to mobilize and engage youth from most-at-risk-populations, many of whom are highly marginalized. Networks of MSM and transgender organizations in the LAC region are among those leading the way. I welcome the Fund's engagement with the young leaders of today and I hope to see more young faces in leadership roles at the Global Fund.

### Overview of the portfolio

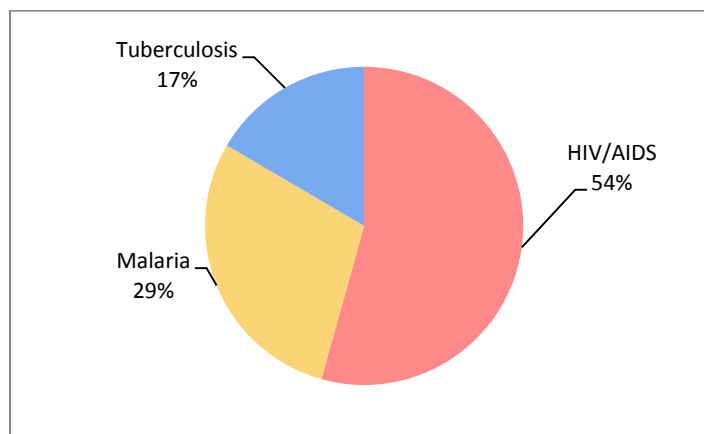
2.26 By the end of October 2011, the Global Fund had disbursed a cumulative \$14.7 billion through more than 900 grants in 150 countries, of which around 500 grants were active. As shown in Fig. 1, more than 400 grants have now been closed either as a result of reaching the end of their term or due to the remarkable progress in consolidating grants to implement single stream funding.

**Fig. 1. Portfolio by grant status, November 2011**



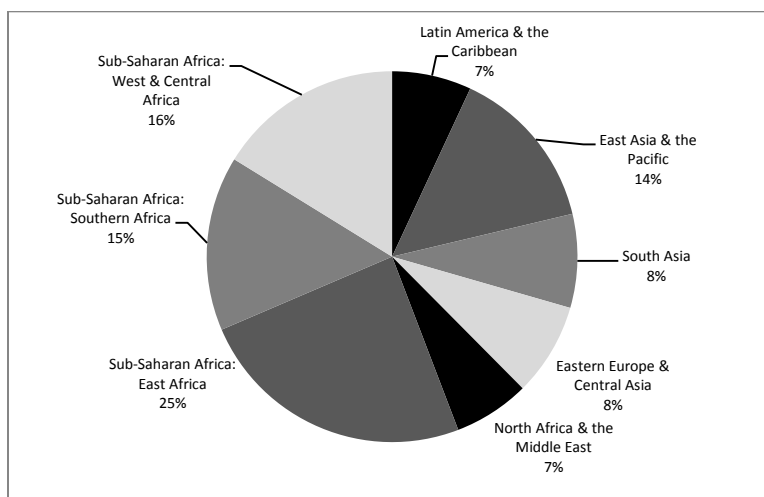
2.27 AIDS programs account for 54 per cent of cumulative, approved funding in the portfolio, while malaria and TB programs account for 29 per cent and 17 per cent respectively (Fig. 2).

**Fig. 2. Composition of portfolio by disease, Rounds 1-10**



2.28 Nearly 60 per cent of cumulative, approved funding in the portfolio has been invested in sub-Saharan Africa (Fig. 3). The cumulative proportion of the portfolio invested in the Global Fund’s Middle East and North Africa region increased by 2 per cent to 7 per cent following Round 10.

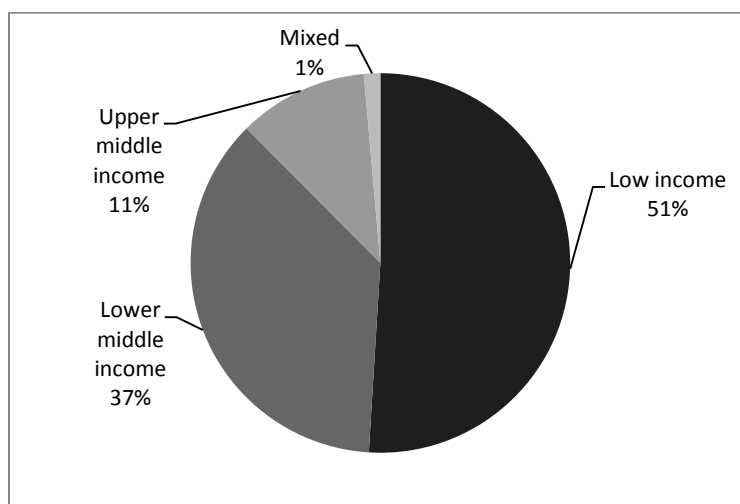
**Fig. 3. Composition of portfolio by Global Fund region, Rounds 1 to 10**



2.29 Nearly 90 per cent of cumulative, approved funding in the portfolio has been invested in low income and lower-middle income countries (Fig. 4). However, due to changes in country income levels over time, new commitments made to 2011 – 2013 renewals will be more heavily skewed towards middle-income countries. The profile of these renewals over the years of the current Replenishment term, based on current World Bank income classifications, is described in the options paper prepared for this meeting by the Round 11 Working Group<sup>2</sup>.

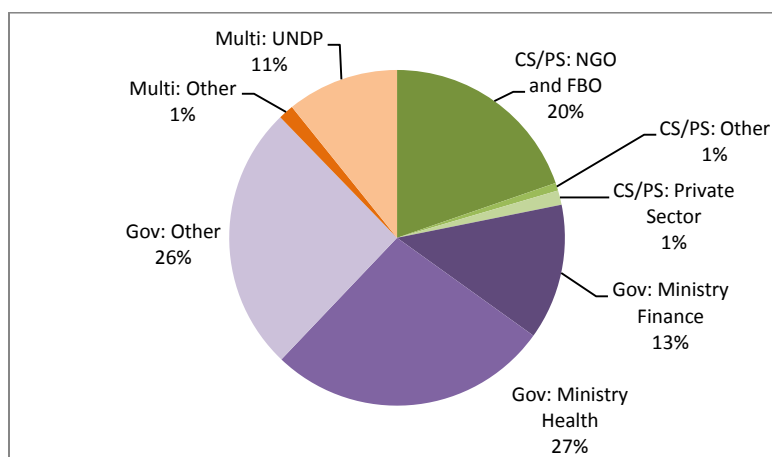
<sup>2</sup> GF/B25/8

**Fig. 4. Composition of portfolio by income level, Rounds 1-10**



2.30 Government entities account for two-thirds of principal recipients for active grants, while civil society and private sector entities account for 22 per cent (Fig. 5). The proportion of UNDP and Ministry of Finance principal recipients has increased slightly in the last year while the proportion of NGO/FBO principal recipients has fallen slightly. The continued, strong participation of non-government actors as grant recipients and implementers remains one of the Global Fund’s major innovations.

**Fig 5. Composition of portfolio by implementer type for active grants, November 2011**

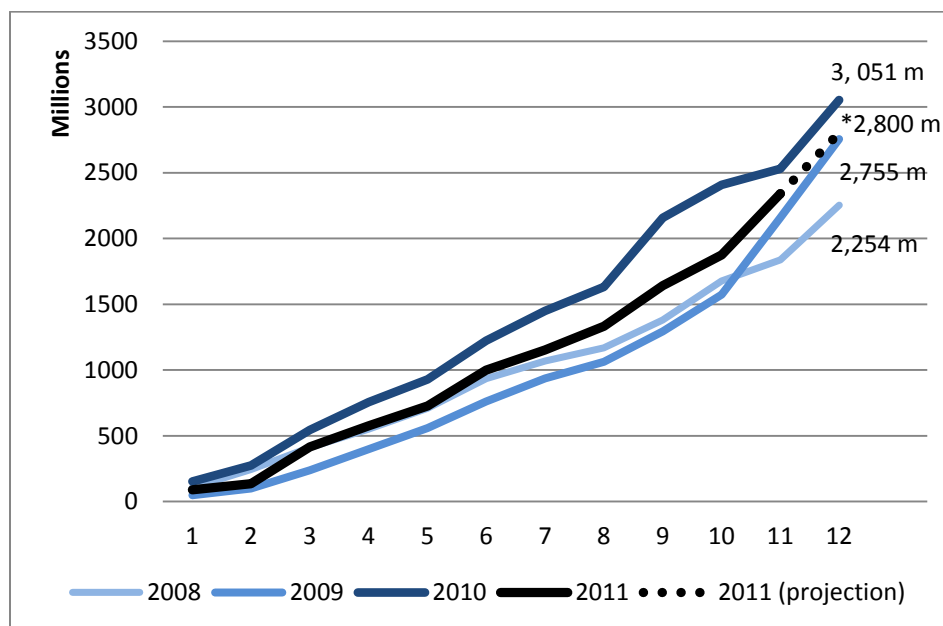


*Disbursements*

2.31 Approximately \$1.9 billion has been disbursed this year by the end of October, or 61 per cent of the KPI target for 2011 of \$3.112 billion. The anticipated disbursement for 2011 is \$2.8 billion, or 90 per cent of the target, compared to \$3 billion in 2011. As the curve in Fig. 6 shows, disbursements have been spaced relatively evenly throughout 2011.

2.32 The lower than anticipated disbursement figure is in large part attributable to the increased attention being paid to fiduciary issues. For example, in six countries that have accounted for around 40 per cent of the gap between forecast and actual disbursements in 2011, reasons for delays included concerns raised by the OIG that had not been addressed and the need to extend LFA verification periods, as well as procurement-related bottlenecks.

**Fig. 6. Annual Global Fund disbursements, 2008-11**



2.33 It is to be hoped that the evident slow-down in the volume of disbursements in 2011 reflects prudence in the current transformation phase rather than a continuing trend in the Global Fund’s operations. As the Fund transforms, one of its most difficult challenges will be to strike an appropriate balance between ensuring sound fiduciary oversight and moving funds to where they are needed in a timely manner without placing an undue administrative burden on implementing countries.

2.34 The median disbursement time in 2011 to date is 22 days, compared to the target of 21 days. Median disbursement time in 2010 was 23 days.

*Round 10 signing*

2.35 With \$1.7 billion approved for Phase 1, Round 10 was the third largest Global Fund round.

2.36 By early November, 36 of 113 grants had been signed or were awaiting signature in country; more than 70 per cent of these are single stream funding agreements. All grants with a December 2011 deadline are expected to be signed on time, except for two that require an extension to accommodate the transition to single stream funding. As the Board has delegated authority to the Secretariat for allowing Round 10 signing extensions, the Secretariat will report to the Board on the extensions granted by April of next year.

### *Grant review and performance-based funding*

2.37 Of the 77 grants approved for Phase 2 in 2011, 59 per cent received a “Go” and 36 per cent a “Conditional go”. The number of “Conditional go’s” is significantly lower than in 2010. This year, four grants have received a “No go”, compared to just two in the preceding two years.

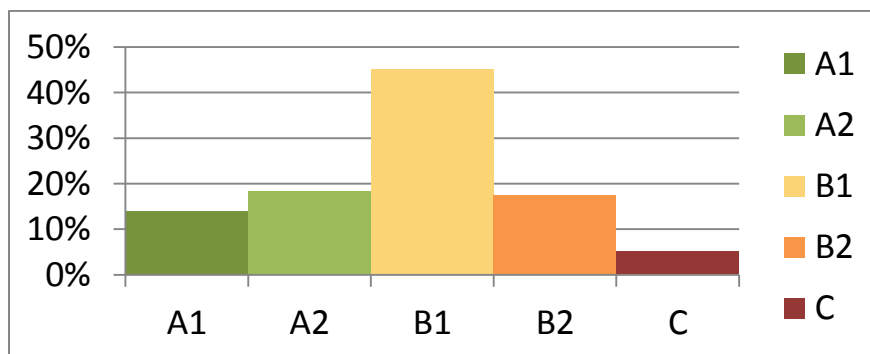
2.38 The Global Fund Price and Quality Reporting (PQR) System now contains reliable data covering more than \$2 billion of procurement transactions and has become an important tool for ensuring value for money. As a precondition to Phase 2 or Periodic Review, principal recipients must fully report their procurement data to the PQR and the data must be verified by the LFA. During the review, reported unit costs are systematically benchmarked against a range of international references and recent market prices. Principal recipients are expected to provide justification for any significant transactions that exceed the Global Fund’s reference ranges. If unable to do so, corrective actions are taken to revise future PSM budgets downward to better reflect market prices, change PRs, or pursue reimbursement. The PQR data are also being used to inform budgets during Round 10 negotiations and to analyze market dynamics.

2.39 The introduction of investment ranges based on performance at Phase 2 and disbursements has significantly enhanced performance-based funding. Since the Fund was established a cumulative amount of \$ 1.4 billion has been made available from Phase 2 for new proposals, including \$240 million in the first six months of 2011. Since 2008, efficiency gains have increased from around 5 per cent of the amount requested at Phase 2, to nearly 30 per cent. Reallocation of unused funds at the time of grant review is increasingly seen - not as an opportunity for the Secretariat to “cut” finding - but to better understand how to optimize value for money and deliver programs as efficiently as possible. This is particularly important as countries plan for long-term sustainability of programs.

2.40 In the 2010 principal recipient survey, 90 per cent of respondents ranked performance-based funding as “the most highly performing Global Fund principle”. The next major innovation will be to strengthen performance-based funding based on impact to allow better use of reprogramming at all levels of performance.

2.41 The portfolio as a whole continues to perform strongly, with nearly 80 per cent of grants rated B1 or higher at the time of last disbursement (Fig. 7). A slightly higher proportion of grants has received B2/C ratings in 2011 because of increased focus on fiduciary matters.

**Fig. 7. Grant rating at latest disbursement, November 2011**



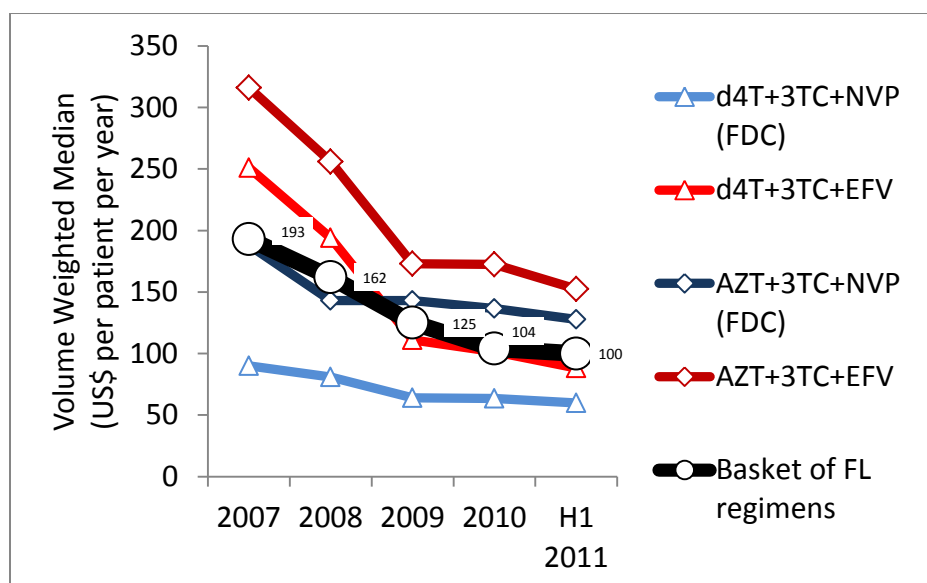
2.42 In his progress report to this Board meeting, the Inspector General reports strong delivery against targets in the most recently audited grants.

## Procurement

### Commodity prices

2.43 The PQR shows a continuing downward trend in the cost of the most common ARV regimens in 2010 and 2011 (Fig. 8). Based on the median prices that principal recipients reported for individual ARVs, as well as WHO guidelines for ARV regimens, the estimated cost for the eight most common first-line regimens for adults fell by 17 per cent between 2009 and 2010 (from \$125 in 2008 to \$104) and by another 4 per cent from 2010 through the first half of 2011 (from \$104 to \$100).

**Fig. 8. Reported unit costs of common first line HIV treatment regimens**



Sources: Global Fund PQR, WHO, UNAIDS

2.44 Despite a massive scale-up in the quantities of long lasting insecticide-treated nets procured in 2010, PQR data suggest that declines in unit prices have been modest. The median unit price for all reported purchases of insecticide-treated nets declined from \$4.60 in 2009 to \$4.45 in 2010. Preliminary data from 2011 indicate that the downward trend continues and may be accelerating. Prices varied considerably, however, reflecting heterogeneity in product characteristics (such as the size and shape of the net) as well as whether or not shipping and insurance are included in the price.

### Service delivery costs

2.45 A recently completed project reviewed over 80 grants to assess the feasibility of more systematic calculation and consideration of cost-per-services information for ART, DOTS and ITN delivery in routine grant decision-making. The project concluded that it is possible to establish cost ranges in a limited set of areas. In order to improve cost-per-service data availability and use of value for money criteria in decision-making, the Consolidated Transformation Plan proposes strong linkages between program and cost data in grants and the use of standardized cost per service indicators for key interventions.



### *Voluntary Pooled Procurement (VPP)*

2.46 By the end of September 2011, health products valued at \$645 million had been procured through the VPP mechanism for 97 grants in 45 countries. In addition, seven countries are receiving extensive support to address challenges in procurement and supply management.

2.47 As the Global Fund gains experience through the VPP, it also gains insight into emerging market issues such as lead-times and pricing trends. The average time from first request to delivery through the VPP is currently six to eight months for core products (ARVs, ACTs and LLINS), compared to an average of five to 18 months for procurement at the national level. Lead-times for VPP-procured ACTs have fallen by 24 per cent in 2011 and 15 per cent for VPP-procured ARVs.

2.48 The VPP mechanism has negotiated advantageous terms and conditions including lower prices. Prices for ARVs, for example, are 8 per cent lower than the 2011 CHAI negotiated prices. Low prices and other favourable conditions apply across all grants irrespective of individual order volumes. Honduras, for example, procured 3,000 LLINs with the same conditions and unit price as for 27 million nets purchased for Nigeria. VPP has also enabled small countries to procure generic ARVs where there was previously no generic market.

2.49 The VPP is increasingly being proposed as a risk mitigation tool. Currently, grants from 18 countries or 56 per cent of those identified as “extreme risk” by the High Level Panel and 21 countries or more than a third of those identified as “high risk” have procured through VPP. Procurements from extreme and high-risk countries already accounts for 99 per cent of the total VPP procurement value.

### *Market Shaping Strategy*

2.50 Since the approval of the Market Shaping Strategy by the Board in May, the Secretariat has prioritized securing the pediatric ARV market. The main stakeholders (UNITAID, CHAI, WHO, PEPFAR and the Global Fund) and their procurement agents met in September 2011 and formed a working group tasked with coordinating pediatric ARV procurement, while addressing related issues such as optimization of formulations. The consortium of procurement agents was established with coordination from the Global Fund and will be operationalized and fully implemented in the next two years.

2.51 In early 2012, the Global Fund and UNITAID will hold a country consultation to share lessons and resolve issues that have emerged in those countries that have already transitioned financing and procurement from UNITAID, and to support a smooth transition for the countries transitioning in 2012 and 2013.

2.52 Further consultations have been held with WHO and a concept paper developed to determine how to operationalize the product optimization strategic intervention for first and second line ARVs. Implementation of related activities will commence in 2012.

### *Theft of medicines*

2.53 Since June 2011, the Global Fund Drug Theft Prevention Working Group has been working with LFAs in 20 “high-risk” countries to assess for each Principal Recipient key risks in the pharmaceutical supply, existing mitigation efforts and recommended additional measures. In two countries, risk assessments have been carried out in collaboration with USAID. A further meeting of partners to be hosted by the Global Fund and RBM in December

will make recommendations on next steps in this important joint effort to prevent the illegal diversion of medicines.

### **Audits and investigations**

2.54 The Office of the Inspector General recently issued reports from eight country audits (Nigeria, Swaziland, PSI Togo, PSI Madagascar, PSI Sudan, PSI HQ, Sri Lanka, Dominican Republic) and three investigations (India, Mauritania and Nigeria). Among the most common findings reported were weaknesses in financial management and accounting systems; weak procurement and supply management systems, including inadequate storage, poor adherence to guidelines and poor forecasting, and inadequate management of sub-recipients. Continued weakness of some LFAs was reported, although improvements were also identified. Solid programmatic results were frequently observed, including strong delivery against grant targets and public health performance.

2.55 The Secretariat responded swiftly to the four instances of misappropriation reported in Mali, Mauritania, Djibouti and Zambia last year. The government and principal recipient in Mauritania have now refunded \$4.2 million sought by the Secretariat. More than \$6 million has been recovered in Zambia. More recently in Nigeria, affected grants have been transferred to new principal recipients. In India, the principal recipient has been refused permission to enter a new agreement with a sub-recipient to which funds were inappropriately transferred. In all cases where misappropriated funds have recently been identified, restitution is being sought.

2.56 Lessons from the recent reports are being applied to the portfolio as a whole. For example, the Secretariat and OIG have developed amendments to the standard terms and conditions of grant agreements that will help to reduce the risk of money laundering and the irregular transfer of funds through third parties outside the mainstream banking sector, as identified by the OIG in Nigeria.

2.57 The four routine audits of PSI grants did not reveal any evidence of misuse of funds. In response to some cost overruns and ineligible expenditures identified by the OIG, the Secretariat and partners are working with PSI to strengthen its financial management and procurement capacity.

2.58 The OIG has also issued a report on travel and travel-related health and security. The Secretariat is commended for managing the transition from the WHO administrative umbrella in a timely and minimally disruptive way and establishing operational travel policies and procedures. However, concerns are identified with regard to the safety and security of staff, particularly in high and extreme risk destinations.

2.59 I welcome the decision of the OIG to provide a detailed version of the report on travel and security and reports reviewing the information technology and human resources functions of the Secretariat directly to me, while providing the Board with summaries and action plans. This approach is consistent with that followed by internal auditors in other organizations.

2.60 The Secretariat now systematically responds to and follows up on OIG recommendations through the unit responsible for quality assurance that I established last year. The Secretariat's responses to the nearly 100 OIG recommendations made in the last 18 months in the areas of resource allocation and investment; risk management; grant management, and Secretariat

organization, management and culture, are described in detail in a paper prepared for the most recent FAC meeting<sup>3</sup>.

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<sup>3</sup> GF/FAC17/03

## **PART 3: TRANSFORMING THE GLOBAL FUND**

### **Summary**

- The report of the High Level Panel in September and the Consolidated Transformation Plan that the Board will review at this meeting are milestones for the Global Fund that will reshape the organization in the next 12 to 18 months.
- The Consolidated Transformation Plan is the result of a strong collaboration between the Board leadership, the Secretariat and the Inspector General.
- The Plan integrates the recommendations of the High Level Panel, the Plan for Comprehensive Reform and recommendations of the Inspector General in one document. The Plan and the Global Fund strategy for 2012-16 strongly reinforce each other.
- The Secretariat has made substantial progress on most of the early deliverables recommended by the High Level Panel, including improving the relationship between the Secretariat and the Office of the Inspector General; finalizing the operational risk management framework and segmentation of the portfolio based on risk categories; reassignment of staff to ensure appropriate resourcing of Country Teams and strengthening the Executive Management Team.
- The Plan's deliverables will result in major enhancements to the Global Fund's ways of working. Implementing the Plan according to the specified deliverables and timelines is the Secretariat's highest priority.

### **From emergency to sustainability**

3.1 The report of the High Level Panel in September and the Consolidated Transformation Plan that the Board will review at this meeting are milestones for the Global Fund that will reshape our organization in the next 12 to 18 months.

3.2 At the special meeting of the Board in September, I welcomed the High Level Panel report and the unique opportunity that it provides the Global Fund to shift from an emergency mind set to one of longer-term sustainability. I noted that the Panel's report was balanced and fair, recognizing the crucial role that the Global Fund has played in bringing life-saving interventions to millions of people around the world, while also describing critical weaknesses in Global Fund systems that we must rapidly address. As I indicated to the Board in September, I am strongly committed to implementing the Panel's recommendations as my highest priority for the Secretariat, and I have worked closely with the Board Chair, the Deputy Executive Director and the Executive Management Team to develop the draft Consolidated Transformation Plan.

### **From reform to transformation**

3.3 As requested by the Board in September, the Consolidated Transformation Plan integrates the Panel's recommendations and the Global Fund's reform agenda into a single plan. The reform agenda included measures to improve the Global Fund's effectiveness and efficiency that I announced at the replenishment conference in New York last October and elaborated in my report to the Board in Sofia last December, as well as the Plan for Comprehensive Reform that the Board approved in May this year. The latter plan contained nine major areas of activity of which five were identified as highest priority by the Comprehensive Reform Working Group and the Board. The Consolidated Transformation Plan also responds to many of the issues highlighted in reports by the Office of the Inspector General.

3.4 The Sofia reform agenda and Plan for Comprehensive Reform have already led to some significant innovations and improvements in the Global Fund's ways of working, as described in the two progress reports that I sent to the Board in July and September this year. These include:

- i. **Single stream funding:** Around one third of Global Fund grants has been transitioned to single funding streams. The first 26 Periodic Reviews – which are to progressively replace Phase 2 reviews – will be conducted in the first half of 2012. Consolidated grant proposals are mandatory in Round 11.
- ii. **Country Team approach:** CTA coverage has increased from 13 countries under CTA a year ago representing 35 per cent per cent of the value of the portfolio under management to 33 countries under CTA by early November 2011 representing 60 per cent of the portfolio under management. A survey of stakeholders in CTA countries has found that interactions with the Global Fund have improved in the last year.
- iii. A significant head start has been made on **governance reform**; strengthening implementer capacity for **fiduciary control**; expanding the scope of LFA assessments and LFA capacity in the area of **fraud prevention and mitigation**, and development of an **operational risk management framework**. These are areas that all received substantial attention from the High Level Panel and that have been further developed based on the Panel's recommendations.
- iv. This year I commissioned a review of the Secretariat - the Q1 review - to assess the suitability of its structure and staffing to respond to the reform agenda. A major outcome of the review is a new **human resources strategy** and regulations that will support the transformation process, including by better facilitating staff reassignment. The strategy was approved by the FAC earlier this month.

### **The Consolidated Transformation Plan**

3.5 As I noted in my remarks to the Board in September, the work of the High Level Panel not only provided strong independent validation of the Global Fund's reform trajectory, but by taking the Fund much further in a number of key areas and adding a strong element of urgency, the Panel has launched the Fund on a path of transformation. The single Consolidated Transformation Plan will now guide these efforts over the next 12 to 18 months.

3.6 The draft Consolidated Transformation Plan is the product of intensive work in the Secretariat and on the part of the Board leadership and the OIG over the last six weeks. Bringing together a large number of recommendations, initiatives and work streams from the report of the High Level Panel, the Comprehensive Plan for Reform and the new Global Fund strategy has been a challenging process. Accordingly, the six elements of the draft Plan do not correspond precisely to the structure of the recommendations in the High Level Panel report; rather, they represent the best possible assessment of all the areas of work that are now to be undertaken. Attachment 1 was included with the first draft of the Transformation Plan to clearly show how the recommendations of the High Level Panel relate to the Plan.

3.7 Board members submitted comments on the first draft of the Plan circulated to them on October 31 and a second draft was circulated on November 10 by the Board Chair, together with a table identifying items that are not presently included in the Plan and the reasons why.

3.8 The draft Plan comprises the following six areas and major deliverables:

- i. **Transforming resource allocation and investment:** The Global Fund will allocate its resources much more strategically. An iterative grant application process will be introduced for pilot launch with Round 11 together with a more flexible approach to reprogramming existing funding. These reforms are closely linked to strategic objectives 1 and 2 of the new Global Fund strategy. The Fund will also focus much more strongly on outcome and impact measurement through a new evaluation strategy and revised KPIs, as well as measurement of co-investments in Global Fund-support programs from domestic and international sources.
- ii. **Transforming risk management:** The Fund will move to a culture of risk assessment and management at all levels. New corporate and operational risk management frameworks will be introduced and the portfolio will be segmented and managed based on them. A Chief Risk Officer function will be established. Reinforced implementer standards will be applied and monitored to strengthen capacities in financial, program, pharmaceutical procurement and supply chain management, as well as sub-recipient oversight. A protocol will govern the relationship between the Secretariat and the OIG, and Codes of Conduct will be introduced for recipients, Secretariat staff and OIG staff.
- iii. **Transforming grant management:** The consistency and quality of grant management is to be significantly strengthened. Revised terms of reference for Fund Portfolio Managers will enhance their decision making authority and clarify their accountabilities. Highest risk countries with high disease burden will be assigned full time Fund Portfolio Managers and appropriately staffed Country Teams. The Fund will continue to systematically assess procurement and supply chain management capacity and expand the use of Voluntary Procured Procurement.
- iv. **Transforming Secretariat organization, management and culture:** The Secretariat will mature. Close attention will be paid to strengthening its management, particularly at the level of the Executive Management Team. Gaps in human resources policies and procedures will be addressed, and the ratio of staff working on core grant-related functions will increase, particularly in Fund Portfolio Manager roles. Both the Human Resources and Information Technology Units will be restructured. Additional resources will be devoted to building a more cohesive corporate identity based on the Secretariat's values of integrity, respect, passion, collaboration, innovation and effectiveness.
- v. **Transforming governance:** There will be major changes to the governance structures. A new Board Committee structure has already been elaborated, and new terms of reference and procedures will be launched to support its implementation, including the introduction of a Board coordinating group.
- vi. **Transforming resource mobilization:** The Global Fund replenishment mechanism and the rules governing it will be reviewed. It is clear that while the current Replenishment mechanism served its purpose well in a more benign economic and ODA climate, the Fund has struggled to convert pledges into contributions in the context of a global economic downturn. The review will align the Global Fund more closely with practice in other institutions in terms of the predictability of funding, the format of pledges and subsequent contribution agreements. This work will strongly support objective 5 of the new Global Fund strategy.

### *Implementation arrangements*

3.9 It is proposed that a Transformation Steering Group – consisting of the Board Chair and Vice Chair, the Deputy Executive Director, the Executive Management Team, the Inspector General and I - be responsible for steering the implementation of the Plan. The Deputy Executive Director will coordinate daily implementation activities in the Secretariat, under my guidance and with the support of a Project Management Office, including the Senior Transformation Adviser who has been in place for the last month. As shown in Attachment 1 of the Plan, the work is currently organized into six workstreams each comprising a number of projects for which clear deliverables, timelines and responsible personnel have been identified.

### *Early deliverables*

3.10 In addition to producing the Consolidated Transformation Plan, the Secretariat has made a substantial effort since September to move rapidly on the 13 items acknowledged by the Board and identified in Annex S of the High Level Panel report as being my responsibility or that of the Secretariat to complete within three months. These 13 items are:

- i. Establish protocols and methods of work between the Secretariat and the OIG;
- ii. Report to the Board at regular intervals on follow-up to OIG recommendations;
- iii. Prepare a redefined statement of country ownership;
- iv. Categorize recipients into groupings by risk, capacity and burden through a formal matrix (identified in Annex S as the responsibility of the Board but properly undertaken by the Secretariat);
- v. Apply differentiated safeguards to the different categories of countries, including for the management of sub-recipients;
- vi. Limit the allowable payment for the purchase of drugs or bed nets to a reference price;
- vii. Intensify work on mitigating other identified risks, including by modifying the Terms of Reference and scope-of-work of the LFAs and the external auditors of principal recipients;
- viii. Establish a Chief Risk Officer;
- ix. Empower the Fund Portfolio Managers;
- x. Streamline and expand the Country Teams;
- xi. Reinforce the Executive Management Team;
- xii. Leverage the investments in the LFAs; and
- xiii. Consolidate the reform agenda.

3.11 Twelve of these deliverables will have been completed by the time of the Board meeting or by the end of the year. More detailed information on these deliverables will be provided to Board members in Accra. In this report I wish to highlight the following four accomplishments that I believe reflect substantial progress in areas that were considered by the High Level Panel to be very high priorities:

- i. **Improving collaboration between the Secretariat and the Office of the Inspector General:** At the special Board meeting in September, the Inspector General and I committed to making substantive improvements in our working relationship. Since then, we have worked closely together to design the joint protocol that was sent to the Board last week. The protocol sets out the principles that will govern our relationship and to which we are both firmly committed. It clearly specifies the working methods that we will follow, including improved and more frequent communication; the designation of focal points for programmatic and audit issues; our respective

responsibilities to ensure that information is communicated and acted upon, and a process for escalating personally to me and the Inspector General any urgent issues that cannot be resolved by senior staff. The protocol provides a process for the OIG to communicate to the Secretariat its intention to launch an investigation and for preliminary evidence of fraud or misuse of grant funds to be communicated to the Secretariat, as well as a process for the Secretariat to comment on final investigation reports. The OIG will consult the Secretariat on its plans with regard to operational and diagnostic audits, provide appropriate notice to those involved in such audits and allow the Secretariat to comment on final reports. In the case of internal audits, the OIG will now provide reports directly to the Executive Director, rather than to the Board. The protocol also contains clear delineation of how and when OIG reports will be communicated to the Board, external parties and staff. I believe that this protocol responds substantively to the items in Recommendation 1 of the High Level Panel report.

- ii. **Completion of risk-based segmentation of the entire Global Fund portfolio:** Moving to a grant management system based on country risk assessment is one of the key recommendations of the High Level Panel and is consistent with previous observations of the Comprehensive Reform Working Group and the Secretariat's own analysis that the Global Fund should move away from a "one-size-fits-all" approach. A risk-based approach involves a broad - but I believe welcome - operational and cultural change for the Global Fund that has already begun and is reflected throughout this report. Based on the work of the High Level Panel, the Secretariat has finalized an operational risk management matrix that enables categorization of countries according to four factors: risk (as defined by the High Level Panel); burden of disease (as defined by the High Level Panel), volume (the measure of Global Fund resources in a country) and workload. The latter may include a range of measures including the number of principal recipients in a country, the number of prospective renewals, the number of unsigned grants and disbursement history. Statistical methods applied to the entire portfolio have narrowed the portfolio segmentation options to either a 5-group or 6-group design. Once completed by the end of the year, full segmentation of the portfolio will support staff allocation based on the risk profile and enable the application of differentiated safeguards.
- iii. **Reassignment of staff to ensure appropriate resourcing of Country Teams:** The High Level Panel and internal reviews of the Secretariat have clearly recommended that staff functions need to be more closely aligned around grant management and that priority should be given to ensuring that countries identified as highest risk, with a large volume of financing and high disease burden, are managed by an appropriately staffed Country Team and a full-time, senior Fund Portfolio Manager. The EMT has acted immediately by identifying which staff across the organization could take these senior positions for the 26 countries assessed as highest risk and that together represent nearly two thirds of the value of active grants. The process of identifying staff was completed in early November and relevant staff have been reassigned through a new, more efficient reassignment process. I believe that these changes will have a palpable impact in the countries concerned, and I hope to hear from partners in the near future that Global Fund engagement in those countries is significantly enhanced. Five of the 26 countries will be analyzed to determine how staff should optimally be configured in Country Teams representing different risk profiles.
- iv. **Strengthening the Executive Management Team:** The report of the High Level Panel cited the findings of the Q1 Review that the EMT was not exemplifying corporate



leadership or acting as an effective decision-making forum. Under my oversight, my office has worked in close collaboration with EMT members to finalize new terms of reference and operational guidelines for the EMT addressing its composition, role and responsibilities, ways of working and processes of communication. These protocols are based on a benchmarking process undertaken with other comparable organizations and will, I believe, clarify and enhance the functionality and accountability of the EMT as the Secretariat's main decision-making body. Other changes will be made as required to ensure unified and transparent corporate leadership within the Global Fund, based in part on the comprehensive 360-degree assessments of all permanent EMT members that I have commissioned.

### *Implementer consultations*

3.12 In the first week of November, UNAIDS and the Stop TB Partnership convened a consultation of Global Fund implementer bloc members and other strategic partners in Nairobi to discuss changes taking place within the Global Fund and to help guide the transformation. Meeting participants generally welcomed the direction of reforms and the evolution of the funding model, while emphasizing the need to safeguard country ownership and their wish to be involved in the design of new processes. Concerns were expressed that a trend towards greater attribution of Global Fund investments would involve a return to vertical and project-based funding and the Fund was urged to continue supporting approaches that integrate diseases across the health system. While the new emphasis on risk was generally welcomed, implementers emphasized that risk categories should not be used to stigmatize countries or as the basis for denial of funding.

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3.13 The Consolidated Transformation Plan and its deliverables will result in major enhancements to the Global Fund's ways of working. Implementing the Plan according to the specified deliverables and timelines is my highest priority.

## **PART 4: RESOURCE MOBILIZATION**

### **Summary**

- The current fiscal environment remains very challenging, with most major donors experiencing continuing and severe budget constraints.
- Donors have responded positively to the High Level Panel's report and are encouraged by the Board's response to it, as well as by the Secretariat's commitment to the Consolidated Transformation Plan.
- Sweden and the Netherlands have now pledged for the period of the current replenishment. Russia has also signed a three-year contribution agreement.
- The rate of conversion of pledges to contributions has been falling since 2008, highlighting the need for the Global Fund to review its replenishment mechanism as part of the transformation process.
- Recent efforts to expand the donor base have focused on further engagement with emerging economies and Gulf states as well as additional efforts in the private sector.
- The short-term resource outlook for funding Round 11 is challenging. The Board will consider a number of options presented by the Round 11 Working Group at this meeting.
- Plans are advancing with regard to the Medium Term Review of the Third Replenishment that will now take place after the May 2012 Board meeting.

### **Analysis of funding environment**

4.1 The fiscal environment has remained challenging since the May Board, with most major donors experiencing continuing and severe budget constraints, a serious sovereign debt crisis in the Eurozone and ongoing difficulties across the global banking sector. Prospects for an early resolution of these challenges remain dim. In advance of the G20 Summit in Cannes this month, the OECD reported a marked economic slowdown and predicted instances of negative growth in the euro area in the coming year.

4.2 Since the Board Meeting in May, the Secretariat has been working to redress the issue of reduced confidence among key governmental donors, including by conducting regular briefings on the High Level Panel process. There are early signs that donors have responded positively to the Panel's review and are encouraged by the Board's response to it, as well as by the Secretariat's commitment to the Consolidated Transformation Plan. Maintaining this positive trajectory of confidence will remain a high priority for me and my senior colleagues in the foreseeable future.

### **Overview of pledges and contributions**

4.3 I welcome the response of Sweden to the report of the High Level Panel by announcing a pledge of SEK 2bn (\$330 million) to the Global Fund in October, representing an increase of 11 per cent above the previous level. In June, the Netherlands (which did not pledge at the replenishment meeting last year in New York) announced a three-year pledge of €164 million (\$224 million). Switzerland has increased the pledge it made in New York by CHF2 million to CHF 23 million (\$26 million).

4.4 Germany released its first tranche contribution for 2011 in August following the publication of the first interim report of the High Level Panel. Contributions from the EC and Denmark are still pending.

4.5 The European Commission requested an audit of the financial systems at the Secretariat in relation to the cases of misuse of Global Fund monies in Mali, Mauritania, Zambia and Djibouti. The audit, which is not public, was released to the Board in August. The constructive and balanced audit report acknowledged the Global Fund's rapid reaction to the misuse of funds. The report provided 11 recommendations which are part of the Consolidated Transformation Plan.

4.6 The Secretariat is working to increase predictability in contributions by entering into negotiations on multi-year contributions agreements. In October, a three-year agreement was signed with Russia for an annual contribution for \$20 million, sending a welcome signal of confidence to other emerging market countries. Negotiations regarding potential agreements are underway with Norway and the Netherlands. Belgium has also indicated its willingness to pursue such a model.

4.7 The Debt2Health Initiative continues to provide a stable and predictable source of funding for programs in debtor countries, who continue to honor their commitments. In 2011, the initiative has contributed over \$ 21 million in line with the signed agreements.

4.8 Overall, the rate of conversion of pledges to contributions has been falling for some time. Between 2001 and 2008, the conversion rate was over 100 per cent, with some donors actually paying more than the amount pledged. This figure fell to 87 per cent in 2009 and to 79 per cent in 2010. The corresponding figure for the end of the third quarter of 2011 was just 25 per cent. These results highlight the pressing need for the Global Fund to review its existing replenishment mechanism as part of the transformation process.

### **On-going resource mobilization efforts**

4.9 Work continues to expand the Global Fund's donor base. The relationship with Brazil has been boosted with hearings in its Congress, the Partnership Forum in Saõ Paolo and an increased level of interaction with the private sector. Bilateral meetings with Korea in Geneva and Seoul have led to a stronger engagement with both the private sector and civil society groups. Discussions have also taken place with the Mexican Mission in Geneva and the Ministry of Health. We also continue active dialogue with China and India.

4.10 I will travel with senior colleagues to Kuwait, Qatar and the United Arab Emirates after the Board meeting on an advocacy trip organized in partnership with Roll Back Malaria. I am particularly grateful to its Ambassador, Princess Astrid of Belgium, for supporting this initiative.

4.11 Plans are advancing with regard to the Medium Term Review of the Third Replenishment that was originally scheduled for March 2012 but will now take place after the May 2012 Board meeting to allow for further progress to be made on implementation of the Consolidated Transformation Plan.

4.12 I wish to sincerely thank all the Friends organizations around the world that play such an important role in the Global Fund's advocacy and resource mobilization efforts.

### **The private sector**

4.13 While uncertainty in the global economy is at a historic peak, the Secretariat continues to explore innovative financing sources and private sector contributions. In 2011, resources raised from the private sector are comparable to those attained in 2010.

4.14 In late October, the US Internal Revenue Service granted tax-deductible status to the US Fund for the Fund, which will now allow US-based foundations and corporations to provide “tax efficient” donations directly to support the Global Fund.

4.15 I warmly welcome Deborah Dugan, the new CEO for (RED) and I look forward to working closely with her to strengthen this key partnership for the Global Fund.

4.16 Chevron will transfer the first installment of its most recent three-year commitment to the US Fund for the Fund before the end of 2011. The Secretariat is working with Chevron to determine how this funding will be used in support of maternal and child health, a field in which Chevron is strongly engaged.

4.17 The Secretariat is in the final stage of negotiating a multi-year contribution agreement with a major Brazilian corporation. I hope that this agreement will have a catalytic effect on our efforts to engage the private sector in other emerging economies. The Global Fund will also co-host a workshop on public private partnerships with USAID at the Fourth High Level Forum on Aid Effectiveness in Busan at the end of this month.

4.18 Considerable progress has been made on increasing the number and level of private sector co-investments in Global Fund-supported programs. An analysis of Round 10 revealed that 79 per cent of the proposals recommended by the TRP included co-investments. Most recently, Standard Bank has expanded its training for principal recipients to the Democratic Republic of Congo in order to reinforce financial management, accounting and treasury systems; discussions are under way with other African banks about making expertise available on a pro-bono basis. In India, several major companies – including Jindal Steel, Reliance, Bajaj, Standard Chartered Bank, HSBC and Arcelor - are supporting implementation of Global Fund resources and scale-up of interventions. Partnerships with global consumer products companies are also expanding, such as the collaboration between Coca-Cola and the central medical store in Tanzania to improve supply and distribution of medicines and commodities to rural pharmacies.

## **Round 11**

4.19 The short-term resource outlook for Round 11 remains particularly challenging. Because of the current difficult economic and political environment, a number of uncertainties have arisen in 2011 about the timing and amount at which donor pledges will be realized, and in relation to currency fluctuations and interest earnings. The Global Fund now forecasts available resources over a three-year period and this also increases uncertainties and volatility. These factors have all affected the forecast of uncommitted assets for new grant approvals, i.e. the amount that would be available to fund Round 11.

4.20 In September, the Board decided to defer the closing date of Round 11 (including NSA and HSFP applications) until at least 1 March 2012 to allow a Board-appointed Working Group and the Secretariat to better assess the availability of resources and propose necessary and appropriate policy changes. These may include modifications to grant approval and renewal processes such as those anticipated in the Consolidated Transformation Plan and the new Global Fund strategy, as well as more rigorous application of eligibility criteria.

4.21 While there are no easy solutions to the current situation, many countries have begun to prepare proposals for Round 11 and are counting on this round for the sustainability and further scale-up of programs. The next funding opportunity beyond Round 11 is unlikely to be funded

until 2014. A robust Round 11 is therefore critical for sustaining programs supported by the Global Fund and maintaining confidence in the Fund as a financing institution.

## **PART 5: GLOBAL FUND STRATEGY 2012-16**

### **Summary**

- The Global Fund strategy for 2012-16 as presented to the Board for approval at this meeting is another important development in the life of the organization. The strategy and the Consolidated Transformation Plan strongly reinforce each other.
- As the Global Fund is operating in a more constrained resource environment than in the past, the new strategy will facilitate a significant shift from the Fund's current, passive investment model to one in which investments are more strategically focused on the highest-impact countries, interventions and populations.
- The annual rounds system will be replaced with a more flexible and iterative application process and a more flexible process for reprogramming existing funds will be introduced.
- The Global Fund will play a far more active role in managing grants with the introduction of risk management approaches across the portfolio.
- The new strategy will help the Global Fund to more vigorously address human rights issues through the grant cycle, building upon lessons learned from the Gender Equality and Sexual Orientation and Gender Identities strategies.
- The strategy aims to support long-term sustainability of programs, including by promoting closer dialogue between the Global Fund and Ministries of Finance.
- The strategy is underpinned by two strategic enablers that are critical to the achievement of all its objectives: enhanced partnerships, and reform based on the Consolidated Transformation Plan.
- For the first time, a Global Fund strategy contains ambitious goals, including for lives saved and infections averted, signaling that the Fund aims to contribute strongly to the achievement of the MDGs consistent with anticipated country demand and the international targets established by major partners.

### **Investing for impact**

5.1 Global Fund strategy for 2012-16 as presented to the Board for approval at this meeting is another important development in the life of the organization this year. Together with the Consolidated Transformation Plan, the strategy positions the Global Fund to deliver optimally on its mission as the 2015 deadline for the Millennium Development Goals approaches.

5.2 The strategic orientation of the Global Fund for the next five years is reflected in the title of the strategy paper, "*Investing for impact*". Recognizing that the Global Fund is operating in a more constrained resource environment than in the past, the new strategy will facilitate a significant shift from the Fund's current, passive investment model to one in which investments are more strategically focused on the highest-impact countries, interventions and populations. The Fund will increasingly make funding decisions based on national strategies that are jointly assessed with partners and will strongly emphasize the need for investments in AIDS, TB and malaria to contribute to health and community systems strengthening and achieve impact on maternal and child health.

5.3 The strategy recognizes that the current process of applying for Global Fund financing no longer meets the needs of countries or partners and should change substantially. It proposes replacing the annual rounds system with a more flexible and iterative application process in which funding proposals are the subject of a substantive dialogue between the Global Fund,

countries and their partners. The strategy will also introduce a new process for reprogramming existing funds to enable countries to relocate funding more flexibly to areas of greatest need.

5.4 The Global Fund will play a far more active role in managing grants to ensure that resources are implemented successfully. This means that the Fund will focus strongly on risk management across the portfolio, work to mobilize partners more effectively around implementation challenges and ensure that to value for money is optimized at all stages of the grant cycle.

5.5 By expanding access to healthcare around the world, the Global Fund has already become a major vehicle for realizing human rights. The new strategy will help the Fund to more vigorously address human rights considerations through the grant cycle, building upon lessons learned from the Fund's Gender Equality and Sexual Orientation and Gender Identities strategies. A key aim is to increase the amount of rights-based programming in the portfolio, for example, to tackle gender inequality, to address stigma and discrimination and to facilitate improved access to services for most-at-risk populations.

5.6 The strategy contains some important measures to help ensure the long-term sustainability of programs and of Global Fund financing. These include an initiative to promote increased national dialogue on health financing with key decision-makers, including Ministries of Finance, while also ensuring full implementation of the Global Fund's new counterpart financing requirements. The strategy strongly promotes continued resource mobilization efforts at the international level through work with current donors, engaging new public and private donors, further leveraging private sector co-investment and additional effort in the area of innovative financing.

5.7 The strategy is underpinned by two "strategic enablers" that are key drivers of its overall success. The first of these, "enhanced partnerships", will be especially critical to the successful introduction of innovations such as the strategic investment approach and iterative application process. The second strategic enabler recognizes the complementarity and interdependence of the strategy and the Consolidated Transformation Plan.

5.8 For the first time, the Global Fund has a strategy that sets ambitious goals, including ten million lives saved through Fund-supported programs in the next five years, and 140-180 million new infections prevented over that period. These goals are supported by specific targets for antiretroviral treatment (7.3 million people by year-end), DOTS for TB (4.6 million annually) and long-lasting insecticide treated bed nets (92 million annually) by 2016. In addition, the Fund will monitor and report on the delivery of a number of other selected services for each disease. The inclusion of these targets sends an important signal that the Fund will strongly contribute to the achievement of the MDGs consistent with anticipated country demand and the international targets established by WHO, UNAIDS, Roll Back Malaria and Stop TB.

5.9 The draft strategy is the result of an exemplary process of collaboration between the Board, PSC and the Secretariat that began with the Board retreat in Sofia a year ago. In the Secretariat, I provided oversight of ten work streams that enthusiastically developed, tested and shared ideas for the strategy internally while also consulting with many external partners. I warmly thank the many staff members who contributed to the process, including the members of the Strategy Steering Group and the Strategy and Policy Development Team. I also thank the members of the PSC Strategy Working Group for their leadership, including the Chair and Vice Chair of the PSC. Todd Summers in particular has given generously of his time and insights throughout the year to support the strategy process.

5.10 The draft strategy is the result of an extensive consultation process, including at the Partnership Forum in São Paulo and several regional meetings, two of which I co-chaired. Around 700 people participated in these consultations. As a result, I am confident that this strategy will have a high level of synergy with the strategic plans of our major partners and that it also strongly reflects the needs expressed by implementing countries.

5.11 I am very pleased that the independent thinking reflected in the strategy is highly convergent with the recommendations of the High Level Panel and the work of the Board's Comprehensive Reform Working Group. As with the Consolidated Transformation Plan, the new strategy heralds some major changes in the way we work. At the same time, it represents an exciting agenda that will enable the Fund to work more strategically and efficiently, better serve countries and achieve maximum impact and value for money from its investments in the coming years.

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5.12 The work ahead in 2012 to implement the Transformation Plan and the new strategy - and to continue delivering results in a difficult economic climate - should not be underestimated. But we can also look forward to 2012 as a year of tremendous promise. Funding from Rounds 8 and 9 – the largest in the history of the Global Fund – will be disbursed, providing another boost to the scale-up of programs. As a result, a year from now, we can anticipate further substantial progress in the fight against the three diseases. And, a year from now, as the benefits of transformation are really felt, we may look forward to being part of an organization that is revitalized, refocused on its mission and recommitted to being the indispensable and most innovative partnership in global health.

5.13 I wish the Board success and solidarity at its twenty-fifth meeting.

This document is part of an internal deliberative process of the Global Fund and as such cannot be made public until after the Board meeting.