

GF/B29/03

For Board Information

REPORT OF THE EXECUTIVE DIRECTOR

PURPOSE:

This report of the Executive Director is being provided to the Board for information.

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 Dear Board members,

It is a privilege to be writing to you in my first report as Executive Director of the Global Fund. It's only been a few months since I officially joined the Fund, and yet with so much happening this year, I'm grateful for the chance to step back and reflect with you.

1.2 You are receiving a separate report on the activities and outcomes from the General Manager's tenure, and we are also flooding you with a lot of other formal reporting this year. So it seems appropriate to pause for a moment from the figures and results, and to share perspectives on where we are today, what the opportunities and challenges are, and some thoughts on what we can do together to capitalize on the opportunities and address the challenges. And to do this through the lens of the objectives in the "Investing for Impact" Strategic Framework you adopted: invest more strategically; evolve the funding model; actively support grant implementation success; promote and protect human rights; and sustain the gains, mobilize resources.

1.3 On behalf of the Secretariat, I'd like to express our sincere thanks to the Government of Sri Lanka for their hospitality in hosting this Board Meeting and extend my congratulations on the progress they have made in their disease programs, in particular on malaria. Through intense and sustained targeting of those most difficult to reach, Sri Lanka has managed to achieve zero malaria deaths since 2008 and has the potential to eliminate malaria in the coming years. We look forward to continuing to support Sri Lanka's efforts in controlling the three diseases.

1.4 I'd also like to express profound thanks to Simon and Mphu for their tireless and exceptional leadership of the Board during their sometimes difficult but remarkably consequential and successful tenure. The Global Fund, and more broadly global health and development, owe them a great debt of gratitude. It's been a personal pleasure to learn from their leadership. Thanks also to the entire Board and the Committees. It has been a privilege to serve under you and to participate in your deliberations. The recent Committee meetings reflect a building of trust and collegial interaction to create an ever better Global Fund. It remains a remarkable and wonderful thing to see your deep commitment to the institution and to reflect on the almost unprecedented level of change that you instigated and led. We are encouraging our team to view the Board more as a legislative body, responsible for high-level oversight and strategic direction to achieve our collective objectives, while trusting the Secretariat with executive functions. That is how the Board was created and structured, and if we understand our roles in that way, we will go from strength to strength and thrive. We will work to strengthen that relationship with you.

1.5 And I'd like to welcome our remarkably talented and capable new Chair and Vice-Chair, Ibu Nafsiah and Mireille. I am privileged to be able to call my bosses **Madam** Chair and **Madam** Vice-Chair.

1.6 I'd also like to thank Gabriel for his exceptional service as General Manager, for his work with all of you and the Secretariat to begin the implementation of the change that the Board requested. His report provides important insights into progress and reflections on areas for continued growth.

1.7 Finally, I would like to thank Team Secretariat. It is a humbling privilege to serve with such a deeply talented, passionate, innovative and energetic group. Through the ups and downs

of the past few years, they have remained stubbornly committed to our mission and delivered remarkable results.

1.8 The Global Fund has evolved through collective learning, by a constant re-evaluation of what's needed, and as a response to the changing landscape – a landscape that, as Mireille has noted, has changed in part *because* of the Global Fund. Therefore, it is right that we acknowledge and thank all on whose shoulders we stand. The evolution of the past years would not be possible without their commitment, compassion and service. It is also right to acknowledge that the evolution has been built on a firm foundation. Many in this room helped to create the Global Fund as a 21st century partnership organization dedicated to a new approach to development, beginning with country ownership and supported by a results-based approach, good governance and the active engagement of all sectors including civil society, communities affected by the diseases and the private sector. And it was created as a learning organization.

1.9 The journey of a learning organization isn't always easy. Mistakes are made – in fact they are expected – and we haven't always followed a straight path. But the learning and evolution we have undergone together has put the Global Fund in a strong position to play its role in seizing the moment before us.

PART 2: THE HISTORIC MOMENT

2.1 Through the various accidents that are life's journey, each of us has been given the gift of being engaged in global health at an historic moment when the confluence of scientific advancement, epidemiological intelligence and experience from more than a decade of implementation come together to offer the opportunity to end three plagues as public health threats while expanding the human family, strengthening health systems and promoting partnerships. What a gift indeed!

Opportunity 1: To end HIV/AIDS, tuberculosis and malaria as public health threats

2.2 As was presented by technical partners at the Replenishment Preparatory Meeting hosted by the European Commission in Brussels¹ and will be discussed during the Board meeting, today, a number of major factors are coming into alignment to create an historic opportunity to completely control HIV/AIDS, tuberculosis and malaria and, therefore, to end them as public health threats.

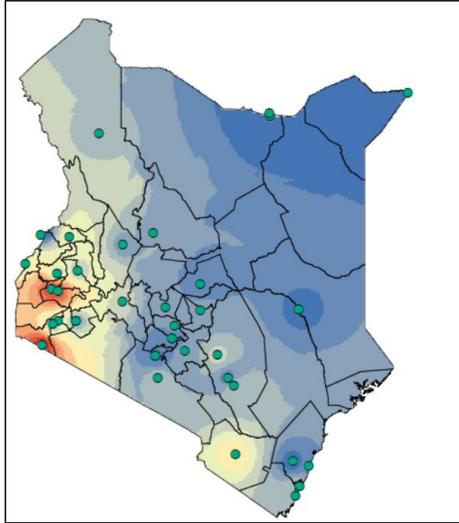
2.3 Innovations in science and technology have given us the **tools** to more effectively prevent, diagnose and treat the three diseases.

2.4 New advances in **epidemiological intelligence** give us a richer, more strategic understanding of the epidemics. Using geographic and epidemiological data, countries can identify the epidemic's "hot zones," where a small part of the population accounts for a disproportionately high number of new infections, as can be seen in the epidemiological mapping of HIV and malaria in Kenya, and TB in Moldova, below.

¹ Presentations available at www.theglobalfund.org/en/donors/replenishment/fourth/premeeting/

Geographic and epidemiological data can now be triangulated to identify foci of HIV transmission

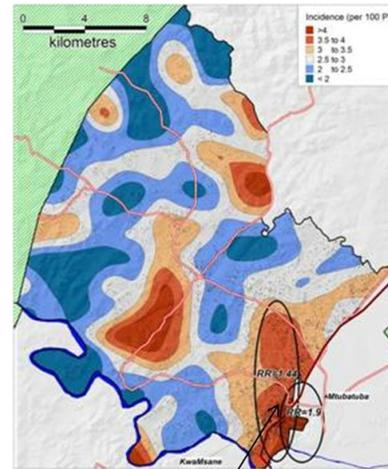
Average Risk of HIV infection for “low risk women” in Kenya estimated to vary 10-fold between counties.



Source: Sarah-Jane Anderson, Ide Cremin, Timothy Hallett, Imperial College

With finer scale data even greater impact may be possible.

Variation WITHIN a Small District

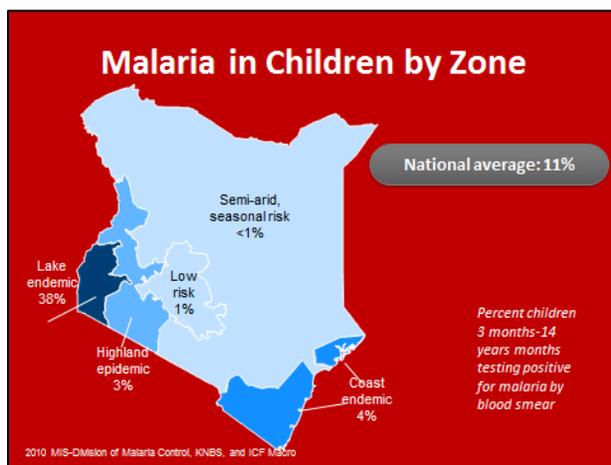


Distribution of New HIV Infections

5.7% of study area account for 1 in 3 new HIV infections

Source: Tanser et al., CROI 2011
<http://www.retroconference.org/2011/Abstracts/41395.htm>

Figure 1: HIV epidemiological intelligence in Kenya



Malaria epidemiological zones

Five malaria eco-epidemiological zones:

- **Lake Endemic Zone:** endemic districts of Nyanza and Western Provinces
- **Coast Endemic Zone:** endemic districts of Coast Province
- **Highland Epidemic-prone Zone:** the highland districts of Rift Valley, Nyanza and Western Provinces
- **Seasonal arid/semi-arid Zone:** all of northern Kenya and the southern lowlands
- **The low risk zone:** Central Kenya including Nairobi

Figure 2: Malaria epidemiological intelligence in Kenya

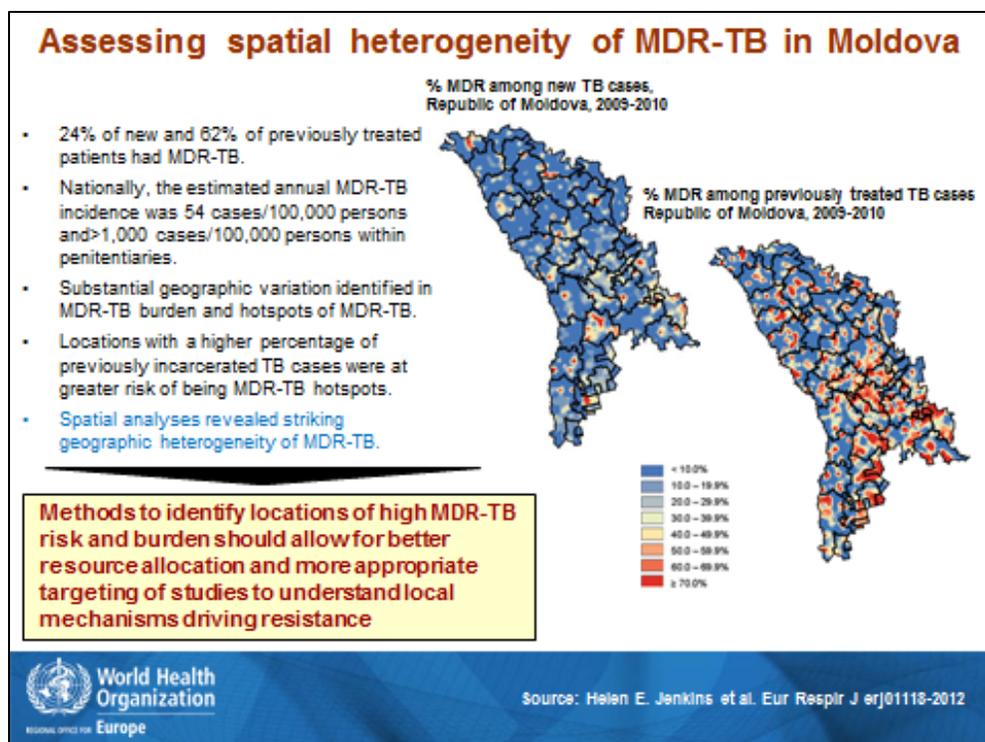


Figure 3: TB epidemiological intelligence in Moldova

2.5 Using 1) epidemiological intelligence about the geographic concentration of new infections and the persons at greatest risk of new infection, and 2) the package of interventions most likely to have the greatest impact, countries will have the tools to move towards controlling new infections and, ultimately, ending HIV, TB and malaria as public health threats. This approach also means robust and increased engagement of communities to welcome those most at risk into programs to diagnose infection, keep those uninfected free from becoming infected and ensuring access and continued participation in effective prevention, care and treatment programs. This approach is consistent with the UNAIDS Investment Framework and the program support provided by WHO, and the Stop TB and Rollback Malaria Partnerships.

2.6 This epidemiological intelligence is invaluable, and it creates exciting opportunities, but not all countries have the systems to collect and maintain the data. The Global Fund has therefore begun working with technical partners to support countries to gather the data, including by using funds from existing grants, so that country dialogues, concept notes and impact evaluations are informed by high quality epidemiological intelligence and investment frameworks.

2.7 The Global Fund will work with partners to support countries to achieve their goals by being strategic and pragmatic about what services are required for which populations, and the nature of the **health systems** that will deliver those services. Clearly, government-based planning, health information systems and public health clinics are critical components for delivering health services to people. But the health system does not stop there. The health system extends deep into communities, to educate, provide services and prevent new infections. Because vulnerable populations are often the hardest to reach, we need to leverage and strengthen the systems that are best positioned to effectively deliver services to them. In many cases that means partnering closely with and strengthening **civil society**, including

community- and faith-based organizations, which often have a comparative advantage in reaching and providing services to the persons that are most at risk from the diseases.

2.8 When the Global Fund was created, responding to HIV, TB and malaria was an emergency, and significant impact could be achieved with many large-scale interventions. Refined epidemiological data were not an absolute necessity. Today, a number of country-led programs – with support from partners including the Global Fund – have pushed high levels of HIV, TB and malaria into pockets of micro-epidemics. That requires us to shift our vision to ending the pandemics as public health threats and to support each country to develop the specific strategies that will achieve that historical objective. This is an extraordinary opportunity, but it's also a challenge to us all to refine our mindset and rethink how we support countries. And to redefine our aspirations, to see the coverage and other targets that we previously set – before we could even conceive of complete control of the diseases – as a means to a higher goal. But history tells us we can rise to the challenge if we work together. We welcome thoughts on how we can be a better partner to support countries to make history – again.

2.9 But windows of such magnitude rarely stay open for long. We already have evidence for rising rates of HIV in Uganda, despite high coverage rates. Brief interruptions in malaria programs have led to rapid and dramatic resurgence after significant control. And TB, particularly multi-drug resistant TB, is on the rise in too many places. While the recent scientific advances offer great hope today as the three diseases are in retreat in many places, those gains are fragile and can easily be lost, as we have seen. To build upon the gains and completely control the diseases requires greater and sustained efforts of a more strategic nature. The time to act is now.

Opportunity 2: Promote human rights and equity through health

2.10 Too often, **human rights, gender** and **marginalized populations** are treated as special themes, for which we take time off from our daily work to acknowledge their importance and develop discrete initiatives that “check the box.” But because of the success of the past decade, the more we learn about the micro-epidemics, the more we realize that 1) vulnerable and marginalized groups are at the epicenter of micro-epidemics/hot zones often because they are beyond the reach of the health system, and therefore 2) reaching these populations effectively can only be achieved through removing barriers to knowledge and access, which requires combating stigma and discrimination, and promoting human rights.

2.11 To reach the goal of ending HIV, TB and malaria as public health threats requires that we reach vulnerable populations – including women and girls, sex workers, people who inject intravenous drugs, men who have sex with men, transgender people, people in prisons and migrants – in a meaningful way; not as a set of peripheral activities, but as a central component of disease strategies. The Global Fund can do much better in this area than we have to date, and the Board has rightly identified it as a priority for us moving forward. The challenge will be to apply the human rights lens to all the work we do, particularly as we implement changes to our business model, including in our risk management framework and the new funding model, from country dialogues and review of concept notes, to grant negotiations, monitoring and evaluation.

2.12 We need to promote human rights and equity through our work because we will not be able to achieve our health objectives if we do not, but also because it is the right thing to do.

Opportunity 3: Strengthen health systems

2.13 The Global Fund has a mandate that is focused on fighting three diseases, but also a specific Board mandate to partner with others to strengthen health systems. Although the Global Fund has invested heavily to strengthen aspects of health systems including human resources, supply chain, logistics and monitoring and evaluation, collectively we must do a better job of partnering to ensure our investments contribute to a much broader impact that aligns better to national health strategies.

2.14 The rounds-based system limited the ability of the Global Fund to be the best possible partner in health systems strengthening. The individual calls for proposals were based on the Global Fund's clock, not the country's. And having multiple grants for each individual disease, or even health systems strengthening grants, did not provide adequate visibility into the total investments being made and how those could contribute to, or be a platform for, supporting national health strategies. This in turn left us all in a sub-optimal position, with fragmented views on how we can collectively contribute to the overall health of persons and the health system that is needed to best deliver on that higher objective. The decisions of the Board to encourage consolidation of all Global Fund grants into one pot, and to allow countries to access additional resources on their own timelines through the new funding model, should significantly improve the ability of the Global Fund to be a better partner in health systems strengthening.

2.15 As part of the new funding model, country teams will proactively engage with partners to ensure our investments strengthen overall health. **Maternal, newborn and child health** (MNCH) offer a win-win entry point given significant support for antenatal, maternal, neonatal and child health through prevention of mother-to-child transmission and malaria programs. We are working with stakeholders including the World Bank Results Based Financing (RBF), UNICEF, the Partnership for Maternal and Newborn Child Health, DFID, AUSAID, the Bill and Melinda Gates Foundation and others to: 1) explore how Global Fund investments can expand the reach of RBF; or 2) contribute where RBF is not likely to be active in the short-term, through country dialogues to see how investments fit into MNCH plans; and 3) conduct a marginal cost analysis on the use of Global Fund investments as a platform for MNCH, so that partners in-country can identify co-investments to promote a broader health agenda.

2.16 We are also partnering with GAVI, UNITAID, the Clinton Global Health Access Initiative, PEPFAR and others on supply chain – a key bottleneck to achieving the objective of converting HIV, TB and malaria from pandemics to low-level endemic status.

2.17 We will report back to you through Board Committees, electronic updates and bi-annual Board meetings on progress on these and other initiatives. We welcome your strategic thinking and partnership opportunities to ensure that the Global Fund can create a kind of virtuous circle of leveraged impact, in which the work of one partner creates opportunities for others; and where the aggregate effect is not just a broader set of health outcomes, but also a well-integrated, sustainable health system to deliver them.

Opportunity 4: Fulfill the promise of partnership

2.18 The Global Fund was created as a 21st Century partnership organization, and ultimately we will succeed or fail based on the extent to which we fulfill the promise of partnership. In other words, the extent to which we implement the visionary founding documents of the Global Fund.

2.19 The structure of our Board is an inspiring guide to how we should operate in Geneva, and more importantly, in-country: as a financing mechanism that partners with the UN family and bilateral organizations as our technical life blood, with civil society, communities and the private sector. This entire partnership support structure is there to serve implementing countries, to promote the health and well-being of their people. I use the word country intentionally in line with the principles of the Monterrey Consensus, the Paris Declaration, the Accra Accord, and the Busan Partnership. While governments must set the strategic direction and ensure the health of their people, they cannot succeed unless all partners are in the game, in some cases prodding governments in directions they find difficult to go on their own (a role partners also play in the governance of the Global Fund).

2.20 The ***new funding model*** with its country dialogue is a remarkable step in the evolution of the Global Fund as a partnership organization. We are immensely grateful for the deep engagement and direction provided by WHO, UNAIDS, UNICEF, Stop TB Partnership, Rollback Malaria, UNITAID, GAVI, civil society and communities, the bilateral programs, the countries themselves and many others. This partnership has been strong on Disease Committees, country dialogues, the Grant Approvals Committee, work to estimate the replenishment goal and opportunity and commodity procurement. And it cannot be repeated often enough: we feel a profound humility and privilege at being welcomed in-country by governments and all sectors in your efforts to serve your people.

2.21 The Country Coordinating Mechanism (CCM) remains the vehicle through which most concept notes will be submitted, and in certain contexts they are the most appropriate forum for the country dialogue. However, in order to ensure maximum partner engagement and alignment with national strategies, we welcome other entry points, including government-led processes, IHP+ or whatever mechanism best ensures that all partners come together to promote a country-owned approach to control HIV, TB and malaria while creating sustainable health systems.

2.22 The early feedback from country dialogues so far is encouraging. At the recent World Health Assembly, the Honorable Minister of Health of Zimbabwe described his country's experience as an early applicant as "ecstasy" and the new relationship with the Secretariat as "the sheep lying peacefully with the lions." Those sentiments were echoed by the Honorable Ministers of Health from early applicants El Salvador and Myanmar. This is a tribute to the partners and to the hard work and commitment of country teams and the entire Secretariat who – through and beyond their day-to-day jobs – are supporting the new funding model. Thanks to the immense efforts of these partnerships, we are excited and pleased to be submitting for Board approval five disbursement-ready grants for El Salvador, Myanmar and Zimbabwe, totaling US\$ 654 million, only five months after we initiated country dialogues.

2.23 But we know we can, and we must, do better. We will be conducting a formal review of the early applicant process and will work with the Strategy, Investment and Impact Committee (SIIC) and the Board to continually improve our role as a partnership organization. We also welcome regular feedback as the process unfolds.

2.24 Our experiences with early applicants have also revealed the growing pains of change, the challenges of a partnership organization and issues for consideration and strategic direction by the Board over time. Certain challenges are related to the fact that the early applicants represent a transition from the rounds system based on Global Fund timelines and disease allocations rather than the full roll-out of the new funding model. The incentive and indicative pools fell somewhat short of their laudable goals and instead posed challenges for the countries

and the Technical Review Panel (TRP) and Grant Approvals Committee (GAC) review processes. In some cases, partners used the country dialogue to promote disease-specific agendas and individual financing rather than contributing to the bigger picture of the National Health Strategy and the role of the Global Fund vis-à-vis other partners. There is also further room for us to improve the engagement of civil society, affected communities, local- and faith-based organizations and the private sector. All of these issues can be overcome by working together with a deep sense of a shared mission, responsibility and accountability.

2.25 In that regard, the new funding- and partnership models recognize and require an ever-increasing commitment by countries to finance their health systems and programs. We are grateful for the increased commitment by many countries, but there is room for growth. **Increasing domestic commitments** will directly promote health in each country that does so. But it will also enhance our prospects for a more successful replenishment by demonstrating shared commitment and responsibility. We are grateful that His Excellency President Jonathan of Nigeria has agreed to serve as co-Chair of the replenishment with a renewed commitment to domestic contributions, building on the Abuja +12 Summit that he will host, which represents a unique opportunity for African heads of state to promote the health of their people.

2.26 We are seeing encouraging progress on this front. At the recent meeting of AIDS Watch Africa (Addis Ababa, 26 May 2013), African heads of state called for the need to “look inwards for innovative mechanisms and solutions in health financing,” and pushed to incorporate HIV, TB and malaria indicators into African peer review mechanisms in order to improve accountability on health. We welcome these important signals of increased ownership and accountability by implementing countries.

2.27 In this replenishment year, there is a natural spotlight on the Global Fund’s donors. And yet, one of the most impactful and gratifying recent developments with our donors has been the degree to which we’re benefiting from a collaborative relationship with them as fellow funders of national programs. Perhaps more than ever, Global Fund country teams are working in concert with their bilateral counterparts in countries, sharing information, identifying programmatic overlaps and gaps, and actively collaborating to support countries in a more harmonized way. We’re also making important progress at the global level, as we engage more closely to manage strategic priorities and complementarities across our respective portfolios of investments.

PART 3: THE GLOBAL FUND’S UNIQUE ROLE IN CONTRIBUTING TO SEIZING THE HISTORIC MOMENT

3.1 The Global Fund is one actor of many, and we’re not in the lead role. We therefore need to shift the focus and rhetoric from “the Global Fund’s results” and “lives saved” to one that recognizes and seeks to maximize the results of our global partnership, of which the Global Fund is a committed participant. The Global Fund does have deep strengths, but our contributions will be largely dependent on how successfully we employ them to complement the skills and competencies of others to achieve our collective goals.

3.2 As mentioned, the Global Fund’s current evolution is based on a changing landscape that the Global Fund helped to create. We have already discussed in earlier sections some of the key elements of that evolution related to the new funding model and fulfilling the promise of partnership. But the well is deep. It is not possible to cover all aspects of the exciting developments at the Global Fund, and again we appreciate Gabriel’s report. But it seems useful

to highlight a few key elements that are increasing the Global Fund's capacity to be an ever better partner organization:

- i. Greater focus on impact
- ii. Evolving our business model
- iii. Greater value for money
- iv. Cultivating our greatest asset: our people

Greater focus on impact

3.3 The central objective of the Global Fund's strategy is to maximize the **impact** of our investments. This begins with re-orienting our internal monitoring and evaluation tools and pushing ourselves to look beyond the process indicators in Global Fund grants and increasingly focus on impact, outcomes and coverage for key interventions. As part of the implementation of our 2013 evaluation plan, we're more systematically supporting and participating in national program reviews and working with partners to evaluate – through gap analyses and data analysis along the results chain – the impact being achieved through Global Fund-supported programs.

3.4 For all countries going through the renewals process or accessing new funding in the transition phase of the new funding model, we are working with partners to develop **impact profiles**, which bring together strategic information on a country's disease burden, coverage, progress on impact/outcome measures, Global Fund grant performance, resource gaps and health- and disease financing and spending. These profiles – which we update as new information becomes available (e.g., through recent demographic and health surveys or program evaluations) – provide us with a standardized starting point for the discussions that take place between country stakeholders, technical partners and the Global Fund Secretariat during country dialogues, so we're able to focus on the gaps, opportunities and risks. Together with partners, we're also beginning an "epi stage" as part of the new funding model to more deliberately look at impact and incorporate elements of a program evaluation.

3.5 Although we're making good progress to increase our focus on impact, we still have a lot of work to do. The underlying country data systems require significant strengthening, so we're working with partners to carry out **data system assessments** to evaluate the availability and quality of the information we collectively need, and to identify areas where systems need strengthening. In order to help fill those gaps, we've been working with implementers to identify unspent funds in Global Fund grants. To start with, we are introducing these assessments in all our High Impact countries, plus several others based on guidance from the Technical Evaluation Reference Group (TERG). We are also adjusting our **performance-based funding** approach to reflect our higher-level focus away from process indicators. This poses new challenges, as for example coverage targets require better information on populations at risk; and definitions of coverage packages for a given intervention differ based on epidemiology. But even as we're faced with these gaps and challenges, we know that this is the right level of problems with which we need to grapple.

3.6 When we all have good data, the potential is enormous. In Thailand, we've worked with the national AIDS program and partners such as WHO, UNAIDS and the United States CDC, using surveillance data to reprogram support from the Global Fund and other funders to

significantly increase our focus on the 27 provinces where 70% of HIV infections occur. This will allow Thailand to use its Global Fund resources to effectively double the outreach of its program in the provinces and for the people that are at greatest risk of HIV infection – including men who have sex with men and people who inject intravenous drugs – and provide a more comprehensive prevention and treatment package to them. Programs that had previously focused on providing information have been reprogrammed to provide services for greater impact.

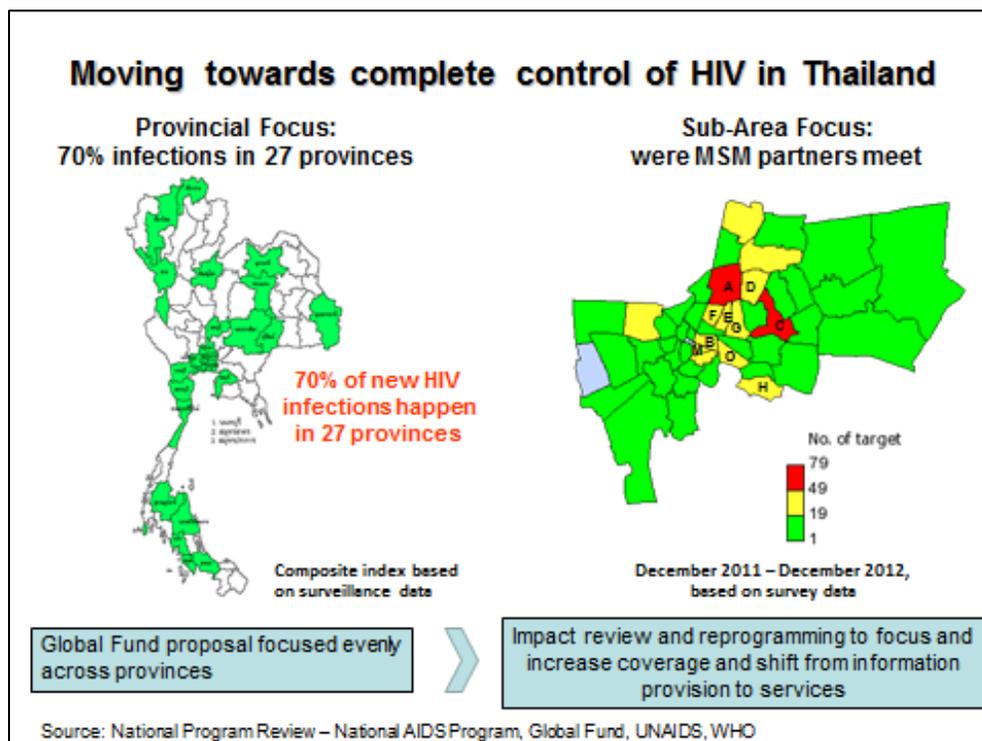


Figure 4: HIV epidemiological intelligence in Thailand

Evolving our business model

Grant management

3.7 Management of our grant portfolio continues to be the core business of the Global Fund Secretariat, and a number of the changes implemented in 2012 have positioned us to more effectively fulfill that role. We now have a significantly higher proportion of staff in grant management functions (following last year's restructuring, approximately 75% of staff members are now working in a grant management-oriented function). This has enabled us to clear backlogs of issues and processes, and focus more on the strategic-level priorities. Country teams have also been able to build more trust and interactive relationships with PRs, CCMs and partners through more regular visits to countries.

3.8 The embedding of key functions and areas of expertise – including monitoring, program finance, procurement and legal – within **country teams** has enabled more effective and efficient ways of working within the Secretariat, and in our interactions with country implementers and partners.

3.9 Despite the additional capacity, the workload will remain heavy and challenging for the foreseeable future. A significant amount of effort is going into the new initiatives described earlier in this report, most prominently including the transition to the new funding model and rolling out our new operational risk management approach with countries. This is happening whilst we continue to carry out the continuing heavy workload of disbursements, renewals, grant negotiations and signings.

3.10 Some figures on the expected work in grant management this year include:

- i. US\$ 3.9 billion in **disbursements**
- ii. 142 grants to be reviewed for **renewals** for an expected total amount of US\$ 3.5 billion²
- iii. 52 grants to be **negotiated and signed** for an expected total amount of US\$ 1.7 billion

3.11 Through all of the new initiatives and the ongoing work, we also need to work on finding ways to **simplify our processes and requirements**, and reduce the Global Fund's contribution to countries' administrative and reporting burden. The Global Fund has long acknowledged its need to improve in this area, and yet it is questionable how successful we've been. We will be looking for every opportunity to appropriately create process efficiencies and reduce the burden, whether through the changes to our new funding model and internal systems, or in everyday grant management policies and procedures.

New funding model

3.12 The Global Fund's new funding model represents the most fundamental and far-reaching change in our business model to date. Beyond the opportunities and challenges already discussed in previous sections, the new funding model is an important vehicle for introducing several other key innovations and improvements.

3.13 The **Grant Approvals Committee** (GAC) was established in March this year as an evolution of the Grant Renewals Panel (also previously known as the Phase 2 Panel). It will be our primary mechanism for reviewing and recommending grants for approval by the Board under the new funding model. One of the biggest and most valuable changes has been the participation of partners in GAC discussions. Thanks in great part to the expertise and insights of our partners, the Committee is able to consider high quality technical advice and more strategically coordinate Global Fund support around domestic and other external investments at country level. The recent inclusion of a civil society representative on the panel is a particularly exciting development, which is strengthening our collective ability to see the opportunities and deficiencies of programs with regards to reaching the most-at-risk populations, ensuring equity in access and taking maximum advantage of civil society's implementation capacity.

3.14 With its review of past performance, impact profiles, and participation and input by partners and the TRP, the GAC represents a powerful opportunity for us to assess and respond to the bigger picture of the gaps, opportunities and risks in the countries we are supporting. Below are a few examples to illustrate what we're doing through the GAC.

² This figure does not include new funding model "interim applicant" amounts

3.15 We recently reviewed a Tanzania malaria grant in the context of their request for additional funding as an interim applicant under the new funding model. Tanzania's program has been making excellent progress, with a significant decrease in malaria prevalence and child mortality over the past five years. We are adjusting our support of interventions to respond to and build upon the improved epidemiological situation in the country. And we are using the GAC renewal and new funding request as an opportunity to work with the country on the **consolidation** of existing grants with the new funding. The result will be one grant, with one budget, work plan and indicator framework, all aligned to the new national malaria strategic plan. This is in place of originally four different grants. We are currently in the final stages of the consolidation work with the country and will be submitting the consolidated grant for Board approval shortly, which will include US\$ 114 million of additional funds under the new funding model to maintain the universal coverage of long-lasting insecticidal nets (LLINs) that the country achieved in 2012.

3.16 Our review in the GAC of Ghana's past and proposed future malaria interventions raised an important question regarding the dual coverage of both LLINs and indoor residual spraying (IRS). Both are important interventions for prevention, but clear consensus guidance is still lacking on the circumstances in which the use of both interventions is recommended, given the costs. We are providing funding to facilitate WHO's ongoing work and guidance on this topic, and in the meantime we continue to work with Ghana's national malaria program and partners to clarify the case for dual coverage.

3.17 Through the renewal of our support for a multi-country program in Latin America (COPRECOS), we are reprogramming the grant based on evidence from a Global Fund-financed study that the military – the previous focus of the grant – was not a significant driver of the epidemic, nor did the military pose a marked opportunity to bring down infection rates. For the next implementation period, the focus will shift to the police – who more frequently interact with the most-at-risk populations (primarily transgender people, men who have sex with men and sex workers) – and civil society networks across the region, as both the police and civil society networks present a much greater opportunity to change the course of the epidemic through their interactions with and support to the populations most at risk of infection.

3.18 Related to this, UNAIDS and partners are initiating a policy dialogue in Central America, with a view to 1) better focus HIV investments where they will have the greatest impact, with particular focus on investing in gay men, other MSM, transgender people and other key populations; and 2) support countries accessing needed resources to achieve impact with the ultimate goal of ending AIDS, both from domestic and international sources, including through the Global Fund's new funding model.

3.19 Finally, based on the findings discussed at the GAC that revealed the non-independence of grant audits in a country, we are now strengthening standards to enforce existing risk measures and ensure the independence of our audits.

3.20 The **TRP's** independent technical review has been a major strength of the Global Fund's rounds-based model. We're now working to retain this important feature and adapt it to the new funding model, with multiple entry points for the TRP's valuable guidance and input. As we discuss and test these revised ways of working, we are very grateful for the TRP's incredible responsiveness to the increased demands on their time, and for the strong collaborative relationship that is helping to ensure that we optimally leverage the TRP's value as we move towards the full roll-out of the new funding model.

3.21 By its very nature, the current transition stage of the new funding model is a learning process for us all. This includes for example refining the interaction between, and respective roles of, the GAC and the TRP. We'll be feeding back to you lessons learned as we continue the transition and further design.

3.22 Together with the TERG, we are monitoring the process and making adjustments throughout the transition to the new funding model, so we can take advantage of the lessons real-time. The **monitoring and evaluation** will involve data collection, solicitation of feedback from stakeholders and country visits to understand how well the intent and goals of the new funding model are being realized in countries. We very much appreciate the excellent support and guidance the TERG is providing to us, both in the evaluation of the new funding model, as well as more broadly. Recently, they have been lending invaluable assistance as we create a leading evaluation function, refine our measurement of impact and boost investments in data systems. The TERG is a critical actor in fulfilling our need to remain a learning organization.

Risk management

3.23 A few years ago, the Global Fund was under considerable scrutiny due to concerns about the Fund's **fiduciary controls**. The High-Level Panel was convened to review a number of aspects of the Global Fund's work, including our fiduciary control- and oversight mechanisms. The Panel found a number of deficiencies, and in 2012, the General Manager led the implementation of the *Consolidated Transformation Plan*, which included a far-reaching set of reforms to establish a more robust approach to risk management.

3.24 Today, the Global Fund's fiduciary controls and risk management are significantly stronger. Our relationship with the **Office of the Inspector General** (OIG) is constructive: we acknowledge and respect our separate roles, but we also proactively collaborate and maintain open communication lines in key areas, in order to better identify and address risks in concert. A strong, independent OIG is essential to promote the best possible programs and robust country ownership. We are deeply grateful to Norbert for his exemplary leadership and rigorous professionalism.

3.25 One concrete area of collaboration between the OIG and Secretariat has been in our efforts to **address counterfeit drugs**. We have established a joint OIG-Secretariat working group to combat ACT counterfeiting, which includes the OIG investigation team, and several procurement-, grant management- and risk management colleagues from the Secretariat. Through timely information sharing and proactive collaboration, we are jointly identifying and responding to this important risk. We will continue to increase efforts on this front, both in our joint work with the OIG, but also to more broadly leverage and collaborate with our partners.

3.26 The Global Fund has zero tolerance for the misuse of funds, and we are **actively pursuing and recovering funds** where there are confirmed cases of misuse. In our last update to you in September 2012, we reported that we had recovered approximately US\$ 22 million in 13 of the 29 cases reported by that time by the OIG, with a further eight cases at an advanced stage of negotiations. In the seven months since then, the Secretariat has reached final agreement in a further three cases and collected outstanding amounts from those, as well as from several other cases that are not yet entirely settled. The total amount collected during the period was US\$ 6.6 million. There are firm commitments to recover another US\$ 1.4 million, and it has been determined that US \$1.7 million could not be considered recoverable.

3.27 During the same period, the OIG has released twelve new audit and investigation reports that included findings of misuse representing an additional US\$ 11.5 million in questionable amounts. To speed up the recoveries process, a cross-Secretariat team has been formed, working under the guidance of a senior management Recoveries Committee, and we expect to be able to report more significant progress over the course of 2013.

3.28 When we speak about risk management, it's often in the context of fiduciary controls and oversight. That's an essential function of a financing institution. However, the Global Fund is a global health financing institution. Slow or sub-optimal use of resources poses a significant risk to achieving our collective goal to completely control HIV, TB and malaria while expanding the human family and strengthening health systems.

3.29 Therefore, we are implementing a new **operational risk management** approach, starting with our 20 high-impact countries, which represent over 70% of global disease burden and approximately 65% of our funding. For each of these countries, we have developed **risk profiles**, which assess the risks that could affect the outcomes of our investments in 19 different areas, informed by 180 factors. The profile provides a "heat map" for each country, showing where the risks are, based on bottom-up information from the grants. These heat maps provide Country Teams with a valuable framework to meaningfully discuss with implementers and partners the risks and possible responses related to treatment disruptions, data quality or sub-recipient oversight, for example. They also enable us to better target our resources and efforts, including LFA services, according to the risks in each grant. We have begun utilizing these risk profiles to inform grant management decisions and identify areas requiring attention on a grant- and program level.

3.30 This initiative also contributes to a more systematic portfolio-wide approach to risk management at a corporate oversight- and governance level. The risk profiles provide a useful framework for presenting an assessment of risk areas across the portfolio to senior management and the Board, and help identify risk mitigation strategies. They will also facilitate informed discussions to clarify the Board's tolerance and acceptance of certain risks. Risk profiles therefore represent a valuable opportunity to enable stronger corporate governance and strategic oversight of the Global Fund's work by the Board and its committees.

3.31 Although we've made a number of improvements recently to move us towards a broader, more strategic approach to risk management, there are still areas for improvement. We continue working to address these, based on our own evaluations and the helpful recommendations and feedback from the OIG.

Reprogramming

3.32 Often, because of a number of factors – e.g. changes in epidemiology, new data, or technological advances – the interventions previously approved under existing grants may no longer be the most optimal ones for a given program. And although reprogramming existing grants has always been possible, it has not always been an operational priority. The process was cumbersome, lacked clarity about likely outcomes and was not promoted to countries as a way to ensure greater impact. Therefore, despite routine minor adjustments to work plans, budgets and targets, countries would rarely request large-scale reprogramming of their grants, and the Secretariat typically would not encourage it.

3.33 We've therefore revisited our policies, procedures and discussions with countries around reprogramming. We're increasing the dialogue and ensuring that countries are aware of the

flexibilities available. We are also more proactively initiating the conversation and encouraging implementers to reprogram based on key triggers, such as the revision of national strategies, changes in the trajectory of the disease, new normative guidance on disease control, findings from program reviews, changes in the funding landscape, and identified capacity gaps or risks. The TRP is still involved when needed, but we have more clearly defined the conditions that truly require independent technical review. We've furthermore increased the involvement of partners and technical Secretariat colleagues to ensure that the changes are in line with the needs, normative guidance and coherence of the broader program.

3.34 To encourage reprogramming when appropriate, we are routinely working with countries to identify opportunities to reinvest savings resulting from reprogramming, rather than automatically deducting them from the grant. We have even introduced mechanisms to allocate new funding in some cases of reprogramming, when needed.

3.35 As an example, because of the dramatic success primarily through its own efforts, but also with the support of partners including the Global Fund, Namibia is currently revising its national strategic plan, with a new focus on pre-elimination in accordance with WHO recommendations.

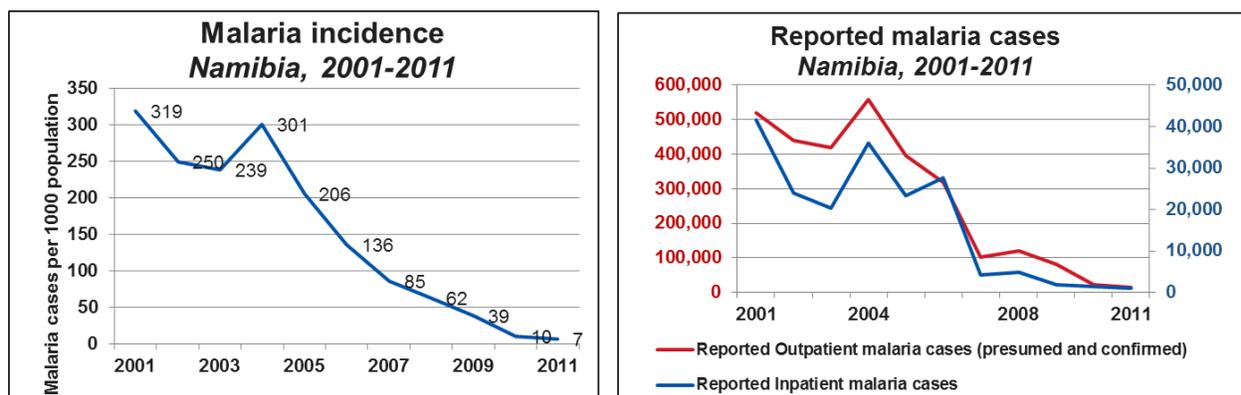


Figure 5: Declines in malaria incidence in Namibia (Source: Namibia 2012 Annual Program Report)

3.36 As part of its grant renewal, we are reprogramming the grant activities together with the country, in order to address positive epidemiological changes and align investments to the new strategy.

Greater value for money

3.37 Optimizing the Global Fund's value for money is a primary aim of the new funding model. But there's a lot more we're doing to improve our value for money, through creating greater efficiencies in both what we fund and how we operate.

3.38 The **procurement and management of pharmaceuticals and health products** represents over 40% of Global Fund grant expenditures. And yet, we've struggled in the past to leverage our significant spending on these commodities to bring down prices for high-quality products. Under the guidance of the Market Dynamics Advisory Group (MDAG) and as part of

our implementation of the Market-Shaping Strategy adopted by the Board,³ we are taking a more strategic and proactive approach from sourcing to procurement, and ultimately to the way we interact with the entire supply chain.

3.39 For example, through collaboration with another major purchaser of insecticide-treated nets (ITNs) – with whom we collectively represent 65% of the global purchasing of ITNs – we are harmonizing purchases and negotiating long-term supply agreements on global tenders, with an expected total reduction of 20-25% in ITN prices. In a similar exercise, we are currently initiating joint negotiations with major purchasers of ARVs. We're working to do this in a way that maintains the role of the country as owner of the national program, but positions the Global Fund and its fellow purchasing partners as advocates and enablers to secure quality products at the best prices for them.

3.40 Through efforts such as these, we estimate that we will be able to achieve as much as an 8% reduction in total grant expenditures by next year. Concretely, this means annually US\$ 170 million more funds available for the programs and the impact they're intended to deliver.

3.41 Beyond the work to reduce commodity prices, we are also working with PEPFAR, the Gates Foundation and other partners to align **expenditure analyses**, to aid countries in planning their future commitments as part of national plans, and to evaluate the costs countries are paying for interventions and explore opportunities to find efficiencies.

3.42 The Secretariat is also working hard to ensure that our own operations are lean and strategically focused. Despite the significant additional workload from the business model changes underway, we have managed to curb our **operating expenses**, reducing our 2013 budget by 15% versus the 2012 budget. This has included for example a reduction of US\$ 18.1 million in LFA costs, through focusing their services more strategically and increasing the Secretariat's own assurance and oversight.

Our systems and policies

3.43 We are currently implementing a number of changes to our underlying operational systems in order to accommodate the business model evolutions described above and help our staff operate with streamlined processes. Of these, one of the most fundamental and important is the **Finance Step-up** project. Under this project, we are overhauling our financial systems and processes over the course of the next year in order to complement and support the changes to our funding model, but also to better manage and report financial and operational information on grants, contributions and operating expenses.

3.44 The finance step-up project will streamline, accelerate and automate our current financial information workflows, procedures, processes and systems; and it will give us reliable, real-time and accurate financial information for corporate reporting, management decisions and for sharing with external stakeholders. Besides the process and workflow benefits, the new system will help enable our broader move towards a more analytical and strategic investment-driven mode of working, linking performance and financial information to impact. The improvements will also better integrate pledges and contributions into our financial planning, and help enable more reliable and timely financial dashboard reporting for the Board, its Committees and the website. We launched this important initiative in April this year, and expect to go live by Q1 2014.

³ http://www.theglobalfund.org/documents/board/23/BM23_09MDC_Report_en/

3.45 With our **operational policies and procedures**, we are also evolving based on lessons learned, and finding ways to offer country teams and others a more user-friendly, practical set of support materials for their daily work. Instead of relying solely on policy documents, we are developing a package of tools, including best-practice examples, targeted trainings, and guidance that focuses on the principles and outcomes, in order to encourage dynamism in our work, rather than an overreliance on operating procedures.

Cultivating our greatest asset: our people

3.46 Our results will come from the programs implemented in countries, and we'll achieve our collective impact through partnership. But in order to do the Global Fund's part, we need a healthy and engaged Secretariat – one which maximizes the talents and commitments of our team

3.47 2011-2012 was a transition period for the Global Fund, with big challenges to overcome and many reforms to implement. We're in a better place today thanks in great part to the hard, and sometimes difficult, work carried out during that period. We have a Secretariat structure that's better positioned to implement its core grant management mandate, and a set of important ongoing changes to our business model and culture that are equipping us to achieve a greater, broader and more sustainable impact in our work.

3.48 The transformation work took a heavy toll, however. Secretariat morale and trust are still recovering. And although the Secretariat admirably continued to deliver and demonstrate their commitment to the mission throughout the restructuring process, for some, their motivation and affinity to the institution was challenged.

3.49 Responses to our 2012 **employee engagement survey** show a continued high level of positive engagement in the Global Fund's mission and a strong sense of personal accountability for contributing to the work. But there were also significant concerns that we need to address as a matter of priority, not only to have an effective and motivated workforce that continues to deliver good work, but more fundamentally, to be an organization that functions and behaves in accordance with its stated values and principles. Team members are proud to associate themselves with our mission. We need to ensure that pride extends to all aspects of the organization.

3.50 We have taken strong note of the areas where we need to do better and are developing solutions and plans at every level of the organization with extensive consultation. We're working hard to make open, two-way communication a cultural norm, and we are currently introducing a new **people strategy**, which will provide us with a roadmap for improving the employment relationship and ensure that the Global Fund creates the right environment for employees to be productive and engaged, to develop their skills and to grow as persons and professionals.

We recently initiated periodic meetings of our top ~25 **senior managers**, including all members of the Management Executive Committee and heads of departments. This group is providing insights and solutions on the strategic issues that most significantly affect our respective areas of work. From our discussions, we are initiating concrete initiatives to actively address issues, for example further streamlining our work by reducing operational overlaps between departments.

PART 4: SUSTAIN THE GAINS, MOBILIZE RESOURCES

4.1 We have already disseminated to the Board our replenishment strategy, which provides a framework for our collective efforts on the replenishment this year. We are working to build four pillars of support, with co-chairs from each pillar: traditional donors, implementing countries, emerging powers and the private sector. The focus – in the replenishment as it is in our strategy and operations – is to capitalize on the historic opportunity, enabled by partnership and based on the principle of shared responsibility. We are grateful for Secretary General Ban Ki-moon’s gracious agreement to serve as co-chair, representing the strong partnership with the UN family.

4.2 As already noted, the increased domestic commitment of implementing countries is critical. We are also working to expand the pool of donors, and on the role of emerging powers both as direct contributors but also as co-investment partners in areas of interest.

4.3 There is an enhanced focus on the private sector, including increasing direct contributions from individual companies, leveraging the collective effort of corporations and their marketing activities through RED and engaging high-net-worth individuals. We will soon be announcing a significant contribution from one such individual, and we are actively pursuing others, including through the strong support of the Bill and Melinda Gates Foundation. We are also exploring private sector-focused opportunities on innovative financing instruments and engaging companies to improve the efficiency and effectiveness of the programs we support.

4.4 We are grateful for the strong support from many Champions, including 9 African Heads of State and Government. These Champions have individually and collectively called for a full replenishment at the recent African Union Summit in Addis and the Tokyo International Conference on African Development (TICAD) in Yokohama.

4.5 We look forward to a robust replenishment meeting in the autumn, and to continued efforts to mobilize domestic resources and to finance unmet quality demand from external sources as part of the new funding model.

PART 5: CLOSING

5.1 In this report, we've described some of the challenges we are facing today and some of the actions we are taking to respond to them. But we've also tried to convey enthusiasm about the historic opportunity before us.

5.2 It's that opportunity on which we will remain focused over the coming years, and in which we are all fortunate to be engaged through hard work, innovation, partnership and service.

5.3 If we capitalize on the Strategic Framework, our strong founding principles and the recent advances in science, epidemiology and implementation experience, we'll be in a radically different place in fifteen years' time – with three plagues brought under control, the human family and human spirit expanded and health systems able to take on the next big public health threats.

5.4 Helping to make that vision of the future a reality is our collective goal, and we are grateful for the opportunity to be your partners and in your service as we achieve it.

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.