

# 36<sup>th</sup> Board Meeting

## Review of the Global Fund Business Model

GF/B36/28

16-17 November 2016, Montreux, Switzerland

### **Board Discussion**

Purpose of the paper:

This paper presents the findings from a study of the Global Fund business model. It outlines how the current business model operates, the benefits and challenges with the current model and potential options to strengthen the current model. It then presents possible options for the evolution of the business model for review and discussion by the Board.

# 1. Executive Summary

1. **The Board requested a review of the Global Fund’s business model.** During the April 2016 Global Fund Board meeting in Abidjan, Côte d’Ivoire, a decision was taken to “review the Global Fund business model in high-risk countries and assess possible alternative options for further discussion during the second Board meeting of 2016”.
2. **The Secretariat recognizes the need to ensure that its business model can appropriately address risks, especially in high risk countries, that may stand in the way of delivering impact.** The Global Fund operates in a dynamic environment where its strategy, its partners, the situation in countries, and the risks it encounters are constantly evolving. As a result, the Secretariat is committed to reviewing its business model regularly to assess how well the model responds to the changing environment. For example, a number of new initiatives recently were launched to address key risks and adapt to the new strategy. No options that can demonstrably reduce risks or deliver more impact in a cost-effective manner will be excluded for consideration. As a first step, the Secretariat invested over 1,500 hours (approximately one full time equivalent for a year), including focus groups with country team members, a survey answered by over 800 in-country stakeholders, interviews with approximately 50 Board members, Standing Committee and constituency members and a detailed costing model of potential options. It is our hope that the review of business model will help the Global Fund support risk identification, mitigation, prevention and assurance and therefore maximize impact by:
  - Highlighting the importance of rolling out the risk & assurance framework in all high risk countries as a key intervention at the country level to identify, mitigate and get assurance over risks;
  - Reflecting on the good practices and areas for improvement in risk management within the current model;
  - Identifying ways to catalyse and strengthen partnership to deliver greater results, including through CCMs;
  - Ensuring the Global Fund operates with efficiency, thus maximizing the funds to programs where they can deliver impact; and
  - Proposing changes to the business model that will lead to improved risk management.
3. **The Global Fund’s business model continues to evolve to strengthen its ability to address risk and better work with partners to deliver impact.** The Global Fund was launched as an innovative multi-stakeholder partnership for financing the fight against the three diseases.<sup>1</sup> Within this business model, the Global Fund’s approach to grant

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<sup>1</sup> The Global Fund’s status as a financing entity is legally prescribed by the Framework Document; United Nations General Assembly Resolution A/RES/S-26/2; see also 22 U.S. Code § 7622 (d)(5)(I) and (J).

management and fiduciary risk has evolved. In 2012 the Global Fund created multi-functional country teams, High Impact departments with more staff focused on highest burden countries, a Secretariat-wide risk management function and an operational risk management approach.<sup>2</sup> The Global Fund strengthened partnership by including partners in the discussion of the Secretariat's Grant Approval Committee. In 2016, the Global Fund continued to evolve by further focusing staff resources on High Impact<sup>3</sup>, Challenging Operating Environments<sup>4</sup> and transitioning countries<sup>5</sup>. The Risk Management function was further embedded in operations and a second-line system of controls was strengthened. The Implementation Through Partnership (ITP) project increased technical cooperation among partners through results-oriented support to countries, however, the evolution of the project needs to be defined and rolled out. In addition, a number of other changes are currently underway and are described in the Prioritized Action Plan shared with the Board, such as high risk and impact countries portfolio management, in-country capacity building projects in finance, procurement and supply chain and finally strengthening integrated assurance planning in high impact and core countries. After they are rolled-out, the impact of these changes need to be assessed to see how effectively they help the Global Fund to manage key risks based to its risk appetite.

4. **Stakeholders highlighted strong advantages of the current model.** The current business model facilitates *country ownership* and accountability among countries. It encourages *multi-stakeholder partnership* fostered by the Country Coordinating Mechanisms (CCMs) in country and ensures the Global Fund *leverages the expertise of partners*, rather than trying to solve issues alone. It re-enforces the Global Fund's *neutrality* and *convening power* as an external financing partner while ensuring responsibility for implementation of programs clearly resides with the Principal Recipients (PRs). It allows the Global Fund to rapidly and continually *evolve its approach* and offers a high level of *adaptability of risk mitigation and assurance measures*. Finally, the Global Fund has a *lean and efficient organization* based in a single location that encourages *consistency and knowledge sharing* and *enhances swift internal decision making*.
5. **Challenges were identified in three areas.** Interviews with stakeholders, survey results and the Global Fund's own analysis highlighted three main challenges related to the Global Fund's business model: 1) partner engagement and portfolio management, 2) risk management and 3) country coordinating mechanisms.
  - i. **Partner engagement and portfolio management.** Some stakeholders noted that the Global Fund business model may make it difficult to ensure an appropriate level of technical support in countries with an *absence or limited presence of bilateral or multilateral partners*, to *optimize coordination and relationship building* in high risk and high burden portfolios where many partners operate, to *respond rapidly* to issues

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<sup>2</sup> GF/B25/DP06 approved the Consolidated Transformation Plan as set forth in GF/B25/4.

<sup>3</sup> The Grant Management Division launched the Differentiation for Impact project in October 2015 to better prioritize and focus Global Fund resources to achieve maximum impact while managing risk globally.

<sup>4</sup> GF/B35/DP09 approved the Challenging Operating Environments Policy as set forth in GF/B35/03.

<sup>5</sup> GF/B35/DP08 approved the Sustainability, Transition and Co-financing Policy as set forth in GF/B35/04 – Revision 1.

or crises in country and to have *up-to-date knowledge of country context*, risks and political dynamics.

- ii. **Risk management.** Stakeholders raised concerns about the *lack of synergies between risk actors* in country that could be leading to, duplication of work between the Local Fund Agents (LFAs), Fiscal Agents and auditors, the *uneven performance of existing assurance providers* across countries, including from LFAs, and potentially *insufficient specialization of assurance providers* to provide assurance in highly technical areas such as program quality and procurement / supply chain management. Emerging from a Financial Control Environment Review commissioned by the Secretariat in Nigeria, the Secretariat highlighted *insufficient alignment in risk assessment tools*, the *lack of a consolidated view of controls* of the PR in especially high risk grants and *limited focus on the prevention of fraud*, as opposed to the detection of fraud, as key additional areas for improvement.
- iii. **Country Coordinating Mechanisms (CCMs).** Stakeholders reiterated some of the key challenges CCMs face that were identified in the OIG audit<sup>6</sup>: *insufficient CCM involvement in oversight* of grants, *variable engagement and empowerment of civil society and key populations* on CCMs and *inappropriate linkages with key actors* in country, whether this is due to lack of effective ties with key governance bodies within the country or having ties that create conflict of interest situations within the CCM.

6. **The Global Fund model compares well to that of partners with country presence.** While the Global Fund certainly can improve important elements of its model, there is little evidence emerging from this review that the business models of organizations with country presence would better address some of the key concerns facing the Global Fund. An analysis of 836 survey responses from CCM members, LFAs and PRs, showed that compared to organizations with country presence, the Global Fund model *encouraged stronger partnership and coordination with key partners* in country (82% of PR and 83% of CCM respondents), *enabled more meaningful engagement with affected communities* (80% of CCM respondents), *helped identify and mitigate risks better* when implementing grants (88% of LFA and 79% of PR respondents), *enabled a stronger oversight of implementation* of grants (80% of CCM respondents), and helped the grants *achieve more sustainable results* (77% of PRs and CCM respondents). It should be noted that survey results may reflect a survey bias since the respondents, CCM members, LFAs and PRs, may have better knowledge of the Global Fund business model. However, these positive comparative results were confirmed in a report by AidData (2015) in which the Global Fund ranked highly in Partner Communication and Performance<sup>7</sup>.
7. **Improvements to the current model could address many challenges, however time is needed to embed and assess the effectiveness of the changes.** While noting the favorable comparison with partners, there is undoubtedly room for further

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<sup>6</sup> GF-OIG-16-004, 25 February 2016.

<sup>7</sup> AidData report on Listening to Leaders: Which Development Partners Do They Prefer and Why

improvements. Work is underway on a number of enhancements, including many of those described below.

- i. **Partner engagement and portfolio management.** The Global Fund should *leverage effective partners and contractors more*, including through the *mainstreaming of the implementation through partnership* project, *encourage longer country visits* by staff during key moments in the grant lifecycle or when issues emerge, *tailor the skillsets* further to align with the new strategy (this work has already started through the Differentiation for Impact project), and *strengthen monitoring, training and knowledge sharing* of country teams to ensure ongoing improvements. Already there are cases of the Global Fund using such flexibilities, for example to place contractors in Nigeria.
- ii. **Risk management.** Within the overall framework of the Global Fund's new Risk and Assurance framework, the Global Fund should continue to *streamline assurance provision and risk mitigation measures*, *improve performance of service providers* through stronger training for country teams on the management of service providers, *expand in-country assurance to new actors* in technical areas such as programmatic quality and procurement and supply chain management. Highlighted in the Financial Control Environment Review were the following actions: *streamline risk assessment tools* and embed their use into the new grant operational system at key points in the grant lifecycle, *improve the quality of financial audits*, *enhance financial risk and assurance guidelines*, and *strengthen ethics and compliance training as well as provider and implementer due diligence* to prevent fraud in portfolios with high fraud risk. To accomplish these goals, the Secretariat may *contract a financial controls expert* to support the implementation of these measures in high risk countries on a time-limited basis.
- iii. **Country Coordinating Mechanisms.** To begin, the Global Fund should strengthen knowledge of appropriate behavior among CCM members by *ensuring signature and implementation of the code of conduct for CCM members*, *introducing systematic new member inductions*, and *conducting workshops to improve CCM performance* in areas where reform is most needed. *Performance-based CCM funding* should be used to encourage CCMs to undertake needed reform. Finally, the Global Fund should ensure that those who are well positioned to influence CCMs, such as FPMs and development partners, are encouraged by *identifying 'champions'*, *sharing best practices*, and *receiving training*.

8. **Opinions varied about options to evolve the model, but over 70% preferred to first focus on improving the current model.** In interviews with Board and Committee members, stakeholders shared their opinions about options ranging from improving the current model (71% in favor), placing liaisons in a subset of countries (10% in favor), moving a sub-set of country teams in-country (10% in favor), establishing regional hubs (6% in favor), and moving all country teams in-country (0% in favor). A costing model estimated that the costs of each options, except having country teams in all countries, would be between US\$ 3.82 million to US\$ 8.40 million to implement, however detailed work should be undertaken to confirm the costs. The majority of stakeholders in favor of improving the

current model explained their rationale by saying that it was too soon to change the business model before seeing if the challenges could be addressed with recent reforms and new initiatives. In addition, they believe that the Global Fund needs to respond flexibly to the wide variety of situations it faces, which the current model could do more easily and efficiently than a rigid staffing structure, while maintaining clarity about the Global Fund's role as a funding institution rather than an implementer. Finally, several stakeholders highlighted that if the Global Fund aims to end the epidemics and empower countries to drive their own responses, it makes sense that, within the bounds of appropriate risk mitigation and oversight, "the Global Fund doesn't put the problem into the Global Fund's hands, it puts the problem in the [country's] hands".

9. Based on this feedback, the Secretariat recommends that the Global Fund focus near-term efforts on implementing the proposed improvements described in Section 6.2: Improvements to the Current Model while maintaining its long-term commitment to continuously assessing and adapting the business model.
  - i. In January, the Secretariat will develop 1) a draft plan that describes the key milestones and timelines to implement the improvements and 2) draft assessment criteria and timeline for measuring the level of baseline risk and residual risk after the proposed changes have been put in place. A teleconference will be held with Committee members to discuss the draft plan.
  - ii. By March, the Global Fund will perform additional analysis of similar organizations with country presence to understand how these organizations manage common in-country risks and what good practices the Global Fund may learn from them. The findings from these analyses will be incorporated into the implementation plan.
  - iii. At the March/April cycle of Committee and Board meetings, the Secretariat will report back to the Standing Committees with an implementation plan and provide an update on progress on ongoing initiatives related to improving the business model.
  - iv. At subsequent Committee and Board meetings, the Secretariat will provide regular updates on progress against the implementation plan, on the results of the assessment of how effective the improvements are at addressing residual risks and consider whether any additional changes to the business model are required.