

**REPORT OF THE GENERAL MANAGER**

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## **INTRODUCTION**

I am deeply honored to join you at my first Board Meeting as General Manager of the Global Fund. I continue to be amazed every day at the contributions this institution makes to saving lives all across the world.

When I last met with you, I told you I had three goals for my time as General Manager: strengthen our foundations, implement our strategy and secure the resources for our future. To accomplish these objectives, I emphasized that we would have to improve the health of our organization, and leverage our partners. This report is a snapshot of what we have been able to accomplish so far, and a candid assessment of how much work we have yet to do.

As you read this report, please remember that, despite our transformation, the mission, the values and the principles of the Global Fund will not change - what must change is the way that we work. It is not all about how we are organized or fix processes, because achieving lasting change begins with how we behave. After three months on the job, I can tell you that this most-important shift is underway. We are a team that thrives together and struggles together. We support each other. We are loyal to each other and to the Fund. We are proud of the work that we do. We are striving to introduce our impeccable standards. We are becoming more transparent about what we do. We are not arrogant, and are not afraid to recognise our mistakes and change our course.

Your engagement and support will be vital to our success. I look forward to interacting with you and hearing your feedback.

## **PART 1: STRENGTHENING OUR FOUNDATIONS**

1.1 I want to begin my report by updating you on the reorganization of our staff. This was a key aspect of our transformation, intended to achieve the Board's goals to re-focus the organization on its core purpose, and strengthen our foundations to improve our execution.

1.2 In the re-organization I am going to describe to you below, I have emphasized four aspects, which I believe are game-changing, and will make the Global Fund stronger than ever before:

1. We have prioritized Grant Management by focusing 75 percent of our staff on Grant Management and strategic-investment roles—with close coordination between the two—while only 25 percent of staff now work in support and control areas;
2. We have created three High-Impact Departments within our Grant Management Division, with six to seven countries each, that will allow for strategic investment, and for applying differentiated risk models to our funding;
3. We have created four Executive Committees, including one to which we invite partners, that bring together our senior management on a weekly basis to review our operations in real time, a self-learning and self-adjusting mechanism that allows us to adjust together and much more nimbly than in the past; and
4. With the incorporation of the new Chief Risk Officer and the new Director of Communications, we have upgraded the quality of our senior management; we have also unlocked talent at other levels.

## **A. Organizing to Deliver**

### **Orientation**

1.3 When I began work as General Manager at the Global Fund on 6 February 2012, the Secretariat staff had experienced successive stages of uncertainty for more than a year. From the reports by the Office of the Inspector General (OIG) that identified misspent funds, to the Q1 Review, to the report of the High-Level Panel, to the Board meeting in Accra, to the leadership change, the staff at the Secretariat had been in a state of considerable anxiety over where the organization was headed and how well it would survive. A silo culture had become so pervasive that the organization was nearly paralyzed, and progress had slowed on the Consolidated Transformation Program (CTP), including the Transitional Funding Mechanism and the Phase-Two renewals that were coming up early in the year.

1.4 On my arrival, I spoke with many excellent staff members who voiced a need for significant adjustments to permit the Global Fund to accomplish our mission. Many expressed broad enthusiasm for the transformation. But I also detected among others a mind-set characterized by caution, risk-aversion and a sense of entitlement. It was understandable that staff members felt cautious and insecure. Unfortunately, I could see that some of them also had fallen into operating in an excessively bureaucratic manner, protecting turf and responsibility, and acting as though they had the right to permanent positions regardless of their performance. Equally worrisome to me was the deep sense of mistrust. Fingers were pointed in all directions. An informal communication system – a rumor mill – had taken over, with destructive results. Disrespect for authority and the chain of command was prevalent.

1.5 It was clear to me that significant change was needed, quickly, to retain talented people and regain a position of trust. Our Grant Management Division needed strengthening, including a significant increase in staff and improved procedures to manage our investments. After broad consultations, we identified 20 “high-impact” countries that account for 70 percent of the worldwide burden of HIV/AIDS, tuberculosis and malaria. These 20 countries include the top ten in terms of the global burden for each disease, and they also account for 70 percent of the value of our grants. We prioritized the recruitment of staff for the country teams in three new departments devoted to overseeing our funding in the “high-impact” countries. These departments (High-Impact Africa I and II, and High-Impact Asia) each now manages our grants in six or seven of the countries with the highest disease burden and where our investments can produce the greatest results, despite significant risks. This move will provide the opportunity for us to make smarter contributions to reduce morbidity and mortality decisively, and thereby accelerate our participation in the achievement of the Millennium Development Goals (MDGs). We also created two departments to cover the rest of Africa, the Middle East, South and East Asia, Eastern Europe and Central Asia and Latin America and the Caribbean to better monitor our grants in smaller countries, to ensure they get the attention they need.

1.6 At the same time, I could see that we had to reduce the number of our staff in our supporting departments correspondingly. Most important, we needed to re-orient all of our operations rapidly toward our core business-- grant management. An important example of where we have applied this principle is in the new Strategy, Investment and Impact Division (SIID), which we have downsized and restructured to provide additional staff positions for grant management roles. All staff who remain in SIID are now focused on ensuring the Global Fund’s grants invest resources in the right interventions, populations and locations for maximum impact on the three diseases -- while working closely with our grant management country teams, implementers and technical partners to achieve this aim.

## **First Steps**

1.7 From the start, I made several key decisions at the level of my direct reports. On 24 February, we created a new governance system for the Secretariat, geared to foster teamwork, break down silos and enable transparent, collegial decision-making. We established a Management Executive Committee, an Executive Grant Management Committee, a Funding and Finance Executive Committee and a Disease Executive Committee for each of the three diseases. Through the weekly meetings of these Committees, our top leadership team can actively review our operations, make necessary course-corrections, and take advantage of opportunities. We then moved swiftly in several areas:

- 1) We interviewed and selected candidates for the roles of department heads, completing this step on 9 March;
- 2) We finalized a new administrative structure, and launched an expedited recruitment process to re-structure the entire organization by the end of April.
- 3) We analysed and re-drew the organizational structure of each Division, and developed new job descriptions for every single position in the Secretariat.
- 4) We hired an external company to conduct an objective evaluation of all of our positions, to decide, in the interests of efficiency, which to preserve and which to eliminate; and
- 5) We also set up voluntary and mutually agreed separation packages for those staff whose positions were not affirmed in the new organization; we made sure to compensate departing staff properly, and give them significant personal and professional support, including the provision of coaching in their home countries upon return. We took extreme care to avoid disruptions in school cycles, and ensured the continuation of medical treatment for HIV, where required.

1.8 Communications are a critical part of any successful change in an organization of our size and complexity. We have taken steps to improve the coordination and consistency of our message, and our effectiveness in reaching all of our stakeholders and partners. To lead this work, we hired Seth Faison, a strategic communications expert with more than 25 years of experience in media-related fields, to become our Director of Communications.

1.9 Internal communications are equally important. Throughout the process, we were attentive to inform staff members about their individual status, and about the larger organizational changes. In addition to several "Letters to Staff," we held town-hall-style meetings to inform staff about current activities, next steps, rules and processes, and to answer any questions. We maintained constant communication with the Staff Council, which was very constructively engaged in finding solutions to any problems that arose. Our human-resources staff worked literally around the clock to manage all the various steps involved, within the tight deadlines set. We found, however, that our processes and rules were simply not adequate to handle such a large and accelerated re-organization, and some unexpected results cropped up.

1.10 The weakness of our performance-management system hindered the quality of the re-organization process. For instance, 98 percent of our employees were evaluated as having achieved or exceeded expectations, which clearly did not reflect reality. This situation left us without an objective performance-evaluation system to back up personnel decisions, and, as a result, the process was ripe for criticism, including allegations of discrimination or favoritism. Three specific areas of personnel decisions drew the most objections: 1) Mutually Agreed Separation Agreements initiated by the organization; 2) the short-listing of staff who applied for open positions; and, 3) actions concerning staff on parental or extended sick leave. Once we identified these weaknesses, we took corrective actions concerning the

processes. I met individually, in the presence of the Staff Council, with 17 persons that had been asked to consider departing, and, when appropriate, I apologized for procedures perceived as undignified or disrespectful. Some of these cases could lead to legal action against the institution.

1.11 The non-recurrent cost of this re-organization was US\$ 22 million. This includes separation payments, repatriation expenses, fees for consultants and post-departure support services. I believe that, from a financial standpoint, the re-organization is thoroughly cost-effective, and will provide a considerable increase in efficiency and performance. I want to reiterate my pledge to the Board to fit the expenses of the re-organization of the Secretariat within the budget you have approved for this calendar year.

### **Results of the Re-Organization**

1.12 By 30 April, we completed a staff re-organization that succeeded in our main goal of significantly strengthening our Grant Management Division. In sum, we accomplished the following:

- 1) Seventy-five percent of our staff resources now work in grant management<sup>1</sup>; this implies a 39-percent increase in positions in the Grant Management Division, a 36-percent reduction in SIID and a 29-percent reduction in support and control areas;
- 2) Created 189 new positions, and eliminated 236 positions that were inefficient or outdated;
- 3) Received more than 635 applications for 87 distinct vacancy notices;
- 4) Conducted 415 interviews for existing staff who were seeking new positions;
- 5) Moved 209 employees into new positions, of which 115 were promotions;
- 6) Arranged for 116 staff members to choose voluntary or mutually agreed separation, equivalent to 22 percent of the staff; and
- 7) Achieved an overall reduction in positions of 7.4 percent, which leaves us with a new total of 585 authorized staff positions, with 131 current vacancies.

Please note that the above statistics do not include the OIG.

### **Diversity**

1.13 The Global Fund is an enormously diverse organization, and I am committed to keeping it that way. The impact of the re-organization on our diversity was as follows:

- Measured by country of origin, our staff moved from a ratio of 60 percent from donor nations/40 percent from implementer nations to a new ratio of 58 percent from donor nations/42 percent from implementer nations;
- Measured by gender, our staff remained stable at 57 percent female/43 percent male;
- Measured by gender, our staff in senior executive positions moved from 32 percent female/68 percent male to a new ratio of 31 percent female/69 percent male; and
- Measured by HIV status, our staff moved from two percent to one per cent HIV-positive.

1.14 Going forward, we will endeavour to improve our representation of staff from Implementer nations, and to increase the number of women in senior executive positions. In addition to seeking the best talent from diverse groups during the recruitment process, we will overhaul our internal talent-management system, including the procedures for selection,

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<sup>1</sup> Defined as the Grant Management Division and SIID; the numbers do not include the Information-Technology Department or the Board Office.

performance-evaluation and promotions, to ensure we can attract, retain, and nurture our high-quality staff. This is especially critical given the number of remaining vacancies.

## **Lessons Learned**

1.15 To be able to move forward, we must first look back, and reflect on what we have learned during the re-organisation process. Three things have become apparent: first, the institution had allowed its focus to drift from the countries to Geneva, and from our core purpose – impeccable grant management – to peripheral tasks; second, bureaucratic complexity has made the organisation too slow to respond to a changing world, and imposed our way of doing business on those in the field; and third, we can do better in attracting, exciting and retaining the huge depth of talent that is available to us. We are addressing each of these issues; but we are at the start, not the end, of this process. For too long, the health of our organisation had been neglected.

1.16 We have re-balanced the Secretariat to focus on our core purpose of impeccable grant management; as I mentioned above, these functions now account for 75 percent of our staff. Now we must unlock and unleash all the talents of our staff so that we are more agile, more responsive, and more effective. This means reform of our core processes for people-management which have served to embed a “culture of entitlement.” I am determined that the Global Fund of the future will be a caring meritocracy. We will seek to nurture and develop our staff; yet we will not be afraid to judge performance and differentiate outcomes. We will set clear objectives, define required competencies, and clarify expectations for behavior. Performance-evaluation will accurately measure results and behaviors. We will recognize, reward, and promote excellence. We will give poor performers the opportunity and the support to improve, and if they do not, we will ask them to leave the Fund to find roles more suited to their skills in other organisations.

1.17 Our goal is to stretch everyone – including the best –to build their skills and raise their performance, continuously. Through the re-organisation process we have learned that there are real gaps in our skills, particularly in the “soft skills” of effective teamwork, communications, leadership and mentoring. We will launch a programme to strengthen the “soft skills” of our staff – to help us all to become both better managers and more inspiring leaders. These improvements will require a change in our culture as much as in our processes and skills. This process will begin by bringing together all staff members for special sessions, where they will agree how to work more effectively together, and to share their common aspirations, ambitions, and expectations of one another.

1.18 At the same time, we will fundamentally reform the way we attract talent. As a global institution, we are privileged to be able to attract staff from anywhere in the world. We have not done this with sufficient rigour or effectiveness. We have too few people from the places where we invest our greatest resources. If more of our staff come from the countries in which we invest, then we will make better, wiser, faster decisions that enable implementers to deliver. Recruiting top talent from developing countries is the highest priority. The packages that we are able to offer staff – from pay to education to relocation – are generous. We should have no problem competing for the best talent with the world’s top institutions, public, private or civil-society. We must set a high bar, and I will ensure that senior managers dedicate more time to actively leading the process of attracting the right talent to the organisation.

1.19 Our recruiting processes are cumbersome and bureaucratic, and reflect a lack of trust in each other, as well as a lack of confidence that individual managers can exercise good judgement. This has left us with processes defined to a level of detail that has tried to anticipate and regulate every possible scenario, which—unintentionally-- created vast

inconsistencies. This will change. We will trust one another, and build a system and processes that are the expression of common sense. This will enable us to respond more rapidly to changing needs, and to deliver a better quality of service to implementers and donors alike.

1.20 I speak for the entire Management Executive Committee in saying that I am deeply proud of the work we have achieved so far, and grateful for the monumental efforts of our Human-Resources team. I am also humbled by how much lies ahead of us in the coming months. We will never again neglect the health of our organisation. I am personally determined to achieve the transformation that the Board so correctly prescribed, and am fully confident that, with your support, we can get there.

## **PART 2: IMPLEMENTING OUR STRATEGY**

### **A. TOWARDS MORE-STRATEGIC INVESTMENTS**

2.1. At the Accra meeting in November 2011, you approved an exciting *Strategy* for the period 2012 -2016, which establishes ambitious goals and targets for the next four years. Central to achieving them is a focus on investing for greater impact. Alongside the re-organization efforts described above, we have initiated the implementation of the *Strategy*. This work will gather pace in the second half of this year. A major shift for the Global Fund will be a focus on ensuring more-strategic and better-targeted investment. We will wish to support those interventions that will have the highest impact, tailored to the local epidemiological context. For this we will work closely with in-country implementers and partners when approving new funds, and when renewing existing grants.

2.2. We also need the investment tools that enable us to invest more strategically. This, as foreshadowed in the *2012-2016 Strategy*, requires the design of a system to allow for greater predictability of future funding and a more iterative model by which applicants will access new funds. These are works-in-progress right now, and will be a major priority over the coming months. The transformation of grant renewals is equally relevant to our new investment approach for the 2012-2016 period, discussed further in Section 2.B below.

2.3. As mentioned, the re-organization of the Secretariat has produced a leaner and more focused SIID, which will be implementing the changes noted above. The new structure and orientation of the SIID includes a Strategic Investment and Partnerships department to engage the Grant Management Division and our technical partners more effectively, to offer advice on our grant-making, and to improve our day-to-day communication with them.

2.4. Further improving our engagement with partners, we are creating three Disease Executive Committees to provide guidance to us on strategic investments in the fight against HIV/AIDS, tuberculosis and malaria so we can optimize our portfolio of grants for greater impact. The Committees will draw on their technical expertise, in-depth understanding of international and domestic resource flows and implementation arrangements at the global and regional levels.

2.5. The new SIID structure also has a dedicated function for evaluation to strengthen our management and grant focus on impact and lives saved in the countries we support through the following improvements:

- Enhancing the focus of grant management on managing for results and lives saved;



- Building impact considerations into decisions on Performance-Based Funding;
- Ensuring a dedicated evaluation function, to provide evidence of outcomes and impact in countries, and to focus our investments on this in 2012-13; and
- Strengthening our reporting of results, with a focus on our grants in high-impact countries and progress towards impact, which will prepare us well for the accountability and progress we aim to show towards the MDGs in 2015.

2.6 I am convinced this structure will maximize our efforts in support of countries to attain the MDGs and succeed with other special initiatives, such as the elimination of the mother-to-child transmission of HIV.

## **B. GRANT RENEWALS**

### **Orientation**

2.7 Grant-renewal processes and operations are a central focus in the on-going implementation of the CTP, and comprise the bulk of the effort in one of the CTP's three major work streams-- Ensuring Timeliness and Quality in Grant-Processing. Even in the absence of new funding opportunities, the value of Phase-Two renewals, remaining Rolling Continuation Channel (RCC) grants and consolidations represents an enormous investment opportunity over the next two years. The volume of approved financing under review for grant renewals will be an estimated US\$ 5.5 billion in 2012, and approximately US\$ 2.5 billion in 2013 (although these amounts could vary based on slippages or other factors that affect when recipients submit their Requests for Renewal).<sup>2</sup>

2.8 How we assess these grant renewals will also make a difference in the quality of our investments. The Periodic-Review approach developed under the new grant architecture provides better opportunities for the enhanced alignment of the Global Fund's financing with national cycles, strategies and improved harmonization. Periodic Reviews also allow decisions around Performance-Based Funding to better assess impact, and we will introduce this enhancement in 2012. We will further strengthen this process with country-evaluation plans, which provide evidence on impact for the assessment of our grants. This reflects the focus of the Global Fund's new *Strategy 2012-2016* on impact. The first grants consolidated with the introduction of the new architecture in late 2009/early 2010 are now coming in for renewal in 2012. In addition, to the extent possible, we are applying the principles of the Periodic-Review approach to all grant renewals, including Phase-Two and RCC grants not yet consolidated but due for renewal.

2.9 Of the 125 grants that have undergone renewal review (Phase Two, RCC or Periodic Review) in calendar year 2011 and 2012 so far, 77 percent received a rating of A or B1. This percentage is consistent with the general trend for renewals, which is also 77 percent for all grants reviewed so far in this process.

2.10 Of the 125 Phase-Two decisions in 2011, 61 percent received a "Go" decision to continue funding; 34 percent a "Conditional Go" to receive financing after making specific adjustments to the proposals, and five percent (seven grants from six distinct countries) a "No Go." Overall, since 2005, the Global Fund has given 51 percent of reviewed grants a "Go," continued 46 percent with a "Conditional Go" and discontinued the remaining three percent.

<sup>2</sup> The estimate for grant renewals in 2012 and 2013 assumes the maximum Board-approved amounts for Phase Two, which factor in recent efficiency targets set by the Board based on the classification of countries by income.

2.11 The first Periodic Review for grants consolidated under the new single-stream-of-funding architecture took place in March 2012 for two grants from the same country and component. Both of them had good performance (ratings of B1 and A1), and received a “Go” decision.

### **Update on Progress**

2.12 Over the past few months, we have taken a number of steps to implement the decisions taken by the Board at its Twenty-Fifth Meeting:

- Applied income-eligibility criteria for renewals, including making ineligible G-20 upper-middle-income countries (UMICs) with a less-than-extreme disease burden;
- Introduced new thresholds for Counterpart Financing and Focus of Proposal;
- Reduced Phase-Two budget ceilings to 75 percent of the upper limit approved by the Board for all upper-lower-middle-income countries (L-UMICs) and UMICs, to move toward meeting the Board’s “55-percent rule”;
- Conducted a new Country Team Pre-Assessment for grants scheduled to undergo a renewal in 2012, to identify re-programming opportunities;
- Developed tools to enhance information on the impact of our investments;
- Named the Chief Risk Officer a permanent member of the Phase-Two Panel, and invited representatives of bilateral/technical to share in the Panel’s work as technical advisors;
- Applied staggered, annual commitments of funding for years three through five of Phase-Two renewals ( known as “1+1+1”); and
- Launched initiatives to simplify the renewals process and improve relevant documentation, including the Grant Score Card and documentation for presentation to the Board.

2.13 While we are working to develop a robust investment methodology to be applied consistently to all grant renewals through efficient, quality-controlled processes, we also face several challenges I wish to highlight to you:

- Defining “highest-impact interventions” with technical partners;
- Developing tools and methodology for more-efficient re-programming (guided by global partnership plans and investment frameworks);
- Reviewing our portfolio at the global and country levels;
- Partner support for assessing impact in countries and focusing our investments on this evidence
- Engaging Country Coordinating Mechanisms (CCMs) and partners to make tough strategic choices on the shape of our portfolio; and
- Aligning interventions with changing epidemiology and country context, new technological advances, changes in donor funding and performance to date.

## **Transitional Funding Mechanism (TFM)**

2.14 At its meeting in November 2011, the Global Fund's Board established a TFM for programs that face disruption of services currently supported by the organization's grants, to protect the gains achieved and ensure the maintenance of essential programs. Funding requests under the TFM are restricted to two years, a time period that recognizes that work is underway to develop and launch a new funding model consistent with our new *Strategy*.

2.15 On 31 March, the Secretariat received 61 TFM applications, which represent a preliminary demand request of US\$ 616 million over the two-year lifetime of these proposals. Of that figure, implementers are requesting US\$ 253 million for HIV/AIDS (26 applications), US\$ 233 million for malaria (14 applications), and US\$ 130 million for TB (21 applications). These demand levels are preliminary, and could change as a result of clarifications and review by the Technical Review Panel (TRP).

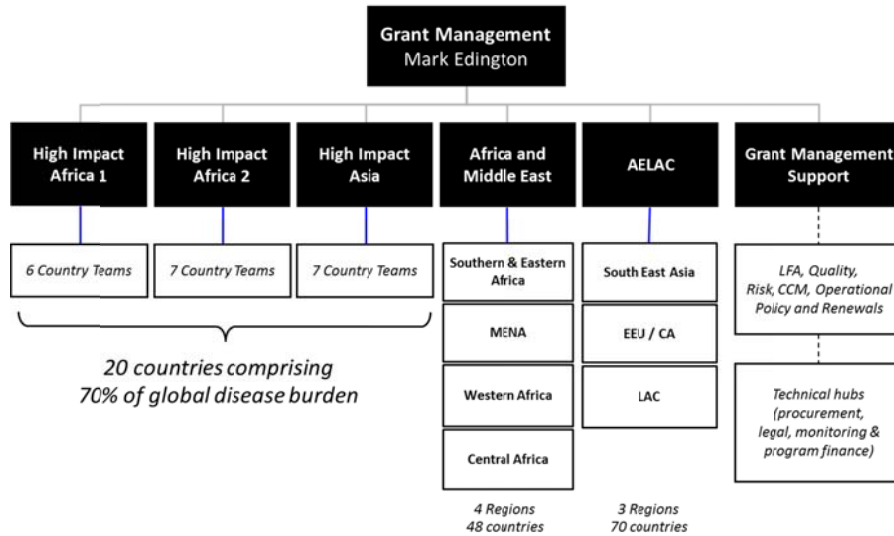
2.16 The TRP is scheduled to review the TFM requests from 9 to 23 June, and will subsequently make its funding recommendations to you. The evaluation methodology will acknowledge that the Global Fund especially designed the TFM channel to address critical needs which might otherwise face disruption. In addition, we are already making some important changes to the application-review process to incorporate key features of the new funding model in advance of its roll-out next year. These changes will enhance the dialog between applicants, the TRP, the Secretariat and partners, and are intended to ease the transition from proposal review to grant signing, to ensure no break in the continuity of essential services.

2.17 As I have already announced in a recent press release (also see Part 3 A of this report, "Forecast of Uncommitted Assets") we can confidently state that we have the resources to fund the TFM proposals after review by the TRP.

## **C. ACHIEVING IMPECCABLE GRANT MANAGEMENT --Re-Structuring the Grant Management Division**

2.18 As the centerpiece of efforts to achieve impeccable grant management, the Grant Management Division (formerly the Country Programs Cluster) is undergoing a transformation. The first step of this change was to re-organize the structure of the Division.

# The new Grant Management division



## 2.19 The Grant Management Division will now comprise six new departments:

- Three departments (*High-Impact Africa I*, *High-Impact Africa II* and *High-Impact Asia*) serve the 20 highest-impact countries in which we have investments:
  - High-Impact Africa 1: Democratic Republic of the Congo Nigeria, Côte d'Ivoire, South Africa, North Sudan, Ghana;
  - High-Impact Africa 2: Ethiopia, Zambia, Kenya, Tanzania, Uganda, Mozambique, Zimbabwe; and
  - High-Impact Asia: India, China, Indonesia, Myanmar, Pakistan, Bangladesh and the Philippines)

These nations comprise 70 percent of the global burden of HIV/AIDS, TB and malaria, and represent more than 65 percent of the total value of our grants.

- Two departments (*Africa and the Middle East - AME*, *Asia, Eastern Europe, Central Asia and Latin America and the Caribbean –AELAC*) are broken into regional teams, and empowered with new leadership and increased resources.
- One department (Grant Management Support) will be providing services to country teams through dedicated groups that coordinate with Local Fund Agents, ensure quality-assurance within the Grant Management Division, embed risk-management throughout all processes, support the CCMs, and undergird operational policy and grant renewals. This department will also house the technical hubs for procurement, legal, monitoring, and program finance to ensure consistency and provide support to other areas of the Secretariat.

2.20 The goal of the re-organization is to allow us to focus our staff to achieve the greatest impact against HIV/AIDS, tuberculosis and malaria. The revamped Grant Management Division will see three immediate benefits:

a. Increased Resources towards Grant Management

Through the re-organization, the Grant Management Division has increased its number of staff positions by 39 percent, which reflects a stronger focus on our core business, as recommended by the High-Level, Independent Panel and other recent external and internal evaluations. Overall, this shift of staff translates into more support for implementers in the areas where they need it most: grant management (an 11-percent increase in Fund Portfolio Managers, a 60-percent increase in Program Officers), procurement (over double the number of Procurement Officers) and finance (a 25-percent increase in Program Finance Officers).

b. Greater Focus on Grants in Countries with High Burden and High Risks

The Grant Management Division took a number of steps to enhance its focus on our financing in countries with high burden and high risks, with the ultimate aim of ensuring we are getting the greatest impact for our investments. High-impact countries (those with a high burden of disease) and high-risk countries each will have a dedicated Fund Portfolio Manager; one or two Program Officers; and a larger portion of time from procurement, monitoring, finance and legal teams to ensure a higher level of scrutiny and support. We have chosen the staff allocated to these countries for their relevant country experience (when possible), significant grant management experience and strong performance. An experienced senior manager leads the departments that concentrate on “high-impact” countries; each reports directly to Mark Eldon-Edington, the Head of the Grant Management Division. These Department Heads and Mark will be visiting “high-impact” countries throughout calendar year 2012, and will be reviewing and discussing ongoing challenges and lessons learned with you and during their weekly leadership meetings. Our emphasis on the most-important and most-difficult places will allow us to differentiate our approach to our grants with the right level of sophistication. Over time, working with local leadership from Governments and civil society, we intend to produce demand-driven, long-term plans and strategies for the fight against the three diseases that the Global Fund and partners can join. Our participation will be to finance pieces of those strategies, which will reflect national and regional realities and priorities, backed up by the best science.

c. Stronger Country Teams, with Greater Accountability

The new structure improves the way we work together every day, by introducing country teams for all countries. Our grants in each country have a team composed of a Fund Portfolio Manager and one or more Program Officers, supported by dedicated technical and functional teams from procurement, monitoring, finance, and legal for each region. We have empowered the Fund Portfolio Managers to make final decisions on behalf of the country teams. To enhance cooperation and communication, the procurement and monitoring team members who work directly with countries will now formally become part of the Grant Management Division, which will increase alignment and cooperation among staff. Finance and Legal team members will continue to report to their respective Divisions, but will sit physically within the Grant Management Division. This change will enhance consistent communications and decision-making within the Secretariat, and increase the speed with which the Grant Management Division can answer questions from our partners in-country and resolve challenges or bottlenecks with implementation. We are also developing a dedicated

evaluation function to provide support on analysis and strengthening our focus on outcomes and impact in the most-important and most-difficult countries.

2.21 We chose to progress through our re-structuring rapidly, to minimize disruption. The Grant Management Division took great care in preparing for a rigorous transition. Mark and I asked our Team Leaders to develop detailed contingency plans that outlined potential issues they anticipated during the transition and identified steps to mitigate these possible problems. They considered project continuity, knowledge-transfer, day-to-day operations, talent-retention and reputational risk. Once completed, we consolidated the contingency plans into an overall plan for the Grant Management Division. Every Fund Portfolio Manager completed a “Knowledge-Capture Note” for his or her grants that provided contact information for the main stakeholders in the field, outlined key upcoming milestones, explained the past history of the Global Fund’s involvement in the country or countries concerned, flagged sensitive topics and explained where team members could find additional information. We have shared these “Knowledge-Capture Notes” with all new team members.

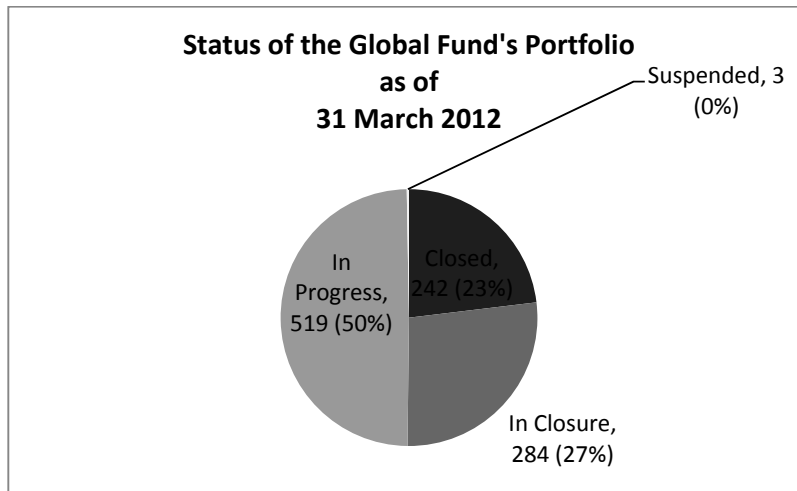
2.22 Once we had finalized the new structure and identified teams for all countries, the Grant Management leadership team carried out a detailed communication outreach to our partners on the ground, especially CCMs and Principal Recipients (PRs), to explain the changes. Mark himself directly described the rationale for the changes, explained the new structure and introduced the new management team. Each Department Head/Regional Manager followed up with partners in the field to introduce the new country teams and suggest a follow-up meeting to answer questions and summarize next steps.

2.23 We will see the benefits of this transformation over the next several months, but realizing the full value of cultural and operational changes of this size takes time. We have a steep learning curve— the Grant Management Division has made a large number of new hires, dozens of incumbent staff members are now working in new positions and many vacancies remain for us to fill. Your patience and that of our implementers will help us greatly as we apply our new approach to all of our grants.

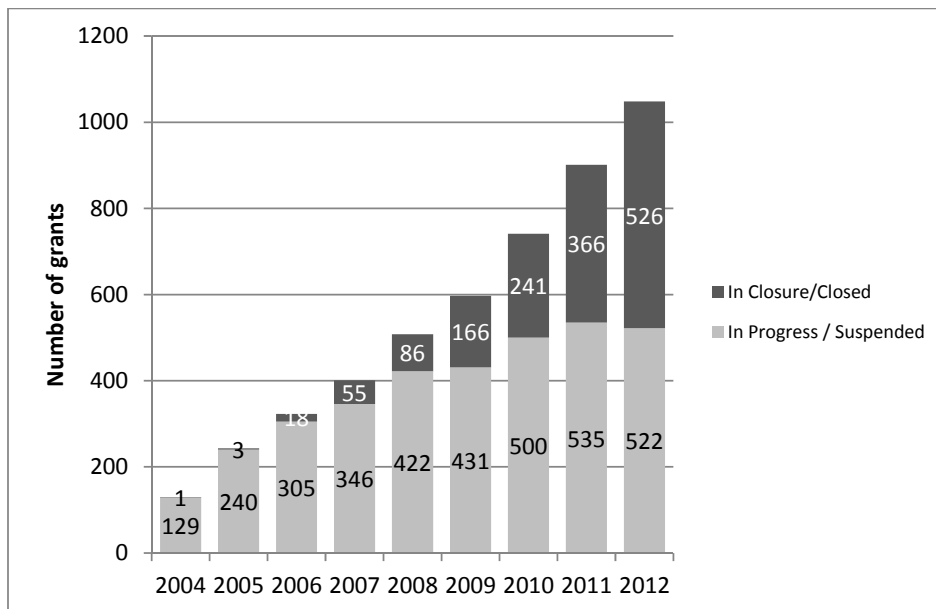
## **D. OVERVIEW OF THE PORTFOLIO**

### **Composition**

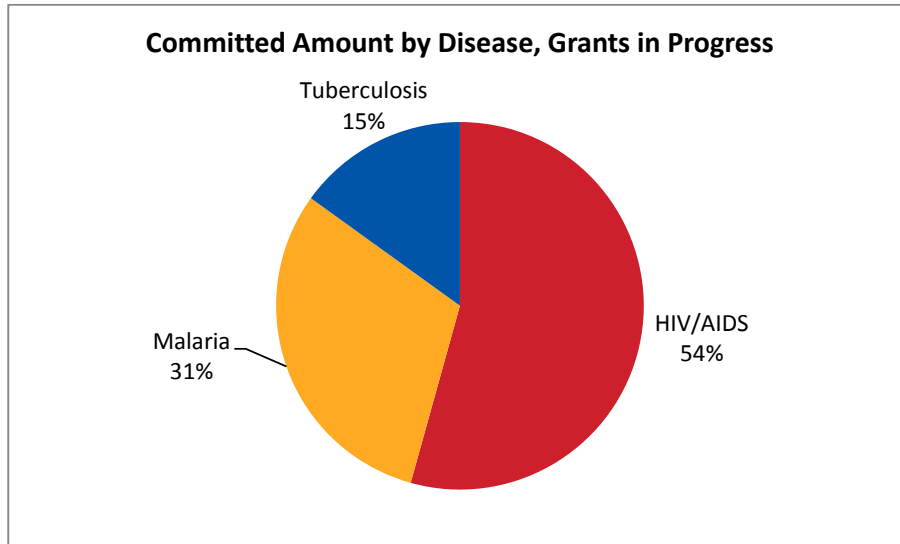
2.24 By end of March 2012, the Global Fund had disbursed a cumulative total of US\$ 16.2 billion through 1050 grants in 150 countries and territories. We are now managing 519 active grants, after formally closing more than 40 grants in calendar year 2011.



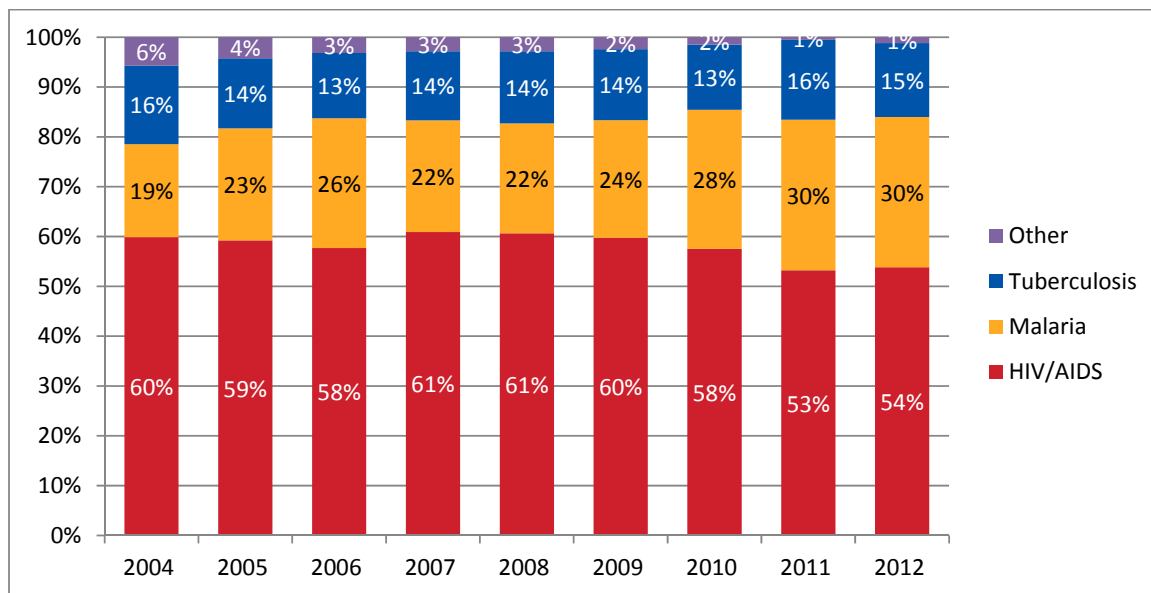
The number of “active grants” is now plateauing at approximately 500, following the introduction of the new architecture.



2.25 We have currently invested fifty-four percent of our portfolio in HIV/AIDS programs, 31 percent in malaria programs and 15 percent in tuberculosis (TB) programs.

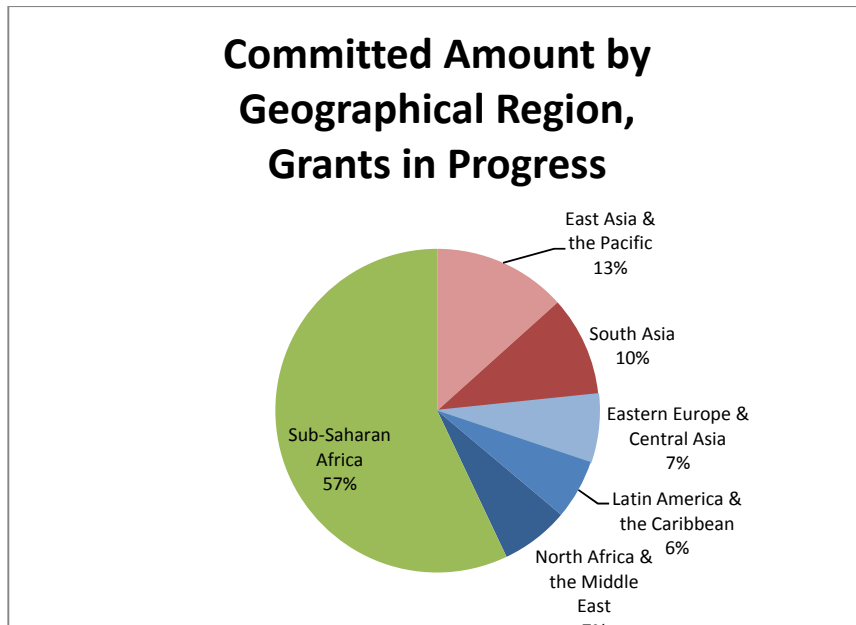


Because of Round 8, the portfolio has seen a large increase in resources devoted to malaria in recent years.

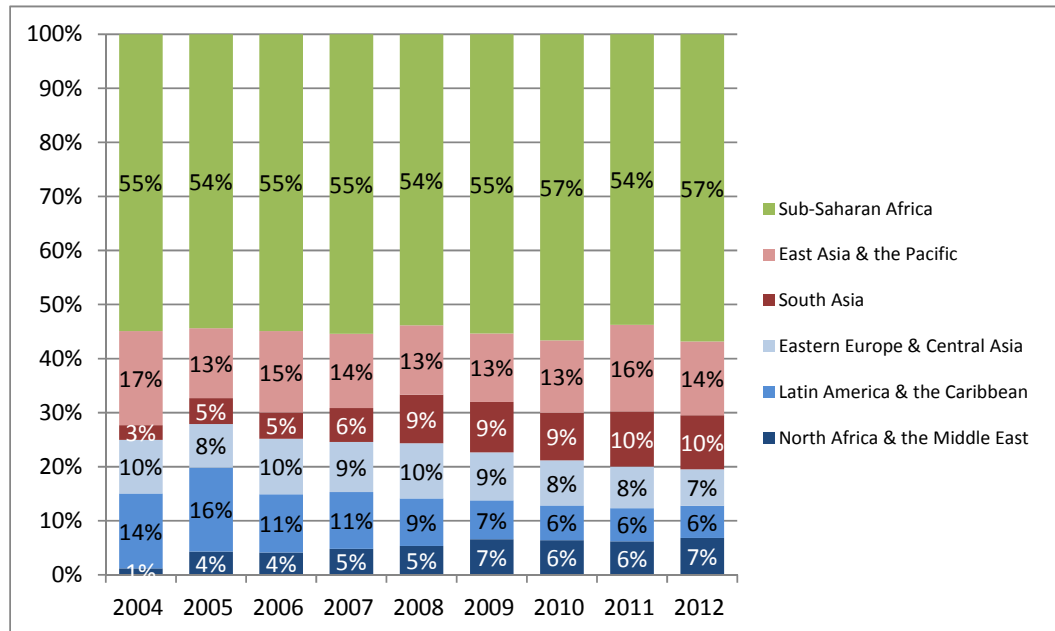




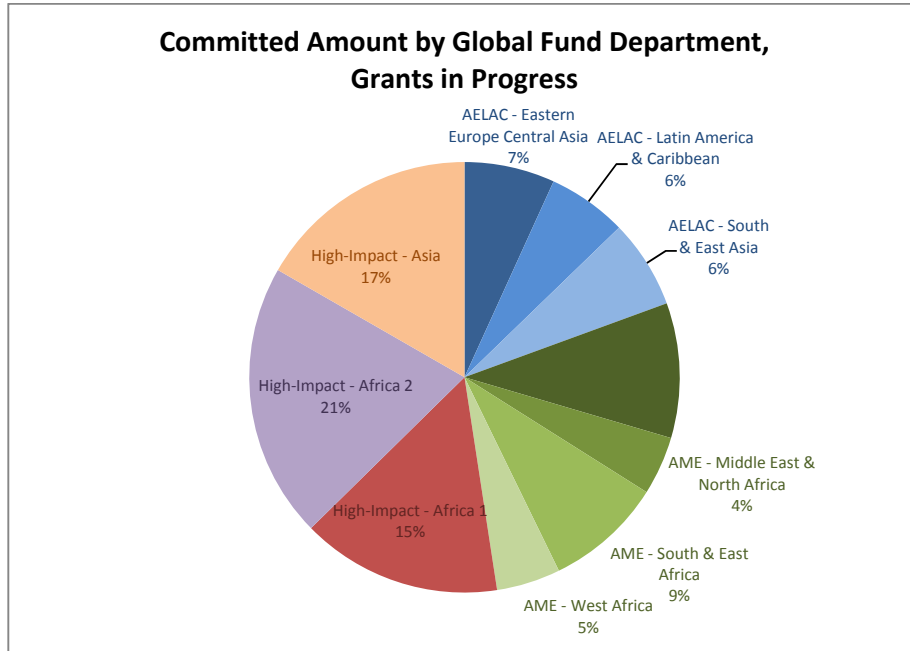
2.26 We have invested nearly 60 percent of our portfolio in sub-Saharan Africa.



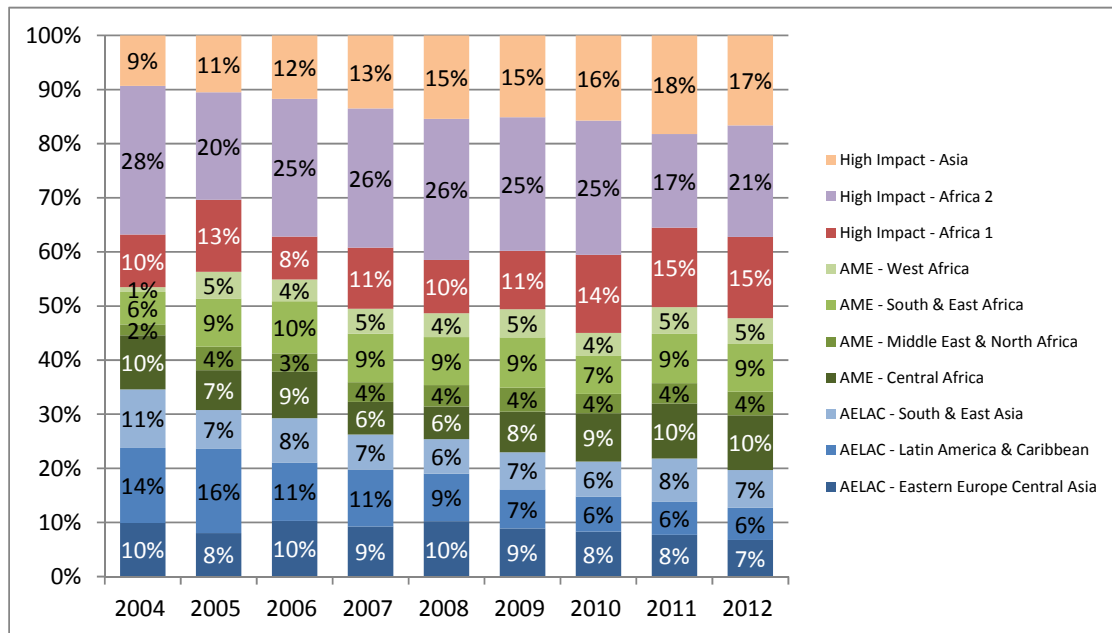
The historical trend lines show a decrease in investments in the Eastern Europe and Central Asia and Latin America and the Caribbean regions, but a higher investment in the Middle East and North Africa and South Asia.



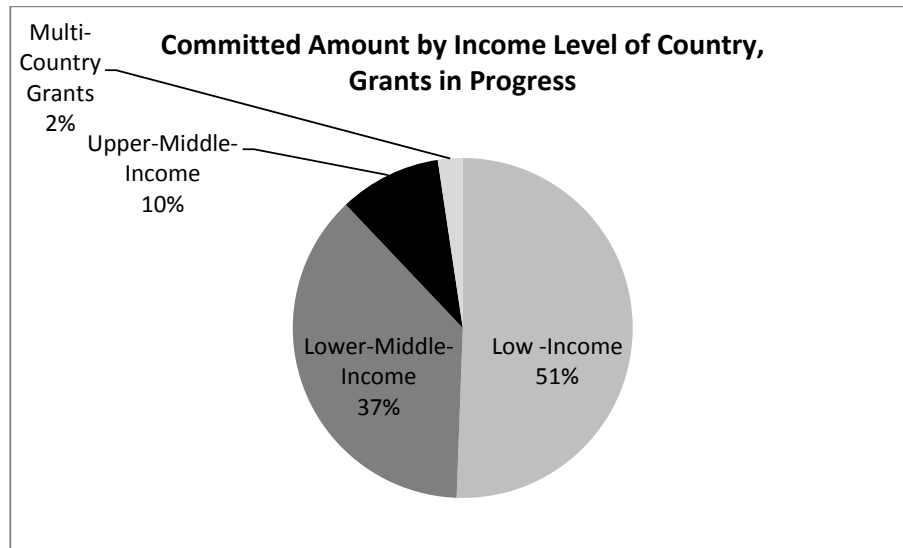
2.27 The new internal organization in the Secretariat reflects a balanced division of the portfolio across the five regional departments: High-Impact Africa 1; High-Impact Africa 2; High-Impact Asia; Asia, Eastern Europe, Central Asia and Latin America and the Caribbean (AELAC); and Africa and the Middle East (AME).



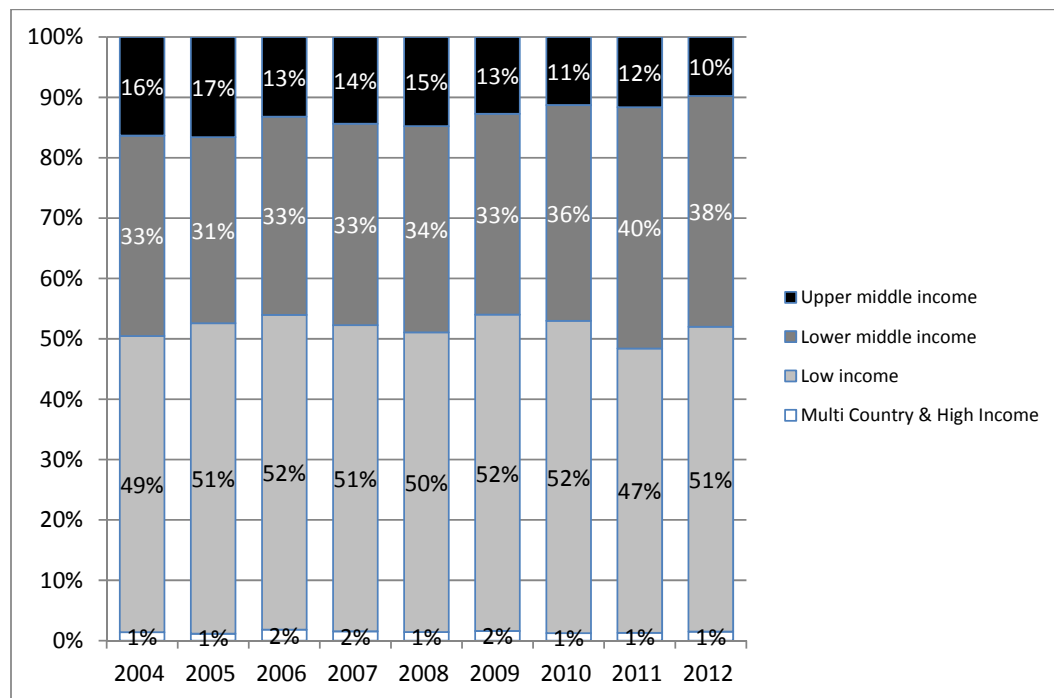
Based on recent trends, the current structure will lead to a balanced organization of our portfolio.



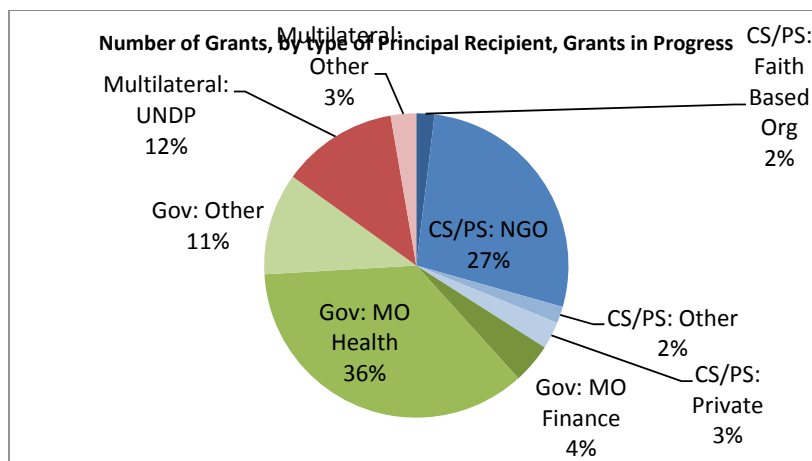
2.28 We have invested nearly 90 percent of our portfolio in low- and lower-middle-income countries.



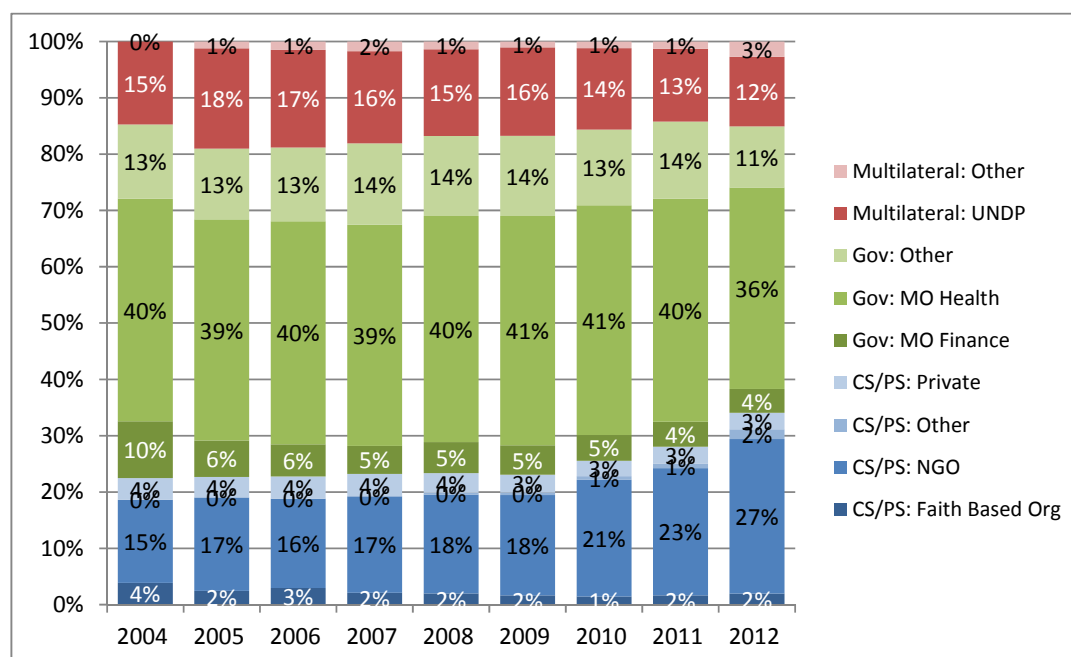
Based on **current** income levels, our portfolio has seen a clear decrease in funding for UMI countries over time.



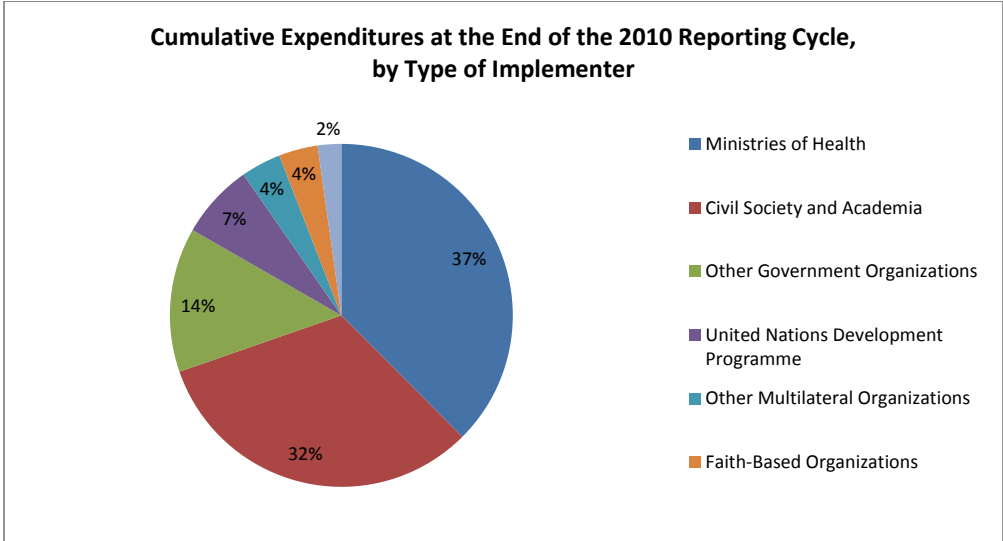
2.29 The proportion of non-governmental (NGO) implementers has continued to increase after the introduction of Dual-Track Financing in Round 8. An NGO or private-sector Principal Recipient (PR) is implementing one-third of our currently active grants. Multilateral organizations other than the United Nations Development Programme (UNDP) are also managing an increasing number of our grants.



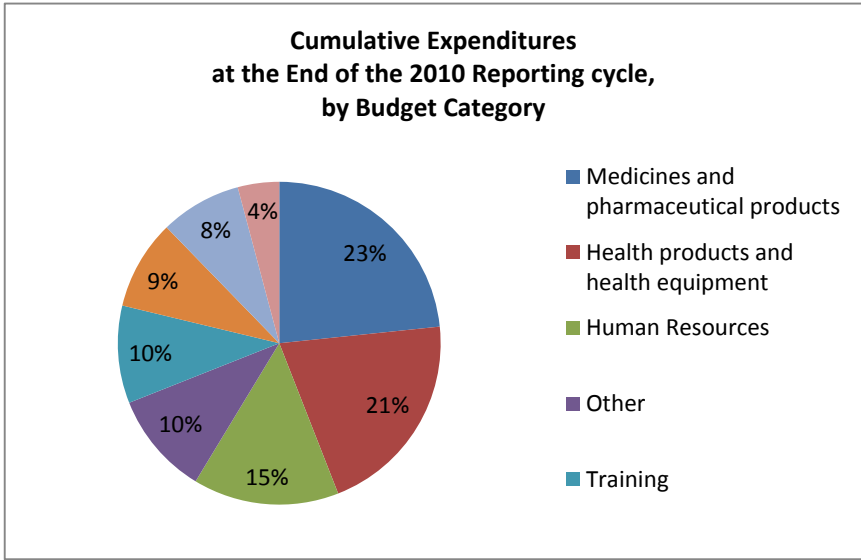
The historical trend in our portfolio has been a clear increase in the number of civil-society and private-sector PRs.



2.30 “Enhanced Financial Reporting,” introduced in 2008, has now captured US\$ 9.8 billion in expenditure in 748 grants, out of a total of US\$ 16.3 billion disbursed. The remaining non-captured expenditures correspond either to disbursements made before the introduction of EFR, or to recent disbursements not yet reported because of EFR’s yearly cycle. At the end of 2010, Ministries of Health and other Government entities accounted for just over half of our cumulative expenditure, while civil-society organizations, the private sector and faith-based groups accounted for 38 percent. PRs used slightly less than half of this amount (49 percent), and sub-recipients used just over half (51 percent).

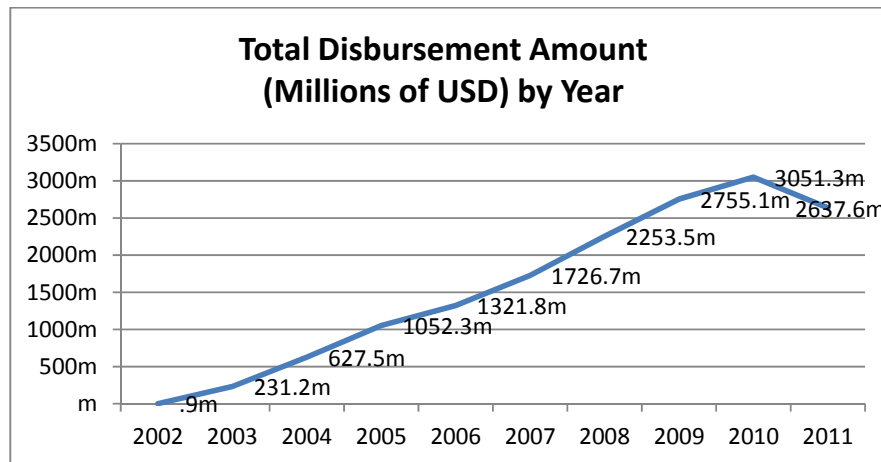


2.31 By the end of the 2010 reporting cycle, medicines accounted for almost one-quarter of our cumulative expenditure, other health products and equipment 21 percent and human resources 15 percent.



2.32 We disbursed US\$ 2.637 billion in calendar year 2011, compared to an ambition disbursements target of US\$ 3.112 billion. For the first time, the funds disbursed showed a decrease compared to the previous year, when we disbursed US\$3.051 billion. Our performance in the first quarter of 2012 continued this trend, as we disbursed US\$ 459 million, which is comparable to the first quarter of 2011 (US\$ 415 million), both significantly lower than the first quarter of 2010 during which we disbursed US\$ 544 million. We largely attribute the gap in achieving the target to grants in a small group of countries that have

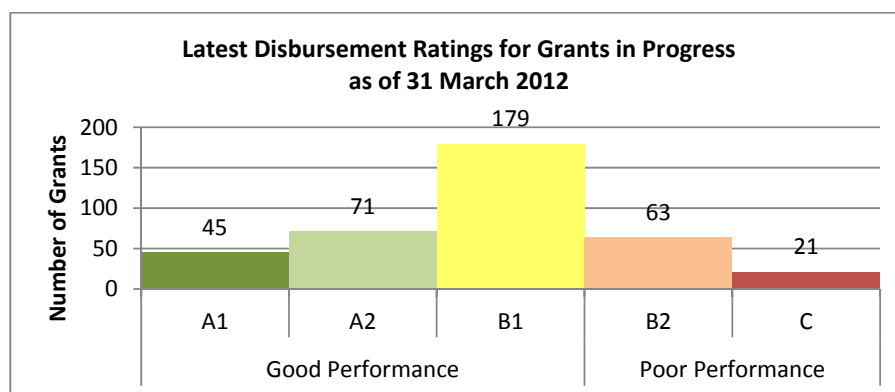
faced freezes in disbursements because of investigations, poor performance, or delays in the submission of key documentation. Other factors that have affected the total disbursement are a more risk-based approach to decision-making around disbursements, additional scrutiny on value-for-money, and delays in the signings of Phase-Two renewals and grants approved in Rounds 10. The median time for processing disbursements continues to be close to the target, at 25 calendar days (against a target of 21 days, compared to 23 days in 2010), despite delays caused by the transition to a new IT system for disbursements at mid-year. Our ambitious disbursement target for 2012 is US\$ 3.049 billion.



### Grant Performance<sup>3</sup>

2.33 The performance of our portfolio remains strong, as 77 percent of our active grants performed well in calendar year 2010, below the target of 85 percent, during a period of stricter application of Performance-Based Funding and risk-mitigation. Furthermore, 43 percent of our grants that performed poorly in 2010 earned a B1 rating or better in 2011, also below our target. Consistent with these findings, an analysis at the end of March 2012 showed that around 20 percent of our active portfolio had earned a rating of B2 or C at the last disbursement.

<sup>3</sup> Please note that the total number of active grants shown in this graph does not add up to the figure of 519 cited in paragraph 2.18 above, because not all active grants have a performance rating. To be able to provide a rating, we need to have some programmatic results. We traditionally start receiving results from implementers (through progress updates) once we start processing the second disbursement. Hence, any grant just signed or which has only received one disbursement (the initial one to start the program) would not have any grant rating yet, and, as such, does not appear in the graph.



### **Signings of Grants from Rounds 9 and 10**

2.34 Results for the end of calendar year 2011 showed we took an average time of 12.7 months to negotiate, sign and process the first disbursement for grants from Round 9, and 13.2 months for grants from Round 10, against our target of eight months (a Key Performance Indicator the Global Fund has never met). We are addressing these delays in negotiating grants specifically through the redesign of the “Access to Funding” process.

2.35 Of the 111 grants you have approved for Round 10, the Secretariat has signed 99, 60 of which are agreements for a single stream of funding. We have already made disbursements to 79 of these grants. Of the remaining 12 unsigned grants, we still intend to sign 10, and the Board has granted extensions to all of them. These extensions fall under three categories: on account of transition to the new grant architecture; issues outstanding from reviews undertaken by the OIG; and the exceptional need to establish appropriate safeguards and implementation arrangements. We will not sign two grants, as the Secretariat and the CCMs concerned have not completed our negotiations within the Board-approved timeframe, and the grant proposals have thus lapsed.

## **E. RISK-MANAGEMENT**

### **Management of Risk Across-the-Board**

2.36 As our first and most-significant step toward realizing the vision of risk-management laid out by the report of the High-Level, Independent Panel and our own *2012-2016 Strategy*, we hired Cees Klumper as the first Chief Risk Officer of the Global Fund. Most recently Director of Internal Audit at the GAVI Alliance, Cees is a highly-regarded financial expert who trained as an auditor, and he is broadly experienced at transforming financial controls and the handling of risk in challenging conditions. He is exactly the right person to design and implement the new systems in this area that are crucial for our success, and to embed risk-management throughout our culture.

2.37 A survey done recently among Board Members and senior management identified the following as the most-important risks that face the Global Fund:

1. Fraud;
2. Pharmaceuticals (timely delivery, supply-chain management, stock-outs);
3. Fragile IT systems and data;
4. Ability to attract sufficient funding;
5. Implementers’ dependency on financing from the Global Fund; and

## 6. Talent constraints in the organization.

We look forward to sharpening our dialog with you around our philosophy and appetite for risk. We hope you and your constituencies will continue to keep yourselves informed about the most-significant risks we face, and let us know whether you believe management is responding appropriately.

### **The Relationship with the Inspector General**

2.38 Since I came to the Global Fund in February of this year, both the Inspector General and I have worked hard to implement the recommendations of the High-Level, Independent Panel. We have built a cordial and productive relationship. I meet with the Inspector General weekly, and he has a standing invitation to attend the Management Executive Committee and all of our other internal management committees as a guest. We have dealt with tough and sensitive issues on an urgent basis in recent weeks. The interactions between staff at the Secretariat and the OIG have also improved. Our teams meet more often than before, and share more information to anticipate and solve problems. I am convinced we are building a firm foundation for greater cooperation in the spirit of “One Global Fund.”

### **Project on Grant Management and Risk-Management**

2.39 One of the main recommendations from the report of the High-Level, Independent Panel highlighted the need to improve risk-management within our operations, and the Board approved this approach through the CTP. The overall goals of our strategy to deal with operational risk are to embed risk-management activities more strongly into Grant Management and everyday decision-making processes at the Secretariat, and to strengthen oversight by our implementers and other in-country partners. The goal of the project on grant management and risk-management is to obtain more efficiency in the entire grant management process, while embedding an emphasis on risk throughout the life cycle of our grants. This project will simplify the system throughout by focusing on the important elements in managing grants, and assuring we consider risk-management at each step. We will reduce the previous lengthy check lists and paper processes. We will also shorten the time frames from the submission of proposals to the signing of grants, and improve quality. As part of this overall revision, we will enhance our grant management processes and operational risk-management as follows:

- Increased consistency and effectiveness of operational risk-management activities across the grant lifecycle, such as the identification and assessment of risk, the prevention and mitigation of risk, reporting and monitoring, and response and corrective action;
- Better prioritization and focus on the most material risks, to produce a more-proactive and strategic approach to grant management;
- Stronger differentiation of processes and requirements for the Secretariat, Local Fund Agents (LFAs), PRs, CCMs, and other actors, based on risk levels identified;
- Greater openness, transparency and accountability in decision-making;
- Fewer crises, emergencies and surprises, through being better informed, and by more proactively addressing risks before they materialize; and
- Better measurement and focus on the impact of the programs we finance, and more-efficient use of our funds.

These improvements are a core part of our commitment to impeccable grant management, and we have been fully integrating them with other planned aspects of the re-organization and implementation of the CTP. For instance, by combining these improvements with the development of minimum standards and controls for implementers, the result will be an



enhanced oversight model for the Global Fund, with increased assurance, better tailored to each country context.

2.40 Furthermore, we have formed an Operational-Risk Committee within the Secretariat, to provide further review and validation of decisions for large or high-risk grants, share best practices among regional teams, and escalate critical risk-taking issues to upper management. This new Committee has improved the scrutiny of our portfolio, and allowed us to apply changes across Divisions with more consistency.

2.41 The Operational-Risk Team within the Grant Management Division has worked with a range of internal and external stakeholders to develop several new tools and processes. These innovations build on a variety of activities and experience gained in 2011 through consultations and capacity-building workshops at the Secretariat, during country missions and regional meetings, and through the benchmarking of practices used by other organizations and partners. We have been piloting them since January 2012, with a plan to integrate them with Grant Management activities for all countries in the three High-Impact Departments by the end of the calendar year.

### **Pilot of the Operational Risk-Management Framework**

2.42 As part of the process described above, we developed an Operational Risk-Management Framework throughout 2011, based on extensive benchmarking and inputs, including an external consultation with PRs, LFAs, partners and technical experts in December of last year.

2.43 Roll-out of the Framework began in January 2012 in five countries selected to represent a range of regions, country contexts and risk levels: El Salvador, Jordan, Nigeria, Pakistan and Uganda. The objective was to improve the different aspects of the approach developed to date, including new risk-assessment and -management tools for Global Fund country teams, and for our in-country partners. We also have instituted structured decision-making processes at the Secretariat that should improve grant-signing, disbursement and decision-making around disbursements and renewals. As part of this roll-out, teams from the Global Fund Secretariat received instruction, tools and support, which we will supplement with general operational-risk-management training beginning in May.

2.44 As of May 2012, all five country teams involved have applied the new risk-assessment and -management tool for the Secretariat to one or more grants in their portfolios, backed up by supporting discussion with in-country partners to gather relevant information and to agree upon required actions and timelines for implementation. Our Operational-Risk Team has reviewed the risk-assessment and action plans for each country for quality assurance, and management at the Secretariat has validated them. The Operational-Risk Committee will review all grants involved in the pilots, and has done so for four already. We are fully integrating this work into the project on grant management and risk-management.

## **PART 3: SECURING THE RESOURCES**

### **A. Forecast of Uncommitted Assets**

3.1 At your request, working closely with the Finance and Operational Performance Committee (FOPC), we have undertaken a major project to furnish the Board a “Forecast of Uncommitted Assets.” We developed the format and methodology for the Forecast jointly with the FOPC, but as with any such projection, it includes many variables; nevertheless, within that limitation, the Forecast sets out the best information available. The Forecast also provides a means for periodic updates, so both the Board and the Secretariat can monitor

variations as they arise, rather than months later. Because the forecast covers a three-year period, it allows us to look at a long-view of uncommitted assets, which will help smooth the ups-and-downs across time.

3.2 As Chief Financial Officer (CFO) Charlie Johnson has explained in more detail in his report, the current Forecast reflects an encouraging trend: we expect to have uncommitted assets of US\$1,055 million at the end of 2014. All of the gain in uncommitted assets comes by the end of 2012 (US\$1,184 million), with a dip in the balance in 2013 (to US\$827 million) and a rebound in 2014 to US\$1,055 million. You should note this is a cumulative total after three years, which does not reflect an increase in uncommitted assets each year. In other words, every dollar committed to new grants or other funding opportunities between now and the end of 2014 will correspondingly reduce the figure of \$1,055 million by one dollar. The Board's decision-making process should be more informed by knowing that a downturn is likely in the second year, but also by knowing that by the end of the third year a rebound indicates some stability.

3.3 With respect to the current Forecast, the three-year, cumulative figure of uncommitted assets in the amount of US\$1055 million reflects many assumptions in the timing of contributions, and accounts for disbursements in 2012, 2013 and 2014 to grants you have already approved. The number also assumes the Board will commit the maximum possible amount to the TFM over the three-year period (\$616 million), although not yet approved. Finally, to arrive at the calculation of uncommitted assets, we have made a provision for volatility by setting aside a contingency of \$500 million, which gives some leeway for shortfalls in expected funding from donors, provides an allowance for potential exchange-rate losses, and offers flexibility to cover additional, unanticipated expenditures.

3.4 In part, the Forecast is the result of a systematic outreach to donors. In my first weeks in office, I visited Berlin, Madrid, Paris, Brussels, London and Washington to meet with senior Government officials and non-governmental groups. We then asked all of our donors for written confirmation of the anticipated payment schedules for 2012 and 2013. The responses have improved the predictability of our resource flows, which is now reflected in the Forecast.

3.5 During the remainder of calendar year 2012, more information will become available to refine the forecast now presented, which we intend to do on rolling basis each month. In this context, as I noted above, we believe you could safely approve the financial envelope for the TFM. With guidance from you, we will begin exploring options for allocating additional available funds.

3.6 The new forecasting method, with its periodic updates, should provide an early-warning system of downward trends in the Global Fund's revenues, as well as timely recognition of an improving financial situation. We have also added considerable discipline to the process of gathering and verifying the information we present to you.

3.7 We recognize that other financial data in addition to the forecast must be just as reliable, and we are evaluating our fiduciary responsibilities and risks in that light. We also acknowledge that we must take an even longer-term view of our revenue picture to achieve some certainty that the Fund can have a sustainable life span. Furthermore, a number of challenges that face us in the near future:

- Working with Government officials and other funding partners in a coordinated way to establish the proper responsibilities for each, including co-financing;
- Leveraging the value of those things we do best with the tools of others to add total value to our combined mission;

- Determining our ethical liability (our moral obligation to people who depend on our resources, which will still exist long after we meet all our current financial commitments); and
- Finding efficiencies in investing and leveraging our assets.

## **B. Our Annual Audit**

3.8 We are pleased to report that our financial audit, performed by Ernst & Young and submitted to you separately, provides an unqualified opinion on our financial statements. We recognize that the Management Letter that accompanies the audit does raise some issues, and we will appropriately respond to, and take corrective action on, the recommendations made by our auditors.

## **C. Budgets and Budget-to-Actual Comparisons**

3.9 To take account of the significant restructuring that has taken place, we intend to recast our budget for the second half of calendar year 2012 to match the current re-organization. When we have done so, we will present updated figures for actual-costs-to-budget to the FOPC. We will also re-evaluate our budgeting methodology. This will include setting appropriate budgets and assuring accountability for those responsible to meet those budget targets. We will properly report budgets and budget modifications to the FOP on a timely basis.

## **D. Recruitment of a Permanent CFO**

3.10 We have been actively seeking to fill the position of CFO on a permanent basis. Having this function filled by a seasoned CFO will be instrumental in achieving the many needs in the financial and data quality for the Global Fund. We expect to have this position filled in the next few weeks.

## **PART 4: PRIORITIES FOR THE REST OF 2012**

As we move into the second half of the calendar year, my team and I will be focusing our energies on supporting the roll-out of the *2012-2016 Strategy*, with the following set of priorities for our transformation:

### **Implementing the *2012-2016 Strategy***

Following the re-organization of the Secretariat, we are now well situated to press ahead with important initiatives under the *2012-2016 Strategy*. In particular, the *Strategy* calls for more strategic investment designed to deliver greater impact. We will evolve the funding model to ensure resources we are better allocating our resources, and to create proper dialogue and interactions with implementers and partners. We will report our progress at the next Board meeting.

### **Re-Engaging in Implementing Countries**

Throughout the year, we at the Secretariat will be working to interact more effectively with our implementers in the field, and to facilitate our operations and interactions with our partners while improving risk-management. Our goal is to service our implementers with a greater balance between checking and enabling, tailored by country. By concentrating on the most-important elements of overseeing grants but assuring we appropriately apply risk-management at every stage, we can reduce the paperwork traditionally associated with the

Global Fund. We will strive to shrink the time from the submission of proposals to the signing of grants, all the while improving their quality. We will work closely with our implementers to accomplish these goals.

### **Launching a New Communications Initiative**

We will develop and implement an initiative to better communicate with implementers and other partners on the ground in the countries where we work. The very people we serve do not always understand many of our activities, priorities and ideas. We will be taking steps to communicate more clearly, more consistently and more fully with those we fund and assist, in coordination with our Grant Management Division.

### **Overhauling the Processes to Review and Formalize Our Grants**

In reviewing applications for funding, we will be moving to standardize quality while reducing significantly the time from Board approval to signing, and from signature to disbursement, without complicating further the pre-approval design stage. As part of this effort, our goal is to improve the quality of our grants as we proceed through the pending Phase-Two renewals and implement the TFM. We will be working with our partners and implementers to put in place specific, effective, long-term plans against the three diseases in the 20 nations covered by the High-Impact Departments in our Grant Management Division. In addition, we seek to overhaul our procurement systems, to eliminate time lags and bottlenecks, and to obtain better value for our investments in purchasing drugs, bed nets and health commodities.

Furthermore, an immediate focus will be to improve the quality of our Phase-Two renewals due this year, since over next 18 months they represent an investment of more than US\$ 7 billion. We need to change the way we analyze and structure this funding, so as to allow for constant adjustment over time to changing circumstances in the field.

### **Re-Designing Our Internal Data Systems**

We will be re-making our information-technology (IT) platforms to assure the integrity and unbiased analysis of grant-related and financial data, so as to support decision-making and produce actionable analyses to minimize risk and improve our operations constantly, in real time. As part of this process, we will produce IT strategic plan and outsource a number of IT services to reduce costs.

### **Improving the Quality of Our Management**

To follow on from the re-organization of the Secretariat, we need to continue to strengthen our senior management. We must improve the accountability of managers for effectively leading their teams, by streamlining and simplifying our procedures to inspire a meritocratic culture. We need to hire strategically. Finally, to change the internal culture, we will be introducing and training our people in so-called “soft skills” at all levels of the organization.

### **Attracting More and More-Variied Resources**

In the next few months, I hope to set the Global Fund on a sounder financial footing. We will be seeking to find a “re-commitment platform” at which our traditional donors can reaffirm their dedication to fighting the three pandemics, perhaps around the United Nations General Assembly in New York. We will also work with emerging G-20 economies to forego funding from existing grants and/or adjust their future financing through increased co-investment,

identify new and innovative streams of capital, and lay the basis for demand-based fundraising in the future.

Throughout the rest of the year, I will be looking to you for your help and guidance. I hope to spend time with many of you outside Geneva, on visits to the field, and I look forward to our collaboration as we make our shared vision for the Global Fund a reality.

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