

CONSOLIDATED TRANSFORMATION PLAN

PURPOSE:

This paper is developed in response to the Board's decision on 26 September 2011, to take forward the recommendations of the *High-Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms at the Global Fund*. The Board requested the Board Chair and Vice-Chair, the Secretariat and the Office of the Inspector General to develop a Consolidated Transformation Plan “..which integrates other reform work streams currently underway with recommendations by the [High-Level Panel] into one single plan, which will include prioritized action items, deliverables, timelines, and parties responsible for the delivery of each item..”.

This paper presents an updated version of the draft Consolidated Transformation Plan submitted to the Board on 31 October 2011, revised in response to Board comments on the draft.

EXECUTIVE SUMMARY:

The Consolidated Transformation Plan was developed in response to the Board's decision to implement the recommendations of the High-Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms. The Plan integrates the recommendations of the High-Level Panel with the activities of the Plan for Comprehensive Reform and the new Global Fund Strategy for 2012-2016 (as recommended by the Policy and Strategy Committee).

The Consolidated Transformation Plan addresses a number of important challenges to the Global Fund's mission, that also present opportunities for improvement in the organization's performance. These challenges include as priorities:

- A sub-optimal investment approach with regards to populations most in need and to interventions with the greatest impact;
- Inadequate or incomplete management of corporate and operational risks with lack of adaptation to variations in the risk environment;
- Increasing complexity in grant processes with inconsistent procedures and quality standards;
- Organizational weaknesses relating mostly to the insufficient allocation of resources to grant-related functions in the Secretariat;
- Issues related to measurement of results without sufficient focus on outcomes; and
- Challenges relating to the engagement of stakeholders at country-level, including Local Fund Agents and institutional partners.

The Consolidated Transformation Plan builds on reforms in progress to address the above challenges and to enable effective implementation of the new Global Fund Strategy for 2012-2016. Activities in the Transformation Plan are presented under the following six areas:

1. **Transforming Resource Allocation, Investment, Results Measurement and Evaluation:** A new application process will be designed to promote more strategic investment of resources, and to improve funding predictability and risk management. Existing grants will be reprogrammed more proactively to boost impact and value for money. Results measurement and evaluation will be strengthened.
2. **Transforming Risk Management:** New corporate and operational risk management frameworks will be introduced with emphasis on adaptation of approach based on risk.
3. **Transforming Grant Management:** Grant management procedures will be standardized and quality controlled, and capacity building of country level actors will be emphasized. The Country Team Approach will be expanded.
4. **Transforming Secretariat Organization, Management and Culture:** Staff will be led by a refocused Executive Management Team; gaps in Human Resources policies and procedures will be addressed; and staff will be better allocated to core grant-related functions, particularly in Fund Portfolio Manager roles.
5. **Transforming Governance:** A new Board Committee structure has been elaborated for approval, and new charters and procedures will be launched.
6. **Transforming Resource Mobilization:** The Global Fund's Replenishment model will be reviewed, and new financing options will be explored.

While the Consolidated Transformation Plan spans a period of 18 months, a number of early deliverables will be completed in 2011 to help drive progress in key areas. Examples include risk-based segmentation of the entire Global Fund portfolio, the reassignment of staff to Country Teams, and accelerated progress on strengthening the Executive Management Team.

The Consolidated Transformation Plan is a road map with clear timelines, deliverables and accountabilities for changing the Global Fund into a more efficient and effective organization. Successful implementation of the Plan, will allow the Global Fund to launch into its second decade from a powerful starting point for continued achievement.

PART 1: CONTEXT

- 1.1 In April 2011, the Global Fund Board appointed a High-Level Panel (HLP) to conduct an independent assessment of the organization's fiduciary controls and oversight mechanisms. The final report of the HLP was released on 19 September 2011.
- 1.2 The HLP report recognizes that the Global Fund has helped to achieve "important and sometimes unprecedented results over the past decade". It identifies "key areas that need significant improvement, but nothing that cannot be fixed by appropriate reform". It also notes that the Global Fund needs to adapt to three main trends if it is to maintain its success in the coming years: increasing financial austerity in global health; rising standards for accountable use of development resources, coupled with increased demand for precision in the measurement and reporting of results, and an accelerating pace of technological innovation in disease diagnosis, treatment and prevention. The HLP offers the Board its "best judgments as to the strengths and weaknesses of the Global Fund today and a set of practical recommendations for making real improvements, as well as for reinforcing the positive changes currently under way."
- 1.3 On 26 September 2011, the Board adopted the HLP report and accepted its analysis, noting that "it presents a compelling case for a rapid and urgent transformation of the Global Fund." The Board directed the Secretariat and the Office of the Inspector General to immediately begin work with the Board Chair and Vice-Chair to produce a Consolidated Transformation Plan that integrates the recommendations of the HLP with other reform activities currently being implemented. These include:
- The Global Fund's Plan for Comprehensive Reform (PCR) developed by the Comprehensive Reform Working Group and endorsed by the Board in May 2011;
 - Changes to the funding model described in "The Global Fund Strategy¹ 2012-2016: Investing for Impact" as recommended by the Policy and Strategy Committee on 26 October 2011;
 - The findings of an organization-wide review of the Secretariat (Q1 Review) and focused reviews of the Human Resources and Information Technology Units that were conducted in 2011; and
 - Specific recommendations made in progress reports by the Global Fund's Inspector General.
- 1.4 The Global Fund has since mobilized to develop a plan that is comprehensive in covering the reform needs of the organization, but also sharply focused on clear priorities that are critical to its transformation. The conclusion of this work is a Transformation Plan that is built around reorienting the Global Fund from a past focus on emergency distribution of funding, to an approach based on strategic investment of resources for maximum sustainable impact. Put simply, the Global Fund will "turn the page from emergency to sustainability" by moving from "raise it, spend it, prove it" to a model defined by investing strategically, managing effectively and attracting resources as a result.
- 1.5 At the center of the Consolidated Transformation Plan, therefore, is the focus on improved allocation of Global Fund resources. Reforms aimed at fiduciary control, improved grant management and strengthened governance - by both the Board and the Secretariat - serve to protect invested resources, and to maximize return on investments and impact on the three diseases. Successful transformation in all other operational areas will be reflected in the ability of the Fund to attract more resources.

¹ The 2012-2016 Strategy will be considered for approval at the 25th Board meeting in November 2011. Should there be any adjustments, these will subsequently be reflected in the Consolidated Transformation Plan

- 1.6 In accordance with this adjusted orientation, this paper presents the Consolidated Transformation Plan under the following headings, and in the following sequence:
1. Transforming Resource Allocation, Investment, Results Measurement and Evaluation;
 2. Transforming Risk Management;
 3. Transforming Grant Management including working with partners;
 4. Transforming Secretariat Organization, Management and Culture;
 5. Transforming Board Governance; and
 6. Transforming Resource Mobilization.
- 1.7 In part 2 of this paper, each area is explored in more detail: key issues are highlighted, followed by a description of planned activities and their expected benefits. More detail on these activities with an indication of key deliverables and due dates is presented in Attachment 1.
- 1.8 The Consolidated Transformation Plan thus defines operational reform priorities that are fully aligned with the Global Fund Strategy for 2012-2016. The Strategy envisages a Global Fund that invests its resources more strategically (Objectives 1 and 2), manages risk and supports grant implementation more effectively (Objective 3), and better sustains gains and mobilizes resources (Objective 5). Transformation of the Global Fund's operations is, in fact, defined as a key strategic enabler in the 2012-2016 Strategy. This strong alignment between Transformation and Strategy provides a clear vision of the future of the Global Fund that will help engage key stakeholders, and maintain a focus on the longer-term strategic objectives.
- 1.9 Complete transformation requires a sustained effort over extended periods of time. In a relatively short 18 months, this Consolidated Transformation Plan is designed to achieve solid advances in priority areas. A performance framework for the Transformation Plan (discussed in part 3 of this paper) has not yet been developed, but the following outcomes may be proposed for the various Transformation areas:
- Improved investment of Global Fund resources towards the highest-impact countries, interventions and populations;
 - Increased efficiency and value for money in the use of Global Fund resources;
 - More effective identification and management of risks;
 - More efficient and flexible management of grants in a consistent, quality-assured manner;
 - Enhanced structure and management of the Secretariat and the Board for optimal performance
 - Enhanced engagement of partners at global, regional and country levels, to support grant performance
 - Increased predictability and sustainability of funding
- 1.10 To drive progress towards a number of the above outcomes, "early deliverables" have been identified for completion before the end of 2011. These are highlighted at the end of Part 2 below.
- 1.11 While the basic purpose of the Consolidated Transformation Plan is change, it is built on a vision for the Global Fund that is consistent with its founding principles of inclusiveness, performance-based funding and strong, appropriately applied notions of Country Ownership. The implementation of the Consolidated Transformation Plan will maintain commitment to these core principles of the Global Fund, with emphasis on the promotion and protection of human rights identified as a strategic objective for 2012-2016.

PART 2: TRANSFORMING THE GLOBAL FUND

Transforming Resource Allocation, Investment, Results Measurement and Evaluation: This area corresponds to HLP Recommendations 4 and 6; Objectives 2, 3 and 9 of the PCR; and objectives 1 and 2 of the Global Fund Strategy 2012-2016.

- 2.1 *Key Issues:* The current grant application process is lengthy and complicated, and does not optimize the investment of Global Fund resources based on need, predictable risks and/or implementation capacity and past performance. Clear incentives exist for Country Coordinating Mechanisms to repeatedly seek financing from the Global Fund by focusing on applications for new funding rather than on improving the performance of existing grants. Reprogramming processes are complex and not put to good use. The achievement of value for money with resources and the linking of investments to results are neither sufficiently emphasized in the review of new grant applications, nor in the management of approved funds. The HLP urged the Secretariat to increase the focus on measuring outcomes of Global Fund investments by more precisely linking investments to results achieved.
- 2.2 *Actions:* The Global Fund has mobilized to redesign its grant application process. The new two-stage approach will allow dialogue between applicants, the Technical Review Panel, partners and the Secretariat during proposal development. In parallel, key stakeholders will discuss implementation matters so that the proposal that is eventually recommended to the Board will be substantially pre-negotiated and ready for signing shortly after approval. This new approach will lead to higher proposal quality; less lost effort; improved risk management through earlier risk identification and management; and more informed decision-making on proposals. It will also allow better targeting of high-impact countries, interventions and populations. Features of this new approach are proposed to the Board for early deployment as part of the revised Round 11 process.
- 2.3 The Global Fund will increasingly base its support on national strategies and increase its alignment with national systems and structures. It will move towards systematically requiring applications (for initial funding, grant renewal and reprogramming) based on national strategies that meet international standards; eliminate obstacles to alignment; and pay attention to strategy strengthening and capacity building. This will contribute to increased impact, sustainability and aid effectiveness goals. Implementation of these actions will build on the lessons from the work on National Strategy Applications and the Health Systems Funding Platform.
- 2.4 The Global Fund will also act to increase the impact and value for money of investments already approved. This will be achieved through reform of the reprogramming approach, strengthened application of performance-based funding and increased focus on outcomes at performance reviews for grant renewals. Beginning in Q4 2011, the reprogramming process will be simplified and applied more proactively, with roll out in key countries as of Q1 2012. Grant reporting will be adapted to promote more effective use of performance information for the purpose of reprogramming of grant funds towards higher impact activities. Renewed grant performance frameworks and Key Performance Indicators will strengthen incentives for proactive reprogramming by countries and Country Teams, respectively. These reforms will lead to a more strategically invested portfolio by allowing grants to be refocused to target high-impact areas, respond to emerging evidence or changes in context or normative guidance, address implementation bottlenecks and scale up effective interventions and technologies.

- 2.5 Achievement of greater value for money with investments will be emphasized throughout the grant life-cycle, during grant negotiation and signing, in the reprogramming of existing grants, and through grant renewals. Information on benchmark unit costs for key service areas, pharmaceuticals and health products will be made available to countries, partners and the Technical Review Panel to inform investment decisions. In relation to health products in particular, the Market Shaping Strategy endorsed by the Board in May 2011 includes strategic interventions that aim to optimize price, quality, design and sustainable supplies of health products. With dedicated Secretariat staff support, the Market Shaping Strategy will initially be applied to antiretroviral medicines and will aim to contribute to improved health outcomes, accelerate access to superior products and achieve significant cost savings.
- 2.6 During 2012, the Secretariat will also implement the necessary operational and financial policies to promote more advantageous use of the Voluntary Pooled Procurement mechanism. This will allow the Secretariat to consolidate procurement volumes and establish systems for optimizing product selection to ensure the most cost effective products and treatment regimens are procured using grant funds.
- 2.7 To further inform strategic decision-making, the Global Fund will improve the measurement of outcomes by strengthening data quality in countries, improving alignment with national information systems, harmonizing data and refining measurement systems in consultation with partners. An increased focus on building capacity for monitoring and evaluation in implementing countries will enhance the quality and availability of data reported. Data quality assessments will continue to expand in 2012 to cover all high-risk countries, and a new data quality assessment tool (jointly developed with partners) will be introduced in Q4 2011. These changes will be reinforced through implementation of the new Evaluation Strategy, which will regularize surveys to measure outcomes and impact. The Key Performance Indicators framework will also be realigned towards impact in 2012.
- 2.8 New epidemiological models will also be developed with partners and UN technical agencies in 2012 to better estimate the outcome of Global Fund investments in HIV, tuberculosis and malaria. In this process the Global Fund will continue to rely on the normative guidance provided by UN partners. This will include the development of an enhanced system for the estimation of co-investments from domestic and international sources in programs supported by the Global Fund. Both financial data and results used to measure achievements of Global fund investments will be more fully harmonized with partner organizations. These changes will enable more precise tracking of counter-part financing and measurement of the results achieved through Global Fund investments in programs.

Transforming Risk Management: This area corresponds to HLP recommendations 1 and 2; Objective 1 of the PCR and Objective 3 of the Global Fund Strategy 2012-2016

- 2.9 *Key Issues:* The HLP Report strongly identifies the need for the Global Fund to adapt its approaches effectively to variations in country context and implementer capacities. This is consistent with the Comprehensive Reform Working Group's earlier assessment that the Global Fund should calibrate its approach based on the risk environment. Furthermore, the HLP noted that the Fund's existing fiduciary control mechanisms are not consistently applied; and that standards for implementation of Global Fund grants are sometimes lowered in inappropriate application of the principle of Country Ownership.
- 2.10 *Actions:* The Global Fund will implement a comprehensive framework for the assessment, mitigation and management of corporate and operational risks. The

existing corporate risk management framework (approved by the Board in 2009) will be revised to sharpen definitions of risk types and accountabilities. In accordance with the 2012-2016 Strategy, the revised framework will cover ethical risks, including risks related to the human rights implications of Global Fund investments.

- 2.11 Associated with this framework, a new risk register will be developed to allow the Board, Secretariat and OIG to identify emerging risks, provide periodic guidance on risk tolerance, and monitor and manage changes in corporate risk on an on-going basis. Terms of Reference have been developed for a Chief Risk Officer currently being recruited who will be responsible for overseeing the implementation of the new approach, including regular reviews of the register. The Chief Risk Officer will participate as a member of the Executive Management Team and will report to the Executive Director.
- 2.12 On-going risk-based segmentation of the entire Global Fund portfolio will be completed in November 2011, and will take into account applicable risks, disease burden and volume of Global Fund financing per country. This information will define essential experience and qualifications for grant management based on the risk environment, and will be used to guide the differentiated allocation of Secretariat and Local Fund Agent resources to grant management and oversight.
- 2.13 Stemming from the *corporate* risk management framework, the Global Fund is developing a new *operational* risk management framework to guide the analysis and mitigation of risks (financial and otherwise) for each Principal Recipient, disease program and country portfolio. This will lead to the application of modified grant negotiation, signing and disbursement procedures applied with implementers based on the level of risk identified. The OIG may also use this framework to help plan its work based on risk distribution. The operational risk management framework will include tools to support consistent identification and management of risks on an on-going basis. The framework will guide risk management by defining clear roles and processes for Secretariat staff and country-level stakeholders to facilitate decision-making and improve accountability. The operational risk management framework will be phased in by January 2012, and fully developed by June 2012. A more complete accountability framework will also be developed by the same date.
- 2.14 By July 2012, the Global Fund will also introduce measures to identify and mitigate risks prior to grant-signing to ensure reduced risk exposure in future grants. Minimum requirements relating to implementer capacities will be reinforced and applied more effectively, including capacities for financial, program, pharmaceutical procurement and supply chain management, as well as capacities for monitoring and evaluation and for Sub-recipient oversight. Budget reviews focused on scrutiny of vulnerable expenditure categories identified through lessons learned as documented by the OIG will continue.
- 2.15 By December 2011, the Global Fund will introduce an Implementers' Code of Conduct to supplement the grant agreement – with emphasis on standards for fiduciary documentation and ethical behavior. Codes of ethics and professional conduct will also be introduced for Secretariat and OIG staff. The Global Fund will develop and introduce training modules based on these materials, and will conduct trainings for Secretariat staff, Country Coordinating Mechanisms, Principal Recipients, Local Fund Agents and other stakeholders between March and December 2012.
- 2.16 Directly relevant to the more nuanced application of standards for country-level actors are the HLP's recommendations on Country Ownership. A Global Fund Implementers meeting was held in Nairobi on 3-4 November 2011 to discuss the

principle of Country Ownership. Meeting participants emphasized that country ownership should be seen in the context of the broader national picture and that country capacities to exercise this Ownership should be supported. The discussion also noted that Country Ownership considerations should not be limited to Global Fund grants and needed to include all national stakeholders including civil society and the private sector. Based on that input, a meeting is being organized around the twenty fifth Board meeting to enable Board members to elaborate options regarding how to jointly develop a new definition of Country Ownership. This work will be completed by March 2012.

- 2.17 The HLP report recognized the OIG as “the only risk-mitigation strategy within the Global Fund that has worked as designed”, and recommended a number of additional improvements. Responding to the HLP Report, the Executive Director and the Inspector General have immediately instituted efforts to improve their relationship through more regular meetings - both individually, and with other members of their staff. A protocol for improved OIG/Secretariat interactions around audits and investigations will be completed in time for the November 2011 Board meeting.
- 2.18 The OIG has also started to implement the HLP’s recommendations related to the format, content and publication of reports in a schedule agreed with the Finance and Audit Committee². Engagement of the Board in the OIG’s work will be improved through briefings to the Finance and Audit Committee on completed audits and investigations and planned activities – including relevant work by external auditors – and through improved reporting on follow up to OIG recommendations by the Secretariat and the OIG. A revised Memorandum of Understanding will be developed with UNDP focused on improving access to documents relating to Global Fund grants.
- 2.19 Transforming operational risk management will aim to reduce the risk of fraud and inefficiencies in Global Fund grants, and promote the strategic use of Global Fund resources to manage risks more effectively. It will also provide strong assurance that investments in the Global Fund are used for their intended purposes. The successful transformation of operational risk management will rely heavily on prompt reallocation of resources both from non-grant related work to grant-related work, and within existing grant-focused staff to match risk distribution in the grant portfolio. Management of this important dependency is discussed in more detail below in the section on *Transforming Secretariat Organization, Management and Culture*.
- 2.20 More effective risk management through an oversight of resources based on country context is one of the pillars of the Global Fund Strategy for 2012-2016. Improving fiduciary control is an enabling factor that underpins performance across all strategic objectives.

Transforming Grant Management and working with partners: This area corresponds to HLP recommendation 5; Objectives 4, 5 and 6 of the PCR and Objective 3 of the Global Fund Strategy 2012-2016

- 2.21 *Key Issues:* The HLP noted that grant management is process and information-heavy, while standard procedures and best practices are incomplete and are applied inconsistently – including important practices relating to documentation. Fund Portfolio Managers are over-burdened, and despite their central role, lack financial authority and are not sufficiently empowered to pro-actively solve grant management problems. The Country Team Approach, while an important innovation, must be

² The new committee structure approved by the Board will come into effect on 1 December 2011, and the OIG will subsequently work under oversight of the Audit and Ethics Committee

refined with clarification of team roles, definition of skillsets required and more efficient operation. Local Fund Agents could be used more effectively as key partners at country level. Country Coordinating Mechanisms are not performing to their full potential, and their oversight role and accountability should be strengthened. The panel also identified weaknesses among implementers, mostly relating to their capacities for fiduciary control, for pharmaceutical management (forecasting, procurement, storage and supply chain management) and for quality reporting.

- 2.22 Complementing this area of the HLP analysis, the Comprehensive Reform Working Group reviewed the Global Fund's partnership approach, and pointed to the need for improved definition of the roles and accountabilities of global, regional and country-level partners in relation to Global Fund grants. In addition, the Global Fund was seen not to be taking sufficient advantage of the technical capacities of partners present at country level to build national capacities in a sustainable manner.
- 2.23 *Actions:* As noted by the HLP, the Global Fund "model will not work if the only outcome of a reform process is simply strengthening the headquarters operations in Geneva". The Transformation Plan therefore includes actions across all actors to increase the consistency of grant management through the development of standard procedures and the application of quality assurance mechanisms. Training for Secretariat staff, Local Fund Agents, Country Coordinating Mechanisms and Principal Recipients will be reinforced to improve understanding of roles and expectations, and to extend sharing of best practices.
- 2.24 New terms of reference have been developed for Fund Portfolio Managers to enhance their decision making authority and clarify their accountabilities. As a first step, in November 2011, the Global Fund is allocating Fund Portfolio Managers full-time to up to 27 Country Team Approach countries with high risk, burden and investment volume. This will result in more time being spent at the country level, which will in turn improve in-country dialogue with partners and promote better alignment with country processes. These 27 countries represent almost two thirds of the Global Fund's portfolio. The Global Fund will invite country feedback on the new role and function of Fund Portfolio Managers and make further adjustments as required in 2012.
- 2.25 The number of Country Teams is also being expanded in accordance with risk distribution in the global portfolio to reach up to 38 countries (an increase of five on current coverage) in November 2011. During 2012, both the number of full-time Fund Portfolio Managers and countries under the Country Team Approach will be increased, based on analyses of country risk and work load. This will be done taking into consideration the staffing levels agreed with the Board, whereby headcount will temporarily increase by 25 in 2012, and will be reduced back down to its 2011 levels by the end of 2013.
- 2.26 Improvements in Local Fund Agent performance initiated in the context of the Plan for Comprehensive Reform will be reinforced through adapted investment in Local Fund Agent services based on country risks, and enhanced communication practices and contracting processes for Local Fund Agents. Support and guidance to Country Coordinating Mechanisms on their role in grant management will also be strengthened.
- 2.27 To improve effective and efficient management of pharmaceuticals and health products, the Secretariat will invest in the appropriate level of resources for effectively managing Procurement and Supply Management risks. This will involve a review and mapping of the roles and responsibilities of Secretariat staff, Local Fund

Agents and partners in planning and oversight of Procurement and Supply Management activities in-country. In Q1 2012, the Secretariat will update the risk assessment tools for assessing pharmaceutical and health product management capacity of Principal Recipients to enable application of a differentiated approach to risk mitigation, as part of the risk operational management framework. Additionally, specific mechanisms will be developed for strengthening coordination with in-country technical partners in improving capacity and oversight of Procurement and Supply Management activities. These mechanisms will be initially implemented in the 27 high-risk countries by April 2012.

- 2.28 The Global Fund will also use the Voluntary Pooled Procurement mechanism more intensively and will outsource other Procurement and Supply Management functions where technical and governance risks identified in countries cannot be effectively mitigated. The Global fund will encourage and support investment for sustainable in-country Procurement and Supply Management systems and capacity building as a longer-term measure in countries where use of the Voluntary Pooled Procurement mechanism is deemed necessary.
- 2.29 To strengthen grant management through partner engagement, the Secretariat has initiated country-level mutual accountability agreements. These agreements will first be implemented in the 27 priority countries in the Country Team Approach in close cooperation with the respective Country Coordinating Mechanisms. In clarifying roles and responsibilities of partners, these agreements aim to increase dialogue and facilitate enhanced partner engagement thus leading to greater alignment, improved accountability and ultimately more strategic investments at country level. The expanded role and increased country presence of Fund Portfolio Managers and country teams will facilitate this proactive partner engagement.
- 2.30 Partners are absolutely essential in building capacity for grant implementation and providing technical assistance. In particular, UN partners such as UNAIDS and WHO, bilateral partners, as well as NGOs and private sector companies are providing invaluable technical support to Global Fund financed programs. Building on the accountability agreements, the Secretariat will engage with partners in the priority countries in order to develop or strengthen national plans to support technical assistance and capacity building. These plans will serve to clarify the technical assistance and capacity building needs at country level, enabling a more targeted support from technical partners at country, regional and global level. The planning and funding of technical assistance at country level will benefit from the new two-stage application process allowing for more targeted support and earlier integration of budgets for technical assistance into Global Fund supported grants.
- 2.31 The effective management of grants through efficient and quality controlled processes applied consistently by the Secretariat, implementers, Local Fund Agents, and Country Coordinating Mechanisms is an important element in the Strategy for 2012-2016 aimed at ensuring maximum performance and impact.

Transforming Secretariat Organization, Management and Culture: This area corresponds to HLP Recommendation 5, Objective 5 of the PCR and *Enabling Factor* in the Global Fund Strategy 2012-2016

- 2.32 *Key Issues:* The analysis of the HLP, as well as the Q1 Review, the Human Resources Review and the Information Technology Review point to a number of areas for urgent improvement. Most importantly, the resourcing of grant management functions is insufficient, as shown by the ratio of only one Fund Portfolio Manager to every 2.6 countries (regardless of risk profile) and the imbalance in the proportion of staff

working directly on grant-making activities. The HLP also reiterated Q1 Review comments on the need for more effective and strategic decision-making by the Executive Management Team. Human Resources weaknesses relate primarily to the lack of development opportunities, and to sub-optimal performance management arrangements, in addition to the need for a more unified corporate culture. In the Information Technology Unit, there is a need for improved alignment of operations with business needs, and improved efficiency including in relation to procurement practices.

- 2.33 *Actions:* Activities have been initiated to strengthen the structure and function of the Secretariat, and of grant management functions in particular. By the time of the Board in November 2011, suitably skilled staff will be reassigned as full time Fund Portfolio Managers to manage up to 22 of the highest risk countries through the Country Team Approach, with one Fund Portfolio Manager dedicated full time in an additional five new Country Team Approach countries. In addition, a Secretariat-wide analysis of workload and staff skills and a validation of the current structure will be started immediately and completed by April 2012. This will guide further roll-out of the Country Team Approach and re-alignment of the workforce around grant management functions. The Secretariat will aim to complete all reorganization efforts by the last quarter of 2012.
- 2.34 To strengthen performance of the Executive Management Team, consultations have been completed with individuals across all levels of the Secretariat; and feedback on Executive Management Team performance collected through past staff surveys has been reviewed. The current structure and practice of the Executive Management Team is being compared to other organizations, to inform the development of new Terms of Reference, which will be endorsed and adopted by the Executive Management Team in November 2011. Members of the Executive Management Team will reinforce their leadership and management skills by taking part in leadership coaching programs beginning in early 2012, drawing on feedback from 360 degree assessments that they are completing before the end of this year.
- 2.35 A new Human Resources Strategy has been completed based on reviews conducted by the Secretariat and the OIG. By January 2012, new tools will be introduced to strengthen performance assessment, and by May 2012, restructuring of the Human Resources Unit will be completed to improve its culture and governance. Newly approved Human Resources policies stemming from the Human Resources Review will be rolled out within 2011, including policies on performance management, professional development and reward and promotion practices, to ensure that the Global Fund is able to attract, retain and effectively deploy the talent it needs to fulfill its mandate.
- 2.36 The Consolidated Transformation Plan will also invest in building a more cohesive corporate identity based on the organization's values, and on promoting a unified culture of performance, accountability and respect. The relationship between management and the Staff Council is also being strengthened, with efforts by the leadership of the Secretariat to ensure that staff concerns are addressed in a timely manner.
- 2.37 Reforms have also been launched in the Information Technology Unit based on a review led by the OIG and supported by the Secretariat. In October 2011, the Information Technology Unit commenced a reorganization which includes a revised governance approach to boost efficiency and ensure improved alignment with business needs and corporate priorities. A revised Information Technology Strategy will be released in December 2011. During 2012, a new model for outsourcing of

Information Technology operations will be applied with the aim of increasing value for money and reducing overheads.

- 2.38 The HLP analysis recognizes the commitment and commendable efforts of Secretariat staff who face significant workloads to support the mission of the Global Fund. Staff reassignment is disruptive and stressful. This risk will be managed through the careful design of reorganization processes, supported by a comprehensive communications strategy to ensure transparent and timely sharing of information with staff members, and open channels for feedback during implementation.
- 2.39 An important focus for the Secretariat will be the effective implementation of the Global Fund Strategy for 2012-2016. This will begin with the development of the implementation plan for the Strategy, detailing key activities, timelines and responsibilities, as well as linkages to activities within the Consolidated Transformation Plan. The Secretariat will periodically report on implementation progress to the Board and seek decisions from it or its committees as necessary.

Transforming Governance: This area corresponds to HLP recommendation 3 and Objective 7 of the PCR

- 2.40 *Key Issues:* Through self-observation³, the shared view of stakeholders is that the Board does not operate at the “right altitude”, did not (as at early September 2011) have the right committee structure to support its role, and did not have the right tools or mechanisms by which it could ensure that committee work facilitated rather than hampered the Board’s ability to focus on its core roles of policy-setting, evaluating management, strategy and risk-management, and improved financial control and fiduciary oversight.
- 2.41 *Actions:* At its Twenty-Fourth Board meeting in September 2011, the Board decided to transform its existing standing and *ad hoc* committee structure into a new three-committee arrangement, on the basis of the clear alignment between the HLP’s governance related recommendations, and emerging options arising from the Board Chair and Vice-Chair led governance consultations. The Board’s decision to formalize earlier *ad hoc* collaboration between the Board Chair and Vice-Chair, and Committee Chairs and Vice-Chairs, into a “Board Coordinating Group” addressed, in part, the clear need for more effective arrangements around information sharing at Board level, and Board and Committee agenda setting procedures.
- 2.42 At its Twenty-Fifth meeting, the Board Chair and Vice-Chair will propose a decision that completes the first phase of the Board’s comprehensive governance reform program, and includes Charters for the three new Board committees and minimum standards for Board and committee membership. When approved, this package of reforms will result in a clear definition of the Board’s role that is also risk-nuanced and focused on priorities.
- 2.43 As already envisaged in the Board Chair and Vice-Chair’s governance reform program, a Phase 2 period of reforms to be introduced at the first Board meeting of 2012, will focus on the shared concern of sub-optimal Government-implementer engagement in the Global Fund governance framework, Board composition between the voting blocs, and unclear role and mandate issues between key advisory structures to the Board.

³ Most directly, this comes from a Board survey completed in June 2011, but also from feedback provided through extensive consultations that have included: convening a governance workshop with Board delegations at the June 2011 Partnership Forum in Sao Paulo; and conducting regular topic-specific teleconferences with the governance reform focal points for the Board’s constituencies

- 2.44 Changing culture and behavior requires more than a series of Board decisions. This aspect of transformation efforts will be proactively addressed through a Board and committee member engagement program that, beyond mere indication, focuses attention on a continuing program to enhance effective participation and representation.
- 2.45 **Transforming Resource Mobilization:** This area corresponds to Objective 8 of the PCR and objective 5 of the Global Fund Strategy 2012-2016
- 2.46 *Key Issues:* Since the Third Replenishment in 2010, the growing financial crisis and related recession in some countries have created mounting pressure on both private and public funding sources, with the Global Fund's efforts to mobilize resources further challenged by recent negative press coverage of losses in Global Fund grants in four countries. Tested by a severely constrained financial environment and heightened levels of uncertainty, weaknesses in the Global Fund's replenishment model and the associated forecasting methodology have also become more apparent.
- 2.47 *Actions:* The Global Fund will launch a review of its current replenishment model to re-examine it with regards to predictability, timing and duration of commitments and contributions, as well as appropriateness to disbursement obligations and support for sustainability in Global Fund-financed programs. Particular emphasis will be placed on the model's suitability to an environment of constrained donor resources and its sustainability over several replenishment periods. This work will review regulations and practice in other International Financing Institutions, and will build on the work of the Comprehensive Funding Policy Working Group. The review will seek to identify funding mismatches, and the impact of "grant lifetime approvals" that incur future liabilities for the Global Fund outside of a single replenishment period. Lessons learned, and strengths and weaknesses of the current model will be identified. The objective is to complete the review and provide recommendations to the Board before the end of the second quarter of 2012. Any changes could then be fully implemented before the Fourth Replenishment – currently planned for the fall of 2013.
- 2.48 Given their financial importance and tradition of strong Official Development Assistance financing, ensuring the continued support of current donors will necessarily remain the first priority. In parallel, transformation efforts will seek to expand the donor base more aggressively, based on a cost-benefit analysis of expansion activities. Emerging economies may offer new opportunities for raising resources from both public and private sectors, and, in turn, should reduce their demand for Global Fund financing. Intensive communications efforts to acknowledge and support donors and to highlight the positive impact of the Global Fund's investments will be conducted in parallel to the direct resource-mobilization outreach.
- 2.49 Innovative funding mechanisms will also be more fully explored. Efforts to date have demonstrated the potential of innovative mechanisms such as Debt2Health, which raises funds while simultaneously alleviating country debt burdens. Similarly corporate partnerships – such as those already established with Chevron Corporation, regional approaches such as Gift From Africa, and consumer marketing initiatives like (PRODUCT)RED as well as new investment products can raise valuable supplementary funds while strengthening the public-private nature of the Global Fund model.

- 2.50 The Global Fund will seek to increase the number and level of private sector co-investments in programs with an emphasis on companies from G20 countries as an additional source of funding. Furthermore, a system to assign monetary values to these efforts in order to recognize the contributions will be explored. Recent analysis conducted by the Global Fund revealed that an estimated US\$ 200 million was to be co-invested by the private sector in programs supported by the Global Fund in Rounds 8 and 9. A Round 10 analysis revealed good examples of private sector co-investments especially in emerging economies.
- 2.51 In the current financial context, and at the scale of Global Fund financing where significant resources are needed simply to maintain continuity of services, diversification of revenue sources, a strengthened resource base and strong communication of positive impact are essential elements of the new Global Fund Strategy for 2012-2016.

Early Deliverables of the Consolidated Transformation Plan

- 2.52 The Consolidated Transformation Plan is a challenging undertaking comprising a large number of deliverables. In this context, early achievement can build motivation and drive continued performance. The Secretariat has identified a number of important deliverables that can be accomplished before the end of 2011. These activities are:
- Completion of risk-based segmentation of the entire Global Fund portfolio (taking into account applicable risks, disease burden and volume of global Fund financing per country)
 - Finalization of a new protocol for Secretariat collaboration with the OIG
 - Significant progress on the recruitment of an experienced Chief Risk Officer.
 - Reassignment of staff to ensure appropriate resourcing of Country Teams in up to 27 of the highest risk countries
 - Endorsement of new terms of reference for the Executive Management Team

PART 3: PLANNING, IMPLEMENTATION AND OVERSIGHT

Governance of implementation

- 3.1. The Consolidated Transformation Plan is composed of 31 projects organized into six workstreams, each comprising a set of related projects. To ensure successful implementation, the governance structure that will be adopted after Board approval of the Transformation Plan will be as follows:
- *The Transformation Steering Group*, comprising the Executive Management Team of the Secretariat, and including the Inspector General and the Board Chair and Vice Chair as appropriate, will be responsible for steering overall implementation of the Plan. Under the strategic guidance and direction of the Executive Director who is ultimately responsible to the Board, the Deputy Executive Director will coordinate overall implementation, supported by the Senior Transformation Adviser.
 - *Sponsors, Workstream Leads and Project Managers* work closely together. EMT members will be designated as workstream sponsors. They will be responsible for

ensuring necessary EMT support, engagement and accountability for each workstream. Workstream Leads will be confirmed at the Unit Director level, and will be responsible for close oversight and coordination of workstreams. Project Managers will be responsible for the day-to-day management and implementation of individual projects.

- A small *Program Management Office* will coordinate implementation of the Transformation Plan until it is completed. Its main roles will include monitoring and reporting across the entire Transformation Plan, and the identification and management of implementation risks. The Program Management Office will also play an important role in stakeholder engagement by coordinating the Human Resource and communications needs of the Transformation Plan, working closely on these aspects with the Human Resources and Communications units respectively. The Program Management Office will be led by the Senior Transformation Advisor.

Prioritization Process

- 3.2. Successful implementation of the Transformation Plan requires careful sequencing of activities across projects and the strategic distribution of available resources. This will necessitate clear prioritization among deliverables, which will be guided by the analysis of the HLP, and by reform-related decisions of the Board, but will also be driven by cost-benefit considerations for each project. To inform prioritization decisions, therefore, the Secretariat has completed a preliminary exercise to estimate the financial and qualitative benefits for each project. Projects which will deliver higher savings, greater efficiency and improvements in performance will receive priority allocation of resources, and scheduling.
- 3.3. Prioritization decisions will need to respond dynamically to operational demands, and will be reviewed periodically under oversight of the Steering Group to introduce adjustments as necessary. Continued effective prioritization is essential to ensure feasibility of implementation, particularly in light of the intention to complete the transformation without creating additional resource requests.

Cost Considerations

- 3.4. The Secretariat has completed an initial cost estimation for the Transformation Plan, which it will strengthen and adjust during early implementation and on an on-going basis thereafter. The total cost currently estimated for the Transformation is US\$ 20 million in non-staff expenses, and 75 Full Team Equivalent staff (distributed among all Secretariat and OIG staff). This will be covered without requesting additional resources from the Board by deprioritizing activities that are less central to the Transformation Plan. The Finance and Audit Committee has endorsed the 2012 operating expenses budget envelope submitted by the Secretariat, which includes no additional resource requests for the Transformation. The Board will be updated on the detailed costing of the Consolidated Transformation Plan by January 2012.

Communications and Stakeholder/Staff Engagement

- 3.5. The full engagement of key stakeholders, in particular Secretariat staff, is essential to the implementation of the Transformation Plan. A Communications Plan has been developed to detail the program of engagement with staff and other stakeholders. A number of communications have already taken place within the Secretariat, and emphasis will be placed on ensuring a two-way dialogue, taking advantage of the valuable feedback that staff can provide on improved management of the transformation process.

- 3.6. Externally, communications related to the Transformation Plan fall within the broader Global Fund communications strategy, but will be focused in particular on strengthening the confidence and engagement of key stakeholders including implementers, partners and donors. The messages will provide audiences with information that will help them to support the Transformation Plan, and will dispel misconceptions.

Oversight and Performance Monitoring

- 3.7. The Transformation Plan includes clear timelines and responsible personnel for each deliverable. Target due dates have been projected by relevant project managers based on their knowledge of available resources and the amount of work required for each deliverable. These initial estimations have been vetted by supervisors and the Program Management Office, and will be reconfirmed periodically under the oversight of the Steering Group. The Program Management Office will monitor implementation against the agreed schedule, and will compile periodic progress updates covering all Transformation workstreams for review by the Steering Group. To promote full engagement and accountability, staff performance appraisals will be linked to successful completion of activities in the Transformation Plan.
- 3.8. To date, both the Plan for Comprehensive Reform and the HLP recommendations have identified specific reform deliverables in response to known weaknesses, and grouped these deliverables into operational areas. However, neither document attempted to define *measurable outcomes* and performance indicators for these areas. Once the Consolidated Transformation Plan is approved therefore, the Secretariat will resume work initiated in July to articulate outcome indicators to measure the effects of reform implementation on improved resource allocation, risk management, grant management, etc. Baselines and outcome targets for each transformation area can then be set against agreed indicators. Transformation outcomes will be nested within the broader organizational goals defined for the 2012-2016 Strategy.

Coverage of Plan for Comprehensive Reform:

- 3.9. Attachment 1 details the projects of the Consolidated Transformation Plan and indicates the HLP recommendations and Plan for Comprehensive Reform deliverables covered by each project. The majority of deliverables previously included in the Plan for Comprehensive Reform have been integrated into the Consolidated Transformation Plan.
- 3.10. Attachment 2 provides a detailed accounting of reform deliverables *not* currently integrated into the projects of the Consolidated Transformation Plan. These broadly fall into two categories:
- Deliverables that are being implemented, but have not been defined in the format of Consolidated Transformation Plan projects, in many cases for logistical reasons. Examples include the new grant architecture and National Strategy Applications.
 - Deliverables for which the required capacity and project management set-up have not yet been allocated.
- 3.11. The Steering Group will be updated on an on-going basis as the Plan continues to be developed and deliverables are integrated and projects adjusted.

Next Steps:

The Consolidated Transformation Plan is primarily an operational tool intended to support the management of implementation, and to be used to monitor performance and ensure accountability of the Secretariat, the OIG and the Board. Implementation has progressed already, in spite of the fact that the Plan continues to be refined and developed. Once approved by the Board, the Secretariat will shift its efforts away from planning to implementation, improved prioritization based on anticipated benefits, and the definition of outcomes for performance tracking and reporting.

Decision Point: Consolidated Transformation Plan

To transform the Global Fund into a more efficient and effective organization, the Board approves the Consolidated Transformation Plan presented in the Board paper titled “Consolidated Transformation Plan” (GF/B25/4, Attachment 1) to address and implement the recommendations of the High-Level Independent Panel (the “HLP”) that were adopted at the Twenty-Fourth Board Meeting. The Consolidated Transformation Plan sets objectives, deliverables and timelines to transform through the following elements:

1. Transforming Resource Allocation, Investment, Results Measurement and Evaluation;
2. Transforming Risk Management;
3. Transforming Grant Management including working with partners;
4. Transforming Secretariat Organization, Management and Culture;
5. Transforming Board Governance; and
6. Transforming Resource Mobilization.

The Board requests the Secretariat, the OIG and the Board Chair and Vice Chair to proceed with implementation, and to provide a comprehensive progress update at the two regular Board meetings in the 2012 calendar year.

A review to evaluate the success of the Consolidated Transformation Plan and identify any adjustments that may be required will be conducted after one year of full implementation. The results of this review shall be presented to the Board at its first regular meeting in the 2013 calendar year.

The budgetary implications of the Consolidated Transformation Plan will be part of the 2012 Operating Expenses Budget. The Board will receive an update on the detailed costing of the Consolidated Transformation Plan by 31 January 2012.

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.