

GOVERNANCE REFORMS

PURPOSE:

This paper presents, for Board approval, a package of new and revised governance documents to:

1. Further implement the Board's decision at the Twenty-Fourth Board Meeting in regard to the establishment, from 1 December 2011, of three new standing Committees of the Board and a Coordinating Group; and
2. Implement the recommendations from comprehensive governance reform consultations led by the Board Chair and Vice-Chair since May 2011 in regard to: defining a clear Role of the Board; establishing minimum recommended competencies for Board and Committee roles; incorporating all of the Board's core advisory and administrative bodies into the Bylaws; and, streamlining Operating Procedures of the Board and Committees into one comprehensive document.

EXECUTIVE SUMMARY

1. At its Twenty-Third meeting in May 2011, the Board Chair and Vice-Chair were requested to take forward an ambitious governance reform initiative based on the recommendations from the Comprehensive Reform Working Group (CRWG).¹ Through a memo shared with Board Members, Alternate Members and Communications Focal Points, and all Committee Members on 21 June 2011, the Board Chair and Vice Chair identified that they would approach this work in two Phases.
2. Recommendations on Phase 1 of the governance reform initiative arising from broad consultation with Board constituencies were circulated to the Board on 15 September 2011. These were supplemented by a number of governance related recommendations in the Final Report of the High-Level Independent Review Panel on Fiduciary Controls and Oversight Mechanism of the Global Fund to Fight AIDS, Tuberculosis and Malaria (“High Level Panel”).² Together, these recommendations enabled the Board at its Twenty-Fourth meeting to establish a new committee structure and a Coordinating Group from 1 December 2011 to improve collaboration and coordination of governance, risk and administrative functions of the Board.³
3. This paper provides a comprehensive summary of the Phase 1 governance reform initiative, and, in Attachments 1 to 6, presents a package of governance documents (“Governance Reform Package”) that, upon Board approval, will complete Phase 1 of the governance reforms, bringing into effect the following:
 - a. Revised Bylaws: The recommended revisions: (i) provide a revised description of the role and functions of the Board and a refined description of the functions of the Secretariat to address gaps in regard to risk; (ii) describe the new standing Committees of the Board and the Coordinating Group; (iii) update the document to bring in to the Bylaws the role of the Technical Evaluation Reference Group and Office of the Inspector General; and (iv) include other minor amendments that bring consistency of language around defined terms,
 - b. Charters for the new Committees of the Board: To distinguish clearly between the role of Committees compared to other advisory and administrative bodies of the Global Fund, the governance documents introduce a ‘Charter’ for the three new standing Committees from 1 December 2011 as follows:
 - i. The Audit and Ethics Committee
 - ii. The Finance and Operational Performance Committee
 - iii. The Strategy, Investment and Impact Committee
 - c. Each Charter describes the purpose, functions and composition of that Committee, reporting and communication lines, and methods for assessing Committee performance. The Charters have taken into account the High Level Panel recommendations on tasks for the re-purposed Committees; feedback from the Global Fund’s current Committees and Ad-Hoc Committees over the September to October 2011 meeting cycle; and the consensus recommendations from the Phase 1 governance consultations on clarifying a Committee’s role in deciding versus overseeing versus recommending actions.

¹ Decision Point GF/B23/DP12, ‘Plan for Comprehensive Reform: Governance’.

² <http://www.theglobalfund.org/WorkArea/DownloadAsset.aspx?id=25493>, Refer to Recommendation 3.

³ Refer to GF/B24/DP3 title ‘High-Level Independent Review Panel’, at paragraph 6.3
http://www.theglobalfund.org/documents/board/24/BM24_DecisionPoints_Report_en/

- d. An early task of the newly formed Strategy, Investment and Impact Committee is the development of Terms of Reference for new Market Dynamics Advisory Group (“MDAG”).⁴ This advisory body assumes the strategic and operational oversight roles of both the Market Dynamics and Commodities Ad-Hoc Committee (“MDC-AC”) and the Affordable Medicines Facility-malaria Ad-hoc Committee (“AMFm-AC”) moving forward. Former members of those Committees will continue to be consulted as the Terms of Reference for the MDAG are developed.
 - e. Terms of Reference for the new Coordinating Group: Comprised of the Board Chair and Vice Chair, and the Chairs and Vice Chairs of the three new Committees, the role of the Coordinating Group is described in Terms of Reference rather than a Charter. This is to reinforce the Group’s role as a coordinating body, and not a separate new Committee of the Board. The Coordinating Group will provide a visible and transparent mechanism for coordination and collaboration between the Board and its Committees in regard to the Board’s governance, risk and administration functions.
 - f. Board and Committee Members Roles and Responsibilities document: This document formalizes recommendations from the Board governance consultations regarding: (i) identifying key competencies of Board Members and Committee Members; and (ii) providing clear guidance on the respective roles of Board Members and Alternate Members, and Committee Members. In addition, the document sets out recommended key competencies for Communications Focal Points, and clarifies the fiduciary responsibilities of members.
 - g. Updated Operating Procedures of the Board and its Committees: In an effort to streamline and simplify the Global Fund’s governance materials, the current ‘Board Operating Procedures’ and ‘Committee Rules and Procedures’ have been consolidated into a single document. In addition to this consolidation, the Operating Procedures have been updated to reflect the new Committees of the Board, incorporate Board practice into the document if not already included, and to clarify procedural issues that have been identified over time.
4. The Governance Reform Package materials have been prepared by Legal Counsel of the Global Fund under the leadership of the Board Chair and Vice Chair, and with input from external specialists on what represents best practice governance materials for an entity such as the Global Fund. The revisions to the Bylaws have also been reviewed for compliance with Swiss law. Best practice and lessons learned experience of the Secretariat’s Board Relations Team delivered critical contextual and content inputs across the consultations and development of the Governance Reform Package.
 5. Based on the Board decision at the Twenty-Fourth Board Meeting to transform the Global Fund, approval by the Board of the Governance Reform Package will represent substantial progress in achieving all of the 2011 deliverables of Section 3 of the Consolidated Transformation Plan that will also be considered by the Board at the Twenty-Fifth Board Meeting (GF/B25/4).
 6. Drawing on the broad and comprehensive consultations between May 2011 and end October 2011, the recommendations of the High Level Panel report, and legal and other professional advice received, the Board Chair and Vice-Chair recommend the Governance Reform Package to the Board for full approval.

⁴ Refer Article 14 of the revised draft Bylaws at Attachment 1 to this paper.

Decision Point GF/B25/DPXX:

The Board notes that:

- A. The Board Chair and Board Vice-Chair were requested by the Board to lead and oversee a governance reform initiative based on recommendations from the Comprehensive Reform Working Group at the Twenty-Third Board meeting. Drawing from an extensive consultation process, in September 2011 the Chair and Vice-Chair provided the Board with a summary of the emerging governance reform recommendations. These governance recommendations were further complemented by the release of the findings and recommendations of the High-Level Independent Review Panel.
- B. On the basis of these recommendations, a number of governance reform decisions were undertaken by the Board at its Twenty-Fourth meeting, including the replacement of the four standing committees with three new standing committees and establishment of a Coordinating Group comprised of Board and Committee chairs and vice-chairs.

To further transform the governance of the Global Fund, the Board decides as follows:

1. The Board approves the revised Bylaws of the Global Fund as set out in Attachment **X** to the paper titled ‘Governance Reforms’, GF/B25/XX (“the Board Governance Paper”), which shall supersede the existing Bylaws of the Global Fund as last amended by the Board on 2 March 2011(GF/B22/EDP/10).
2. The Board approves a Charter for each of the new standing Committees of the Board, namely:
 - a. the Strategy, Investment and Impact Committee (as set out at Attachment **X** to the Board Governance Paper);
 - b. the Finance and Operational Performance Committee (as set out at Attachment **X** to the Board Governance Paper); and
 - c. the Audit and Ethics Committee (as set out at Attachment **X** to the Board Governance Paper).

These Charters shall supersede the standing committees’ terms of reference as last amended at the Nineteenth Board Meeting (GF/B19/DP8) and ad hoc committees’ terms of reference.

3. The Board approves the Terms of Reference for the Coordinating Group as set out at Attachment **X** of the Board Governance Paper.
4. The Board approves the Operating Procedures of the Board and Committees of the Global Fund (as set out at Attachment **X** of the Board Governance Paper), which shall supersede both the Board Operating Procedures as last amended on 2 March 2011 (GF/B22/EDP/10) and the Committee Rules and Procedures as last amended at the Twentieth Board Meeting.
5. The Board authorises the Secretariat to undertake any necessary consequential modifications to existing policies, processes and procedures in order to reflect the amendments to the governance materials of the Global Fund as set out in this decision point.
6. The amendments to the governance materials of the Global Fund as set out in this decision point shall have immediate effect.

The Board notes that this decision point concludes the first phase of the governance reform program initiated in May 2011.

The Board requests the Board Chair and Board Vice-Chair to proceed to propose further governance reforms as appropriate and present findings and recommendations for decision at the first Board meeting of the 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.

PART 1: INTRODUCTION

1.1 At its Twenty-Third Board meeting in May 2011, the Board requested the Board Chair and Vice-Chair take forward an ambitious governance reform initiative based on the recommendation from the Comprehensive Reform Working Group (CRWG).⁵ The CRWG's recommendations arose from a shared sentiment amongst the Board that its current governance structures, processes and working methods were not enabling the Board to effectively fulfill its core oversight duties.

1.2 The Board agreed that governance reform should be taken forward through two phases, reporting to the Twenty-Fifth and Twenty-Sixth Board meetings respectively. The objectives of Phase 1 included: identifying the role of the Board, developing a streamlined and effective committee structure, improving committee composition, and establishing standards for Board Member selection and participation. Phase 2 will focus on assessing Board composition including the bloc structure, constituency size and composition, the role of the non-voting seats, and reviewing the roles of other governance, administrative and evaluative bodies such as the Technical Review Panel ("TRP") and the Partnership Forum.

1.3 Consultations since June 2011 have included: a governance workshop with 40 Board stakeholders at the June 2011 Partnership Forum; meeting with constituency representatives at various forums such as the UN High Level Session on HIV/AIDS; presenting recommendations for input through the September and October 2011 Global Fund Committee meetings; and convening teleconferences with Board "mini-groups." Additionally, an electronic survey was conducted to assess the Board's effectiveness in July 2011 with 60 stakeholders responding, representing an important input to the process.⁶

1.4 On 15 September 2011⁷, the Chair and Vice-Chair circulated a summary of the emerging governance reform recommendations, and on 19 September 2011, the Board received the Final Report of the High-Level Independent Review Panel on Fiduciary Controls and Oversight Mechanisms of the Global Fund to Fight AIDS, Tuberculosis and Malaria ("High Level Panel"). The Report included recommendations to the Board about its Committees in the context of strengthening fiduciary oversight.

1.5 Together, these recommendations enabled the Board to make an important set of initial governance reform decisions at the Twenty-Fourth Board meeting, establishing a new committee structure and formalizing coordination between committees and the Board through a Coordinating Group.⁸

1.6 As background to the Decision Point set out in the Executive Summary above, this paper provides a comprehensive overview of the governance reform initiative in regard to the following key areas of those reforms:

- i. Part 2: Global Fund Board and Committee Roles
- ii. Part 3: Committee Size and Expertise
- iii. Part 4: Board Member Participation and Selection
- iv. Part 5: Implications

⁵ Decision Point GF/B23/DP12, 'Plan for Comprehensive Reform: Governance'.

⁶ See Annex 1, Summary of Board Survey Results

⁷ The communication, titled 'Message from Board Leadership - EC Audit Report and Governance Reform Update', requested Board Members to access the Board governance intranet site and consider the survey and emerging options, at the same link identified above.

⁸ GF/B24/DP3 'High-Level Independent Review Panel', paragraph 6.3

http://www.theglobalfund.org/documents/board/24/BM24_DecisionPoints_Report_en/

PART 2: GLOBAL FUND BOARD AND COMMITTEE ROLES

Defining the role of the Global Fund Board

2.1 The CRWG report noted that the Board is not operating at the “appropriate altitude,”⁹ and the Board governance survey found that only 30 percent of Board respondents believe that the Board is aligned on its role.¹⁰

2.2 In an early communication to the Board on governance reform on 15 June 2011, the Board Chair and Vice-Chair presented a framework to re-define the functions of the Global Fund Board into six core areas: strategy, governance, performance, financial, risk and external relations. This draft framework was consulted and refined with Board constituency input, and the final recommendation is presented in Figure 1 below.

Figure 1: Board Role Framework

	Role
1 Strategy	<ul style="list-style-type: none">Set strategy (ongoing and 3-5 year plans) in collaboration with Secretariat and monitor implementationDetermine and review strategic policy choices related to mandate, business model and financing (e.g., scope, eligibility, modalities)
2 Governance	<ul style="list-style-type: none">Recruit and appoint Executive Director and Inspector General, conduct performance appraisals and oversee succession and transitionAttract, assess and retain Board talentAppoint Board and committee leadership and membershipAppoint members to Technical Evaluation Reference Group and Technical Review PanelConduct Board governance performance assessments and monitor against agreed objectivesAssess core governance structures (e.g., TERG, TRP, OIG, Partnership Forum)
3 Financial	<ul style="list-style-type: none">Review and approve program financingReview and approve Secretariat and Office of Inspector General operating budget and fiscal plansConduct oversight over resource mobilization strategies, fiduciary control and fiscal management plans
4 Performance	<ul style="list-style-type: none">Approve Key Performance Indicators (KPIs), monitor regularly and assess relevance with Secretariat andReview and hold Secretariat and OIG accountable for operational and financial performance indicatorsReview performance portfolio investments against impact targets
5 Risk	<ul style="list-style-type: none">Set standards of behavior to guide organizational actionsManage conflicts of interest, broad-based codes of conduct & whistleblower policiesSet risk strategy, communicate risk tolerance and proactively monitor through risk registryReview audit and investigation plans, monitor outcomes and provide guidance on course of action
6 External relations	<ul style="list-style-type: none">Promote and guide partnerships and external engagementPromote advocacy and communications on behalf of the Global Fund and mobilize resources

2.3 The revised Bylaws presented as Attachment 1 to this paper incorporate this framework, at Article 7. These revisions respond to the out-of-date current definition of the role of the Board, which was developed at the inception of the Global Fund when still hosted by the World Health Organization.

Identifying the Board committee structure

2.4 A clear definition of the role and functions of the Board facilitated identification of appropriate committee structure, and the appropriate roles of those committees within the broader governance framework. This work was guided by the challenges currently witnessed around duplicative mandates, and the large number of Board working groups, ad-hoc committees and sub-groups, many of which operate without clarity on their Terms of Reference or reporting and accountability framework.¹¹

⁹ CRWG Governance Report, May 2011 (GF/B23/13)

¹⁰ Refer Annex 1 to this paper, Summary of Board Governance Performance and Health Survey, July 2011

¹¹ CRWG Governance Report, May 2011

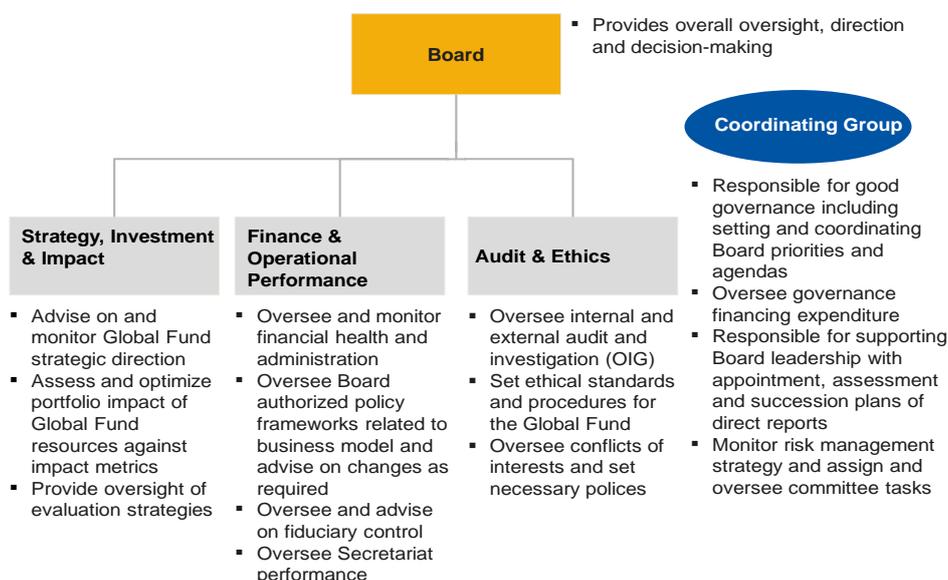
2.5 When re-purposing the committee structure and roles, a key priority was to enhance the authority of the Board, rather than undermine it. It was therefore important to identify which activities are important to remain with the Board, rather than be delegated to a committee. These include: approving the institutional strategy, approving the risk strategy and risk appetite, appointing leadership (Board Chair and Vice-Chair, Executive Director, and Inspector General), assessing performance, and succession planning.

2.6 The activities described for each of the six core functions of the Board role in figure 1 above were then collated into common themes or “building blocks” for the new committee structure. That new structure was proposed in the Board Chair and Vice-Chair’s 15 September 2011 governance reform recommendations.¹² The High Level Panel also made recommendations on the Board’s committee structure, and these two inputs enabled the Board to take a decision to re-purpose its committees at the Twenty-Fourth meeting¹³ as follows:

- i. **Audit and Ethics:** Oversees the Global Fund’s internal and external audit functions and set ethical standards and procedures for the institution
- ii. **Finance and Operational Performance:** Oversees financial health of the Global Fund, Secretariat oversight and monitoring of business model performance
- iii. **Strategy, Investment and Impact:** Advises on and monitors strategic direction for the organization, and assesses and optimizes the investment impact of Global Fund resources

2.7 The Board also endorsed the formation of a Coordinating Group as seen in Figure 2 below

Figure 2: Twenty-Fourth Board Meeting approved Committee Structure



2.8 The approved committee structure strengthens the Board’s fiduciary control oversight in three ways: (i) separates finance and audit in line with public and private sector best practices and includes independent, externally qualified auditors as part of the Audit & Ethics committee; (ii) brings together Secretariat budget approvals with monitoring of Secretariat performance and operational concerns; and (iii) strengthens consistent and regular risk management oversight.

¹² Refer to Board Chair communication, titled ‘Message from Board Leadership - EC Audit Report and Governance Reform Update’ sent on 15 September 2011

¹³ Refer to the Decision Point ‘High-Level Independent Review Panel’, GF/B24/DP3, paragraph 6.3 in particular: http://www.theglobalfund.org/documents/board/24/BM24_DecisionPoints_Report_en/

Committee roles and functions

2.9 Throughout the governance consultations, Board Members have expressed a strong desire to spend more time on strategy and decision-making and less time on operational matters. The Board has also said this should be done without compromising its fiduciary and operational oversight, by delegating more decision-making authority to Committees and the Secretariat.¹⁴

2.10 Ultimately, it is the role of the Board to set direction and strategies and the role of the Secretariat to implement changes. However, it is also essential to have interaction and feedback mechanisms between the Board and the Secretariat. Effective Committees play a critical intermediary role in this process, by making adjustments to policies as needed, and providing an avenue for the Secretariat to raise implementation challenges.

2.11 Building on these principles, each of the re-purposed Committees of the Board is recommended to have the following three levels of authority:

- i. Deciding: Responsible for making decisions on areas delegated by the Board.
- ii. Recommending: Responsible for reviewing analysis and making recommendations to the Board. The Board can review recommendations, and approve or decline these, or refer matters back to the relevant Committee for more information.
- iii. Overseeing: Responsible for monitoring key activities through reporting mechanisms, such as key performance indicators, evaluations, and reports.

2.12 This framework was discussed with the members of the Global Fund's existing Committees during the September and October 2011 series of meetings.

2.13 These Committees also provided input on the proposed Charter for the three new standing Committees of the Board. Specifically, Committee members considered an outline of the proposed Charter of the three new standing committees, and assessed this in the context of the High Level Panel's recommendations on committee tasks set out in Annex R to their report. Committee members noted that most of the 'Annex R' proposed tasks were included in the proposed in the new committee Charters. However they also noted that, for example, some tasks of the High Level Panel's proposed 'Investment Committee' will need to be considered as part of the future work of Strategy, Impact and Investment Committee during the implementation phase of the 2012-2016 Global Fund strategy.

2.14 Additionally, the Finance and Audit Committee noted their preference to keep the Audit and Ethics committee Charter at a high-level, to enable the newly constituted committee to define the exact scope and work plan at their first meeting in 2012.

2.15 The three differing authorities of committees (decide, recommend, oversee), and the specific responsibilities of each of the three new re-purposed Standing Committee of the Board, are set out at Attachments 2, 3 and 4 to the paper.

2.16 To ensure clarity between the role of a Committee as set out in its Charter, and the rules and procedures that apply to the Board and its Committees more generally, the revised 'Operating Procedures of the Board and Committees of the Global Fund', at Attachment 6 to this paper, provide a comprehensive set of procedures for the Committees.

¹⁴ Global Fund Board Organizational Health and Performance Survey, July 2011

Establishing a new Market Dynamics Advisory Group

2.17 The Board's decision at its Twenty-Fourth meeting did not address the status of the two existing ad-hoc committees of the Board: the Market Dynamics and Commodities Ad-Hoc Committee ("MDC"), and the Affordable Medicines Facility-malaria Ad-Hoc Committee ("AMFm"). Rather, the Board's primary focus at the September 2011 meeting was on fiduciary arrangements, and discussions on the future of the MDC and AMFm ad-hoc committees required consideration of broader issues.

2.18 Throughout the governance reform consultations, constituencies have indicated that the issues falling within the mandates of the two ad-hoc committee are, and will continue to be, critical for the Global Fund. However, many also believe that the ad-hoc arrangements have been unintentionally de-linked from the Board's business and governance structure. For some, this has formed an impression that the Board is not concerned with the issues that arise. Moving forward, there is a risk that important recommendations from these committees may not be aligned with the overall strategic direction of the Global Fund. There is the additional risk that issues that require Board input are not prioritized sufficiently.

2.19 Following October 2011 consultations with the MDC and AMFm ad-hoc committees, and discussing options with the Policy and Strategy Committee, it is recommended to discontinue the use of these and other ad-hoc committees to enable the Board to achieve its goal of a streamlined, well-purposed governance structure.¹⁵

2.20 To ensure that the provide the Board continues to receive high quality strategic advice on both market initiatives relevant to the Global Fund's mandate, and innovative mechanisms that target improved access and impact at country level, it is recommended that:

- i. The Board introduces into its Bylaws with immediate effect a Market Dynamics Advisory Group ("MDAG"), which reports to the Board through the Strategy, Investment and Impact Committee to ensure alignment with the overall strategic direction of the Global Fund;
- ii. Terms of Reference for the MDAG are prepared under the leadership of the Strategy, Investment and Impact Committee. These Terms of Reference will ensure that the MDAG takes on the strategic and operational oversight issues currently under consideration of the AMFm and the MDC. Additionally, the Terms of Reference will set out the membership structure of the MDAG that draws on the options presented by the Board Chair and Vice-Chair to the AMFm, MDC and Policy and Strategy Committee meetings in October 2011, and the require minimum key competencies and professional qualifications and experience required of members;
- iii. The retiring members of the AMFm and MDC continue to be consulted by the Strategy, Investment and Impact Committee during the development of the MDAG Terms of Reference, and identification of an optimal membership balance;
- iv. The Strategy, Investment and Impact Committee design and oversee the process of MDAG member selection; and
- v. The proposed Terms of Reference and membership of the MDAG be presented to the Board for electronic decision point be presented by the Strategy, Investment and Impact Committee as early as possible in 2012; and

¹⁵ This recommendation would not impact the role of any Nomination Committee, formed on an ad-hoc basis at the time of transition of the Executive Director or Inspector General. Refer to the proposed re-stated 'Operating Procedures of the Board and Committees of the Global Fund', section 33 (Attachment 6 to this paper).

- vi. As a transition arrangement, the Strategy, Investment and Impact Committee take on responsibility for the oversight of issues under the mandate of the AMFm and MDC ad-hoc Committees, and draw on the retiring membership of these ad-hoc bodies as it determines appropriate.

2.21 The Board Chair and Vice-Chair acknowledge the ongoing discussions within the Roll Back Malaria Partnership on the approach to determining the next steps on the AMFm pilot phase and look forward to the guidance of the global malaria community to inform Global Fund's specific decision-making about the future hosting arrangements of this initiative.

2.22 The Market Shaping Strategy approved at the Twenty-Third Board Meeting approved will be incorporated into the implementation plan of the new Global Fund 2012 – 2016 strategy.

PART 3: COMMITTEE SIZE AND EXPERTISE

3.1 For the committee structure to be effective, committees must have the right composition. Composition depends on two important factors: size and expertise.

- i. Size: Academic research, public and private sector best practice suggests 8-10 members are the most efficient design for Board committees.¹⁶ Efficiency substantially declines with more than 15 members. Compared to its peer organizations, the Global Fund Board has been an outlier in its use of a committee comprised of every constituency represented on the Board, and the CRWG governance report noted the strong desire of Board stakeholders to reduce committee size.
- ii. Expertise: Members must have sufficient expertise for a committee to be effective in fulfilling its mandate. Effective committees have individuals who bring a range of experiences included from different backgrounds for diversity of interest and insights. Currently, only a third of Board survey respondents believe that committee members currently have the appropriate skills and experience to contribute effectively to the topics of concern.¹⁷

Committee Size

3.2 As part of its decision on the committee structure at the Twenty-Fourth Board Meeting, the Board decided on the voting constituency representation on the three standing committees as follows:

- i. Audit and Ethics: four independently recruited experts with one acting as Chair and three Board representatives with one acting as the Vice-Chair;
- ii. Finance and Operational Performance: five implementers and five donors; chaired by an implementer with the Board Vice-Chair retaining authority for a casting vote in the event it is needed; and
- iii. Strategy, Investment and Impact: five implementers and five donors; chaired by a donor with the Board Chair retaining authority for a casting vote in the event it is needed.

3.3 These numbers result in each of the 20 voting Board constituencies having a voting seat on either Strategy and Investment Committee or the Finance and Operational Performance Committee, and there are three additional seats for voting constituencies on the Audit and Ethics Committee.

¹⁶ Heidrick & Struggles (2011), Spencer Stuart (2011), IBGC, GLC, McKinsey organization practice

¹⁷ Global Fund Board Organizational Health and Performance Survey, July 2011

3.4 The Twenty-Fourth Board meeting decision did not address the following issues related to the size of committees: role of the Committee Chair and Vice-Chair; non-voting ex-officio constituency membership; and relationship of the TERG and TRP to the committees and the Board.

3.5 Following consultation with the Policy and Strategy Committee (“PSC”), the Board Chair and Vice-Chair recommendations are as follows:

- i. Committee Chair and Vice-Chair: The Board should learn from the current positive experience of Committee Chairs and Vice-Chairs acting in a neutral manner, by having an additional seat on the committee for the constituency to vote and represent constituency interests. The PSC expressed a preference that the Committee Chair and Vice-Chair be additional to the agreed ‘5+5’ voting membership composition and are considered neutral and without a voting seat. This proposal does not impact the principle that each voting constituency has one voting seat on the Finance and Operational Performance Committee, or the Strategy, Investment and Impact.
- ii. Non-voting Board constituency representation on committees: The Partners Constituency, UNAIDS, the World Bank and WHO play an important and critical role in contributing to Global Fund governance, and the Board relies on their expertise and input into key decisions and processes. The recommended framework moving forward is two non-voting seats from these four partners on the Finance and Operational Performance Committee, and two on the Strategy, Investment and Impact Committee.
- iii. TRP and TERG relationship to the committees: The High Level Panel proposed that the TRP Chair participate in the equivalent of the Strategy, Investment and Impact committee (“Investment Committee in the Panel report) as a non-voting member. The CRWG report noted that the TRP and Technical Evaluation Reference Group (“TERG”) are not well integrated into the Board’s governance structure and that the Board is missing opportunities to obtain advice from these important advisory structures. The PSC, with the additional input of the TRP and TERG Chairs, expressed a preference that these two advisory bodies be ex-officio members on the Strategy, Investment and Impact Committee.

Committee Expertise and Selection

3.6 The Board has expressed a strong desire toward strengthening the capability of committees with members that have the relevant expertise and experience and have the time to contribute. In addition, the Board survey results highlight that many stakeholders believe the process to select committee leadership and membership selection is not transparent enough.

3.7 Existing practice is that the Board leadership is responsible for selecting the Committee leadership and membership on the basis of the Committees’ TORs and nominations from constituencies without any further insight about a specific candidate’s capacity to fulfill the role. The recommended process going forward which is being implemented for the current committee selection is a skills-based approach based on the following principles:

- i. The Roles and Responsibilities for Committee Chairs and Vice-Chairs, and Committee Members, which set out key competencies for these roles, are circulated to constituencies to guide nominations. The key competencies

developed through the governance consultations are in Annex 1 to the new 'Operation Procedures' (at Attachment 6 to this paper);

- ii. Constituencies nominate individuals for Committee leadership positions based on key competencies and the relevance of the nominee's qualifications to the Committee's role, as set out in the Committee Charters. Constituencies may nominate individuals from their constituency or from other constituencies, building on the lessons learned from the Board Chair and Vice-Chair nominations process;
- iii. When submitting any nomination, the constituency indicates their order of preference for Committee membership (more than one committee can be identified the constituency can only be represented on either the Finance and Operational Performance Committee and the Strategy, Investment and Impact Committee);
- iv. The Board Chair and Vice-Chair continue the current practice of selecting Committee leadership according to the key competencies and send this to the Board for approval; and
- v. As a new process, the Coordinating Group will review constituency nominations for Committee membership and make recommendations for Board approval. This expands the selection process beyond the Board Chair and Vice-Chair and helps the Committee leadership build ownership in the selection of the membership of their committees.

3.8 The process set out in paragraph 3.7 is in progress to launch the new committee structure by 1 December 2011. The Board Chair and Vice-Chair will propose their nominations for Committee leadership at the Twenty-Fifth Board meeting. The new Committee Chairs and Vice-Chairs, acting with the Board Chair and Vice-Chair as the Coordinating Group, will consider Committee membership nominations and make a recommendation to the Board by 1 December 2011.

PART 4: BOARD MEMBER PARTICIPATION AND SELECTION

4.1 Currently, there is wide variance in the capacity and time commitment of Board Members and Alternate Members in how they contribute to the Global Fund Board. This leads to unequal participation in important decisions and discussions. Feedback from the governance consultations is that the identification of principles for participation would be helpful, whilst maintaining flexibility for constituencies to self-identify Board Members and Alternate Members.

Clarifying the Key Competencies and Responsibilities of Board Members, Alternate Members and Communications Focal Points

4.2 At the 2011 Partnership Forum governance consultations, Constituencies recommended developing principles to guide constituency selection of the key roles of Board Member, Alternate Member and Communications Focal Point. Constituency inputs during the governance "mini-group" calls led by the Board Vice-Chair resulted in further refinement of these principles.

4.3 As part of the Governance Reform Package of documents being presented to the Board for approval, Annex 1 to the revised 'Operating Procedures' (Attachment 6 to this paper) sets out the key competencies and responsibilities of Board Members and Alternate Members (Table 1 in that Annex 1) and the Communications Focal Points (Table 2 in that Annex 1).

Appointment and induction of Board Members and Alternates

4.5 The Board Chair and Vice-Chair requested the Board consider moving to a model of appointing Board Members to strengthen ownership and mutual accountability, similar to the approach in GAVI where constituencies make nominations that are reviewed by a governance committee. However, the Board Chair and Vice-Chair determined the Board was not at the stage to consider such a proposal. Therefore, a strengthened approach to appointment of new Board Members and Alternate Members is recommended.

4.6 Under current practice, there is no level of Board involvement when a constituency wishes to change its Board Member or Alternate Member. The process is informal and requires a simple notification to the Secretariat in the change in representation.

4.7 To strengthen the important role of Board Members and Alternate Members in governing the institution and building a greater Board culture, future changes to Board Member or Alternate Member seats on the Board should be managed as follows: (i) the constituency submits the resume or personal statement of the nominated individual to the Coordinating Group; and (ii) the Board leadership or representative from the Coordinating Group has an informal discussion with the selected constituency representative to adequately educate them on the roles and responsibilities of a Board member.

4.8 Additionally, all new members should benefit from a formal induction package on the role of Board Members and Alternate Members, the Global Fund's governance structure and the Global Fund as an institution. The Secretariat is currently developing an induction program and the new Coordinating Group will provide input and oversight for its launch in 2012.

PART 5: IMPLICATIONS

Resource considerations

5.1 The 2012 budget associated with governance activities totals US \$ 3.2 million, excluding staff costs and the Board leadership budget. This budget envelope covers travel of implementers (US \$1.2 million), meeting and communication costs (US\$ 1.2 million for two annual Board meetings, one annual Board retreat or other special session, twice-yearly committee meetings and costs associated with translations and interpretations for meetings) and constituency funding (US \$800,000). The distribution of costs for the new governance structure will be re-examined in light of the reforms put forward in this paper as well as other governance-related recommendations from the High Level Panel report.

5.2 In principle, as with all other reforms, governance reforms should be cost-neutral. However, the following are elements of the new governance framework which may need to be either allocated from the 2012 operating budget by de-prioritizing or improving the efficiencies of other activities, or approved as additional resources by the Board:

- i. Identifying and remunerating independent experts for the Audit and Ethics Committee;
- ii. Possible remuneration for the Board Chair and/or Vice-Chair if future leaders do not have institutional affiliations which cover their salaries and associated expenses;
- iii. Inductions or trainings for Board members about the new governance mechanisms and/or about risk management;
- iv. Functioning of the Coordinating Group and its associated deliberations;
- v. More frequent meetings of the Audit and Ethics Committee;

- vi. Multi-media or web-based approaches to disseminating information on committee meetings to enable constituencies to keep abreast of deliberations of committees of which they are not a part; and
- vii. Recruiting additional staff as part of an Executive Secretariat to the Board.

5.3 The Coordinating Group, in its role overseeing governance, will review the overall governance budget in collaboration with the Secretariat and Office of the Chair and Vice-Chair, and determine how these reforms can be cost-neutral.

Risk analysis and risk mitigation

5.4 The Board made the first of a number of important governance reform decisions at its Twenty-Fourth Board meeting. However, they represent only a part of a comprehensive package of governance reforms that are necessary to address the significant issues arising from the CRWG report and Board survey. These issues, if left unaddressed, give rise to significant reputational and operational risks, particularly in the context of the Board's adoption of the High Level Panel report and its acceptance of the underlying findings on issues in fiduciary oversight.

5.5 The implications of these recommendations require a rigorous approach to monitoring performance through development of a rigorous Key Performance Indicator (KPI) framework that clearly distinguishes the role of the Board vs. the role of committees in performance monitoring. Reviewing and agreeing on a new KPI framework is an important first task of the new governance structure.

5.6 Furthermore, the Board must urgently prioritize approving a comprehensive risk strategy which clearly distinguishes the types of risk the Board must monitor and the various roles and responsibilities between the Board and its committees, Secretariat and OIG. Without a holistic strategy first being approved, the Board is at risk of continuing a silo-based, non-comprehensive approach to risk management oversight.

5.7 Implementation of the governance reforms recommended in this paper will however present some level of new challenge to a number of constituencies particularly to change current constituency operating styles in support of a good governance culture. New selection processes will require an increased level of constituency engagement and support at all levels of the Global Fund – the Board, the Board leadership, Committee leadership teams, and individual constituencies – if the intended benefits are to be realized. These benefits are expected to take some period of time to become evident, and it will be the role of the Coordinating Group to take a proactive approach to risk identification during implementation of the governance reform work.

PART 6: BOARD DECISION

6.1 In order to approve the remaining components of the governance reform initiative, the Board is requested to approve the Governance Reform Package of documents described in the Executive Summary of this paper. Each of the documents referred to in the proposed Decision Point in the Executive Summary are set out in Attachments 1 to 6 of this paper.

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.

Summary
Global Fund Board Organizational Health & Performance Survey
10 September 2011

A. Background

- Survey was distributed in July 2011 and had 60 respondents with a range of lifetimes of involvement
- Survey respondents represented a diverse range of Board stakeholders and Secretariat who support and interact with the Board:
 - 5 Board Members
 - 5 Alternate Board Members
 - 13 Constituency Focal Points
 - 13 Constituency members
 - 6 former Board or constituency members, or focal points
 - 18 Secretariat personnel who work closely with the Board and its Committees** Note that the numbers in the slide pack are percentages (%) out of 100.*
- Survey results have been grouped into four main areas
 1. Board effectiveness
 2. Board roles, structures and people
 3. Board and Secretariat working relationship
 4. Board relationship with Executive Director and Inspector General

B. The high-level messages

1. Board effectiveness

- Less than a third of Board respondents and no Secretariat respondents believe Board is effective at carrying out its governance duties
- A majority of Board and minority of Secretariat believes that the Board operates in an open and transparent manner
- Most do not believe Board decisions impact the Global Fund's effectiveness or that they are fact-based and transparent
- While most believe that Board and committees meet with the right frequency, meeting agendas are not perceived to be run well or focus on priority issues
- The Board spends a third of meeting time in presentations, and wants to spend more time on decision-making
- Respondents feel too much time is spent on operational issues and want to spend more time on strategy

2. Board roles, structures and people

- Most people believe they understand their own roles and responsibilities and those of all Board members
- However, there is little alignment on the role of the Board and the future direction of the organization
- Half of respondents believe that the Board doesn't have the right set of committees to support its role, and that the topics discussed and decisions taken at committees do not help the Board focus on priority issues
- Nearly half do not believe Board advisory structures help it achieve its role
- Most do not feel Board and committee representatives have appropriate expertise to contribute effectively
- Most believe that the Board does not make use of independent experts particularly when there are gaps in expertise
- Few believe that there is an effective process for getting the right talent in the leadership of the Board and supporting it

3. Board and Secretariat working relationship

- Most believe the Secretariat provides right level of support although expressed a desire for shorter, fewer papers sent earlier
- But, only half of Board respondents believe Secretariat provides information at right level
- However, majority of Secretariat feel that Board is not requesting information at the appropriate level
- While most believe the Secretariat provides a useful role during committee meetings, few believe there is a culture of constructive engagement
- Most do not believe there is a culture of trust between the Board and the Secretariat
- There is low perception that either the Secretariat or the Board appropriately considers the others' perspective in decision-making
- Results suggest a critical challenge in building trust between the Board and the Secretariat is lack of investment in building social ties

4. Board relationship with the Executive Director and Inspector General

- There is low perceived clarity on the role of the Executive Director, and even lower perceived clarity on the role of the Inspector General

- There is little perceived alignment between Board and Executive Director on organizational strategy
- There is even greater perceived lack of alignment between the Board and the Inspector General on conducting oversight
- There is confusion over the frequency of Board performance assessments of its direct reports
- Less than a quarter believe the assessment processes are effective
- There is low perceived alignment on how the Board should be helpful to Executive Director and Inspector General

Access to the survey results is available here:

<http://extranet.theglobalfund.org/cme/Board%20Leadership%20Governance%20Initiative/03-Global%20Fund%20Board%20survey%20results.pdf>