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Board Information

REPORT AND RECOMMENDATIONS
BY THE
OUTGOING GENERAL MANAGER

CONTENTS

Executive Summary

1. The Global Fund Secretariat has been transformed in line with the recommendations of the High-Level, Independent Panel, but the institution needs to follow through to ensure the complete implementation of a number of the changes;

2. Governments and private-sector donors can safely and responsibly commit money to the Global Fund--and they should do so this year--because it has proven it is a learning organization that can reform itself, even if more work remains to be done;

3. The new leadership team at the Global Fund Secretariat must continue to promote a culture that fosters meritocracy, teamwork and collaboration, and must maintain its focus on impeccable grant management; and

4. Post-Replenishment, two major challenges for the Global Fund are the following:

   a. Increasing the operational capacity of the organization by 60 percent, so as to allow quality disbursements to rise from US$3 billion to US$5 billion annually; and

   b. Reforming the way the Board and its Committees work, to respond to the governance needs of a complicated financial institution.

Introduction

1. In November of 2012, I told the Board I would take some time before offering my final thoughts upon the conclusion of my time working with and for the Global Fund community, first as a member of the High-Level, Independent Panel (HLP), and then as General Manager. After much reflection during the past four months, I would like to share a brief assessment of my service, my views of where the Global Fund stands today and a few recommendations for further consideration.

2. On the day I received a call from Governor Mike Leavitt to invite me to join him on the High-Level Panel he was leading with President Festus Mogae, I could never have imagined the journey I would take over the next two years. At the time, I had recently retired after more than 36 years in banking. Over my career, spent throughout the Americas, I had focused on enhancing value by turning around failed financial institutions. The common problem that took those institutions to the verge of collapse were poor management and weak governance.

3. When I retired from banking in early 2011, I wanted to bring my private-sector experience to addressing the problems of global health. I started by working with Ray Chambers, the Special Envoy for Malaria of the Secretary-General of the United Nations, and his partners in the Roll Back Malaria alliance. Together, we grappled with issues like how best to quantify the worldwide need for insecticide-treated bed nets (LLINs) and artemisinin-combination therapy (ACT), as well as how to develop the methodologies to calculate the high returns on investment related to the prevention and treatment for malaria.

4. I jumped at Mike Leavitt and President Mogae's invitation because it brought together my experience and my convictions: preparing a plan to save a crucial financial institution in trouble that was the world's largest investor in programs to prevent and treat three of the world's most-lethal diseases. As I did then, I admit that I knew little about the Global Fund when I joined the HLP, other than the certainty that failure would bring catastrophic consequences. The vocabulary of "Principal Recipients" and "Country Coordinating Mechanisms" and "Local Fund Agents" was new to me. I had to learn how the Secretariat was organized, how the grants worked, how and where the money flowed. But through careful study and time spent with implementers and beneficiaries in countries like Kenya, The Gambia, Ghana, Sénégal, Indonesia and the Dominican Republic, I came to understand the essential mission of the Global Fund. When I first walked into the Fund in February 2012, I felt like I had been training for this task all my life.

5. We on the HLP saw our mission as providing immediately implementable recommendations for changes that would help restore confidence quickly among donors and other stakeholders. Some observers felt the difficulties the Global Fund was experiencing in late 2010 and 2011 were a matter of public relations: if the Secretariat could just explain things better, then the problems would go away.

6. The HLP did not agree, and we reached the conclusion (as many of the Board had also) that reforms were needed in how the Global Fund organized itself, tracked and invested its funds, managed its grants, interacted with recipients and partners, and provided assurance on its investments. We also believed a change in corporate culture was essential. We missed a few things in our review (including by underestimating the deficiencies in financial management at the Secretariat, to which I will return later), but we were gratified that the Board saw our report as a key input into drawing a blueprint for the transformation of the Global Fund.

7. After the HLP submitted its review, I had intended to return to working with Ray Chambers to achieve the noble goal to bring malaria deaths down to near zero by 2015, when the Global Fund's Board Chair, Simon Bland, approached me about the position of General

Manager. In fact, he had to track me down in South America, where I had unplugged to spend the holidays with my family. My only question was whether the Board was serious about reform; Simon assured me the Board was, and the record has justified his confidence.

8. I took the job because I had come to respect and admire the Global Fund so much—I thought I could make a contribution to re-engineering its internal systems, bringing greater efficiency to its operations, refocusing its management and creating a new investment strategy. I knew a twelve-month period was short, and that the goals of the Consolidated Transformation Plan (CTP) the Board had adopted were highly ambitious, but I trusted the ability of the staff and the partners to move with speed and purpose. My experience in other restructurings had taught me that the perfect catalyst to drive change is a crisis, and that moving decisively to implement a new business model was better than dragging change out over a long period of time.

Part 1: What Did We Accomplish?

1.1 When I began my tenure as General Manager, the Board had already steered the Global Fund on a clear course of reform. I walked in the door with the benefit of the CTP and a new *Strategy* approved by the Board that focused on improving the organization's business model. I want to recognize the Board for having the courage and wisdom to do so, and to thank the members, and the staff at the Secretariat, for their support during the transformation. Each of the members of the Board, and many more in their constituencies and among outside groups, engaged thoroughly in the attendant debates; the Board carried out a series of hard discussions, difficult to manage at times, but did reach a consensus on a new direction forward for the institution, which is a great credit to all involved

1.2 Because I started my experience with the Global Fund as a member of the HLP, over the last few months I reviewed to what extent, with the Board's help, we had been able to carry out the Panel's recommendations. Based on the analysis shown in Appendix 1, the Board should feel very satisfied with how the organization has been able to fulfill its commitment in September 2011 to implement the HLP's *Report*.

1.3 Of course, both the Board and my team made some modifications to the HLP's recommendations along the way, but I am confident we can say that we took full advantage of the opportunity the Panel gave to the Global Fund in making possible fundamental, positive reforms. We on the HLP did not foresee every challenge to the Global Fund and its business processes, and I should emphasize that the Management Executive Committee (MEC) has spent a great deal of energy from early 2012 to the present in resolving several major problems the HLP did not uncover fully, especially weaknesses at the Secretariat in accounting, cash-management, financial reporting and Treasury functions.

1.4 Of the 86 total recommendations the Panel made in 2011, the Global Fund (Board, Secretariat and Office of the Inspector General) has now fully implemented or begun implementing 72 of them, or 84 percent. (See Appendix 1 for more details.) This achievement represents an improvement even from November of last year, when I shared with the participants in the Mid-Term Replenishment Conference my assessment of progress against the HLP's *Report*.

1.5 Only four of the 14 outstanding recommendations from the HLP's *Report* are purely in the Secretariat's purview to pursue. Two others pertain to the Office of the Inspector General; four would require joint action by the Secretariat and the Board; and four would need cooperation between the Secretariat, partners and grant recipients.

1.6 Much of the HLP's *Report* overlaps with the CTP the Board approved at the same time. As many of you know, the MEC and I wrestled with the CTP during my time as General Manager, because some points in the Plan are unclear or mean different things to different people. The document describes others with absolute terms that are unrealistic or difficult to measure, and the changes in the Global Fund's business model made still others obsolete. Nevertheless, looking at the last year through the prism of the CTP provides more evidence of the thoroughness of the implementation of the reforms the Board requested. By the time I left Geneva at the end of January of this year, we had completed 88 percent of the CTP, and the remaining action items assigned to the Secretariat were in process. Most of the unfinished portion of the CTP has to do with the Board itself. (See Annex 2 for more details.)

1.7 Sixteen months ago, I told the Board I had three goals for my year as General Manager in carrying out the transformation the Board launched: strengthen our foundations, act on the strategic decisions that provide the highest value-for-money, and secure the resources we need. I believe that, with the Board's help, the MEC and I succeeded on all three fronts. I am not aware of a multilateral institution that has accomplished a more comprehensive reform agenda.

A. Strengthening our Foundations

1.8 Upon my appointment in early 2012, I started with a re-organization that emphasized simplicity, discipline, and rigor, with grant management as the core activity of the institution. Every indication is that the transformation has produced a more disciplined and effective Secretariat, which has improved its business practices and upgraded its performance. The news that the Executive Director will be able to sign the first five grants under the new funding model (from three countries: El Salvador, Myanmar, and Zimbabwe) by the Board's June meeting is a testament to the strength of the revitalized Global Fund.

1.9 The progress the Secretariat has made over the last 16 months has been remarkable, and I do not think it is an exaggeration to say that the changes made have stabilized the organization significantly. The previous control environment in place before the transformation began was the kind in which financial institutions fail. To cite just one example, management-information systems were a multitude of unrelated applications, mostly gigantic Excel spreadsheets maintained by different departments. As the Management Letter issued last year by Ernst & Young, the Global Fund's external auditors, pointed out, "In 2011, audit and grant data [were] not reliable and accurate, and missing controls over grant accounting [led] to important delays and errors in the financial statement[s'] preparation."

1.10 Nevertheless, during the past year we solved many of these problems, or are in the process of fully implementing solutions that we developed, as validated by this year's Management Letter. I am confident that the "Finance Step-Up" project (which covers procurement, treasury, accounting and grant-forecasting) is addressing the identified weaknesses effectively, and that the two backbone systems in development, the Core Financial System and the Better Grants System, can produce the efficient and securely controlled environment necessary for a financial institution like the Global Fund. The 2012 Management Letter says that "financial management demonstrates the aim to clean up the past and build solid, robust [internal control] processes in finance and grants." The Board should continue to support the Finance Division as it goes about making the required upgrades and reforms to install the infrastructure for sound and responsible financial management that should have been put in place in 2002.

1.11 We had three strong motives for shifting the center of gravity of the Secretariat to concentrate 75 percent of the staff in grant-management and related areas: to get the portfolio moving again, to become more proactive in helping grants improve their performance, and to reduce risk.

1.12 The numbers validate this approach. First, in 2012 we increased our output, in terms of disbursements to implementers, by 26 percent over 2011. Second, the Secretariat achieved a 63-percent reduction in the number of "stuck grants"[1] since September 2012. (West Africa is a particularly bright spot in this regard.) Third, we are able to show manifest progress across the portfolio, because 50 percent of the grants that were performing poorly at the beginning of 2012 improved to a B1 rating or better by the end of the year, which has greatly improved the risk profile of the portfolio. Lest one think we were merely inflating the scores, an analysis done by the Secretariat at the end of April 2013 showed that a slightly higher proportion of grants received B2/C ratings (an indication of poor performance) in 2012 because of our increased focus on risk-mitigation, with a stricter application of performance-rating guidelines. So we got tougher, yet many grants got better, and we made more and better investments. Why? Because the Secretariat changed the way it does business, and focused the vast majority of its resources on its core function, grant-management, while preserving the principles of performance-based funding.

1.13 When the MEC and I implemented the restructuring, we always considered we would need to make refinements after we developed the new funding model. We indicated that the Board should expect further changes, and we asked it to support the Secretariat in making them. As the Executive Director and his management team continue to operate under the new business model, execute financial reforms and gain greater clarity on risk throughout the portfolio with the completion of operational risk-assessments in many countries, they will necessarily need to re-adjust the staffing pattern. I am convinced that concentrating staff in the Grant Management Division on 20 "High-Impact" countries was the right call, but I worry that we might not have devoted enough resources to provide the proper management to grants in the other 130 places the Global Fund invests. The fourth quarter of 2013, with the Replenishment completed and the new business model on a more-sound footing, would be an ideal time to recalibrate the distribution of staff to make sure the other parts of the portfolio receive the support they need (without reducing the group devoted to the grants in the "High-Impact" countries). Management should continue to be vigilant that staffing levels and skills are properly aligned to implementing the new funding model.

1.14 The Secretariat is still grappling with serious challenges, including imperfect information systems, the implementation of the new business model, some over-worked staff, a headcount limit imposed by the Board, and the Board's mandate to keep the portfolio global. For the new business model to succeed, including the new funding model, something has to give, and I think the answer lies in reducing bureaucratic burden and increasing efficiency on a number of fronts, such as re-examining support areas of the Secretariat that provide lower value going forward. There is ongoing risk that those support areas could re-emerge as independent, disconnected elements of the Secretariat, with their own work-streams that are not always focused on making impeccable grants.

1.15 In addition, the Global Fund must continue simplifying its internal processes, and streamline its interactions with implementers. The Secretariat has not yet differentiated its grant-oversight systems by risk as much as it should, which will be necessary for negotiating and managing grants in 2014 and beyond. It must reduce overlap and duplication by merging the newly developed Operational Risk review process and the new Assurance Framework, and by constantly leveraging the introduction of integrated data systems. It must also push all Department and team leaders to manage to the new model, rather than clinging to familiar ways

[1] Those grants to which no money has flowed within the last six months, or within three months after signature.

of doing things. As the Secretariat automates its accounting, financial-reporting and human-resource processes, the resulting productivity gains (and savings in operating expenses) should be able to fund additional, risk-based grant-management requirements fully.

1.16 Maintaining a motivated, capable staff in a serious and professional climate, is another essential element in the quality of the portfolio. The new business and funding models are only as good as the people who run the machine every day, and managers must have the power to make the right decisions on the spot, as opposed to from afar (both organizationally and geographically).

1.17 In my view, empowered, proactive grant managers are a major difference between achieving high results and achieving low results. The internal 2012 Staff Engagement Survey recently conducted among the Global Fund's employees demonstrates clear improvement in this regard, but the Secretariat should accelerate its evolution into an organization that takes calculated and measured risks, spends more time on the ground, is more responsive and quicker in decision-making, and learns continuously from the successes and failures of its investments.

1.18 The Global Fund has taken the unprecedented step for an international organization of establishing a Chief Risk Officer (CRO), and now it has to define that position and its functions further, while keeping in mind that institutions with much-longer histories are still working out their posture toward risk. The Secretariat this month will be moving into the second year of the introduction of its new risk-management culture, which is breaking new ground among development institutions, and it will require perseverance and support until the MEC finds the optimum approach. Over time, I am certain the CRO will help reduce risk across the portfolio, and he and the rest of the MEC should roll out the recently completed Assurance Framework with dispatch this year, especially by moving to rationalize the use of external auditors and the Local Fund Agents (LFAs). Dealing with risk should not be just the mechanical application of systems, however: lots of common sense and much discussion, both inside the Secretariat and with outside partners, are required. What matters is acting when threats are identified, including by linking risk-management to technical-assistance solutions provided by those partners.

1.19 In terms of unfinished business, the Human Resources Division has the biggest challenge. Creating a serious meritocracy that promotes a collaborative style to deliver high productivity is a herculean task that will require work, week in and week out, over the coming years. The Secretariat faces a certain gravitational pull towards the entitlement culture and way of management unfortunately prevalent in international organizations. The Transitional Working Group wisely created the Global Fund as an independent, private Swiss foundation so it could break free of such low expectations.

1.20 Management is facing pressure from some employees to go back to the practices under the Administrative Services Agreement with the World Health Organization that did so much damage to the Global Fund. Management and the Board must see that the solutions to the Secretariat's human-resource challenges are forward-looking, with a robust performance-evaluation system, and new role models, at their core. The basic systems, processes and procedures necessary to create this new culture are in place, but it will take a special effort to have them mature. Results from the internal Engagement Survey show that a majority of staff members does not believe enough promotions at the Global Fund are made on merit, which simply shows that time and consistency are needed to mold a meritocratic culture. In essence, the Secretariat needs to continue on the path on which the Board has pushed it, to consolidate itself as a clear meritocracy that attracts, retains, and manages world-class talent, a key element to ensuring the best returns on its investments.

B. Acting on the Strategic Decisions That Provide the Highest Value-for-Money

1.21 The *Strategy* the Board approved for the 2012-2016 period has guided the entire transformation process, focused on achieving better results by redefining the macro-level approach to grant-making, and within it the funding model. When an institution's business model is broken, it is perfectly reasonable to define its strategy as fixing that approach, and that is what the Board correctly decided to do.

1.22 A solid platform now exists for impeccable execution, in Geneva and in the field. The new business model adopted over the past year disrupted many entrenched patterns, and set different, higher expectations for staff, technical partners and implementers. In my opinion, now that the Global Fund has set its *Strategy* and begun carrying it out, the goal the Board and the MEC should set for the Secretariat over the coming years is to maintain a "lean and happy" steady state. What I mean by that phrase is a culture of constant improvement in three areas:

i. **Procurement**: In the first four months of this year, it is clear and evident that the MEC is pursuing substantial savings and efficiency gains in the way the Global Fund and its implementers handle the purchasing and distribution of drugs, bed nets and other health supplies. The re-engineering and pooled-purchasing efforts with other institutions (such as the United Nations Children's Fund and the U.S. Government) the Chief Procurement Officer has undertaken in the last few months is exactly the right approach, and should continue. Improved sourcing, direct vendor-management, an updated approach to pooled procurement and more-effective delivery to recipients together can allow the organization and its grantees to have a greater impact for far less money. A great legacy for members of the current Board can be finally making the Global Fund the leader in procurement and supply-chain management it should always have been.

ii. **Information-Management:** The creation and maintenance of the proper data systems will be necessary to make the Secretariat work the way it should. The HLP flagged the lack of useable, reliable, accurate data on grants as a problem, but very shortly after becoming General Manager I discovered how widespread the challenge actually was, especially in the realms of finance and human resources. Incomplete or non-existent data fed rumor, misunderstanding and a lack of accountability. Databases that did exist were artisanal, created by a few people's handiwork and not connected to anything else. Even today, too many disparate data-collection tools are still in use.

   Data-mining will allow the Global Fund to produce better-designed and better-implemented grants by monitoring the impact of the interventions financed, by managing cash flow in real time, by constantly benchmarking service-delivery costs (i.e., unit costing, broken down by intervention and by geographical area), and by tracking bottlenecks and successes in the field to provide lessons learned for future grants. Having an impartial, transparent source of information is essential to the integrity of the institution; it allows data to drive the Board's decision-making, rather than letting political agendas or passions manipulate the debate. Furthermore, making all of this information public will provide the opportunity for the Secretariat, recipients, partners and beneficiaries to seek improvements continuously.

   I understand that getting to completely comparable unit costs is difficult, will take time, and requires knowledge of the full array of financial inputs for a given intervention. Yet even just publishing the data on how much the Global Fund's grantees pay for delivering a given intervention in different countries will cause policy-makers to look for answers in the anomalies. As my statistics professor used to say, "Significant differences don't whisper; they yell."

Furthermore, better data should help the Global Fund work with implementers to focus the Board and its investments in proven interventions in the places and among the populations that now drive the respective epidemics. The Executive Director is absolutely on the right track with his plans to work with recipients to identify and target funding to "hot spots" where the transmission of the three diseases is heaviest, an effort a more-advanced information-management system will help the Fund apply globally. In this setting of resource constraints, money and interventions must track very closely with the epidemiology of the three diseases.

iii. **Operating Expenses of the Secretariat:** While we have seen the benefits of redeploying staff from low-value-added areas to high-value-added areas, such as grant-management, procurement, and finance, the Global Fund should pay for any future staffing growth at the Secretariat internally, by drilling down on areas with lower productivity or that are susceptible to further automation or outsourcing, so as to ensure overall expenses trend down year on year. The Secretariat devotes the lion's share of its expenses on people and travel. Yet driving efficiency is not about traveling less, but traveling more; it is about redeploying staff into high-value-added areas, and reinventing how the Secretariat performs its tasks (such as restructuring the relationship with the LFAs). Many of the managers who handle grants in countries not designated "High-Impact" could achieve better value-for-money in lower-risk grants if they could shift LFA work engage to alternative assurance-providers, including, in some cases, to the Country Teams at the Secretariat.

To accomplish this, the Board must further empower the Secretariat and grant the Executive Director flexibility in managing and allocating the resources it gives him under a budget ceiling. Improved financial systems that provide clarity and transparency to operating expenses should give the Board the confidence to do so.

1.23 Nevertheless, we all recognize that the Global Fund does not, and cannot, operate in a vacuum, and that the new business and funding models will not work without partners. The Disease and Grant Approval Committees are the most-concrete expression of the organization's partnerships. Now that partners can inform grant-funding decisions for the first time, these Committees are the place where management can reap practical benefits from the Global Fund community's diversity and rich empirical experience. The Grant Management Division should be using the Committees to coordinate the Global Fund's investments in the High-Impact and other critical countries, which should complement national strategies. But the decisions of the Committees need to be actionable, so as to guide the MEC to take specific steps, country by country, to maximize the effectiveness of the Global Fund's financing.

1.24 The relationship between the Secretariat and partners is a two-way street, however. Institutions bathe themselves in the rhetoric of "transparency," but I found that information from many donors and international organizations on what they are doing in the three diseases remains obscure. We saw many cases in which donors did not look at their bilateral programs in terms of consolidated impact with the investments they make through the Global Fund. Both donors and the Secretariat should do a much better job in coordinating procurement, audits, reviews and field visits to avoid duplication, and to increase the synergies between programs, especially where the Global Fund and other donors are funding the same implementing organizations. I find the progress made on these fronts with the President's Emergency Plan for AIDS Relief (PEPFAR) and Malaria Initiative (PMI) in the United States quite encouraging, and I hope that other donors will follow suit this year.

C. Secure the Resources We Need

1.25 As I told the Board at the beginning of 2012, the Global Fund's goal should be to remain the channel of choice for generous giving, because the Secretariat can be the most-effective and most-professional managers of grants anywhere, and can prove it with measurable results. During 2012, with the Board's help, we restored donor confidence. Statements such as the one President Obama and Prime Minister Cameron made in their joint press conference on May 14 are confirmation of this revival of trust, as are the recent pledges from donors like Germany and Switzerland. We even managed to end last year with a positive balance in uncommitted funds, which allowed us to launch the transition to the new funding model in February. As the Global Fund moves toward its fourth, and most-critical, Replenishment Conference, I have watched with great admiration as the Executive Director has continued to secure increased pledges from donor after donor.

1.26 While contributions from companies and individuals will always form only a small portion of the Global Fund's resources, they are an important part of making the organization's spirit of public-private partnership more concrete. I might suggest that this year's Replenishment does offer an opportunity to harness private giving more effectively. For direct corporate donors and large-net-worth individuals, it might be time for the Global Fund's Board to let them earmark their contributions for specific countries or even programs. (I support the continuation of the prohibition on earmarking for traditional public-sector donors, however.)

1.27 The Global Fund presents an unparalleled investment opportunity to donors because of its underlying mission, its track record of achievement and its level of structural reform, unprecedented in a multilateral institution. With the foundation built by the transformation process, and the excellent leadership now in place at the Secretariat, there is no better investment for any donor, whether public or private, than to give to the regenerated Global Fund. And now, during this Replenishment, is the time to invest: The Board has shown its commitment to adapt to changing times, and to make the necessary corrections to secure high returns in terms of diminishing morbidity and mortality. The Global Fund is an institution that has put in place the culture and structures to make the difficult strategic choices that produce the greatest possible impact for the millions it serves.

Part 2: Some Thoughts on Governance

2.1 The Global Fund is a financial institution, and it ran into problems when it forgot that fact. Having a good plan, to be implemented by a capable, collaborative management team, in a controlled environment with a good Board to oversee the implementation of the plan and the effectiveness of the controls, is the formula for keeping a financial institution like the Global Fund successful.

2.2 Once the Replenishment is done, and the business model has settled, perhaps by late 2014, the Global Fund should return to the topic of its own governance. The Millennium Development Goals are coming to an end in 30 months, and a more-effective Board is required for the Global Fund to be a catalyst for impeccable execution in the recipient countries now and in the post-2015 world.

2.3 A discussion on governance should be framed around the reality that the Global Fund is a big and complex financial institution. With this concept in mind, the current governance procedures are inadequate, and have proven to be so over the years. Many have espoused the view that the Board should be understood not to be a real governing body, but rather an open forum for partners—implementers, civil society and donors—to come together in a sort of parliament. I happen to think that having such an assembly is good (as is already provided for in the Fund's founding Framework Document, in the form of the Partnership Forum), but does not substitute for a Board and Committees set up to provide real oversight over this financial institution.

2.4 My view is that the area in which the implementation of the recommendations of the HLP has been weakest or most incomplete has been around the design, functions and culture of the Global Fund's Board and Committees. I will avoid repeating the HLP's recommendations on the structure of the governance system; I am aware of the political realities and imperatives that make changing the composition, size, and format of the Board unlikely. Nevertheless, a financial institution of this complexity requires governance that is more accountable and flexible. I still believe the Board would be wise to consider empowering a smaller, representative Executive Committee to make decisions on its behalf. Under this mechanism, Decision Points would be channeled through this executive body, upon recommendations from the respective Committees, guaranteeing coherence.

2.5 The Global Fund's governance-related expenses reached US$6 million in 2012, up 45 percent over the previous year, but the institution could get more value for this investment. I have given much thought into how the Board loses productivity and focus, and ends up sacrificing much of the value of its multi-constituency composition:

i. As the HLP indicated, the Board should now be spending its time on real strategic decisions, particularly what actions to take to abate the three diseases faster. Looking forward, the Board should now concentrate on its key role—seeing that good plans are in place, making sure a management team can implement those plans, having a controlled environment and overseeing implementation so the plans can produce the desired outcomes. It needs to track the implementation of the *Strategy*, and not micromanage operations. The Strategy and Investment (SIIC) and Finance and Operational Performance (FOPC) Committees should not try to define every parameter of the Secretariat's operations, but consider how to win the war against HIV/AIDS, tuberculosis and malaria faster and cheaper. Right now, I see little discussion going on at the Board or in the Committees of the real opportunities and challenges the Global Fund faces at the macro level.

ii. I am grateful for the patience and understanding the Board's Committees showed with me during the transition process, as they tried to undertake their redesigned responsibilities during a time of swift change for the Global Fund as a whole. Yet more progress over the next few years is needed in bringing coherence to the Committee system. At the moment, overlap in the mandates of the Committees (especially between the FOPC and the Audit Committee), inconsistent representation, differing interpretations within constituencies and political gamesmanship mean that the Global Fund actually has four Boards, not one. The Committees should not be an appeasement process to mollify constituencies, but they should be real, working, dynamic governance bodies that track execution and implementation, with clear differentiation in roles and responsibilities. This was the intention of the HLP's recommendations on the structure of the Committees, and would reduce the unhelpful behavior of constituencies' re-litigating issues at the Board level that Committees had previously settled. No accountability exists for what happens during Committee meetings, and the agenda of these sessions is not that of a financial institution.

iii. The governance processes consume far too much time-- for the Board, for members of the Committees and for the Secretariat. What is needed is better discipline. All involved must commit themselves to better preparation and organization: The Board should continue to focus on the highest-level, most-strategic things, and the Board's meetings should not last three days. Committees should almost never meet over multiple days; these are not Committee meetings, they are conferences. I would like to encourage the use of technology, as the FOPC has begun doing, to reduce the costs and time associated with traveling to Geneva. (The Board should analyze the FOPC's experience to apply it to the work of the other Committees; one clear conclusion for me is that tele- or video-conferences are most productive when they focus on a single issue that needs resolution, rather than on a broad agenda with multiple topics.)

iv. The Board deserves credit for cutting the number of advisory and working groups, which had proliferated over the last few years, and should continue with this streamlining, so as to free up the Secretariat's time.

v. The Committees would be more effective if their members had clear expertise and professional qualifications, especially at the leadership level.

vi. The Global Fund lacks clear lines delegated management authority and channels of communication between the Board and the Secretariat. Interventions into lower levels of management by Board members without coordination through the Executive Director make the Secretariat a porous institution.

vii. At the same time, public quarterly reports that lay out a set of reliable, consistent numbers on performance, as I described above, would mitigate the tendency of donors to try to mine the Secretariat for data.

viii. Finally, Global Fund would benefit from new blood and new perspectives in its governance activities, which might give it a better chance for a culture of more reasoned risk-taking to take root.

Part 3: An Expression of Gratitude

3.1 Finally, I wish to offer my thanks and admiration to all of the people who helped me while I had the privilege of serving as the General Manager: The Chair and Vice Chair of the Board, Simon Bland and Mphu Ramatlapeng, for their wisdom and guidance; the other members of the Board and its Committees; the MEC; the teams from the Boston Consulting Group, McKinsey and Company and Resources for Development; Charlie Johnson, Raj Tatta and Bill Steiger; and all of the staff at the Secretariat. I particularly would like to recognize my Deputy, Debrework Zewdie, for her willingness to teach me, as well as the gentle and patient souls in my immediate office, Dominik Zotti, Ilaria Pernice and Guillaume Magnin, who kept me prepared every day and somehow maintained their sanity while dealing with my schedule.

Part 4: Recommendations for Next Steps

4.1 Sustaining a serious, collaborative management culture at the Global Fund means having the MEC come together to sort out, day-in and day-out, the inherent conflicts posed by support and control functions. In other words, effective team work among the team at the top is paramount, with the Executive Director establishing a fine balance.

4.2 To develop a true **meritocracy**, the Secretariat should develop a clearer **career ladder** for staff who excel; **a standard term** for Fund Portfolio Managers, Program Officers and Program Assistants; and a well-designed **rotation scheme** for grant-management staff.

4.3 The Secretariat should **maintain its focus on grant-management**, through risk-management and the tracking of financials and programmatic results, and remain vigilant that all work-streams are fully oriented and accountable to the core mission of the Global Fund.

4.4 The Global Fund should press forward with a **drive toward efficiency measured on four distinctive fronts**, all of which should show clear, descending trends in the years to come:

i. **Reductions in the cost of acquiring health goods, and in the cost of their distribution**;

ii. **Reductions in the cost of service-delivery** (using expenditure analysis, including among partners and host-country Governments, which can be the platform for estimating broad unit-costs; the constant review of protocols; and the introduction of best practices at the country level);

iii. **Reductions and reallocations of the operating expenses of the Secretariat** to create a "lean and happy" institution; and

iv. **Reductions in morbidity and mortality** in implementing countries.

4.5 The creation of **integrated management-information systems under the unbiased leadership of the Finance Division is at the core of this task**. Management at the Secretariat embedded the centralization of information in the Finance Division as part of the transformation last year, but the next step is the completion **of the integrated grant-management and financial backbone systems** to permit the Board and the Executive Director to follow metrics of grant performance, return on investment, and spending by recipients and the Secretariat, all at once. The database should cover the whole financial cycle of the Global Fund, from the receipt of contributions from donors to disbursements to expenditures to closures and recoveries.

4.6 With the newly created management-information systems, the Secretariat should commit to producing a **standardized, quarterly report to the donors and other stakeholders** on what the Global Fund has done with the money it has raised. Results-oriented and available on the Internet, the report should also highlight what contributions besides money donors have provided to the work of the Global Fund, to give them the satisfaction of public recognition and to drive deeper partnerships at the country level. As a matter of policy, information sent to one donor or stakeholder in response to an inquiry should be published for all to see.

4.7 **The Board should allow management to reallocate resources within an overall budget envelope**, and get out of the business of approving caps on headcount or line-item budgets. In the search for its own operating efficiency, the Secretariat should have distinct, delegated flexibility in managing its budget across different categories of expenses, so it can constantly make decisions about where to invest resources by drawing funding from areas or expense categories that create less value.

4.8 The Secretariat should **make the Disease Committees and Grant Approval Committee even more vivid and dynamic**. The balancing and re-balancing of the Fund's portfolio should be explored and dealt with in these Committees, and the realities of the performance of grants debated there with clout to influence the MEC and the Board.

4.9 Donors and multilateral institutions need to commit to a **real process for synchronizing and coordinating their investments in the three diseases and related health programs,** and to do so in closer collaboration with host-country Governments.

4.10 **Board members themselves,** not delegated representatives, **should sit on the Committees**, and the ability to commit to attending Committee meetings should be a key criterion for choosing who serves on the Board.

4.11 **Committee meetings should be shorter and crisper**, with conclusive decisions as a result every time; **tele- and video-conferences should be the considered** for Committee sessions. The Board should **eliminate the duplication and overlaps in the Committees' charters, and the Coordinating Group of the Board must manage better the delegation and assignment of issues between and among the Committees.**

4.12 **Leadership of the Committees should have clearly defined competencies**.

4.13 **Board members should adopt the discipline of only working through the Executive Director** for requesting information and providing feedback.

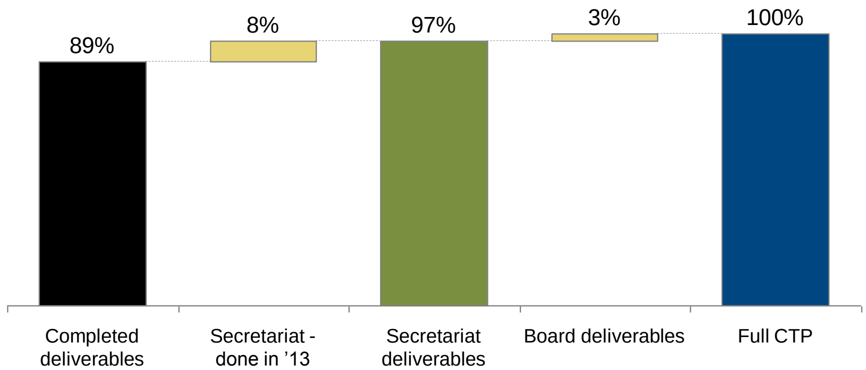
4.14 The Board should **establish limits on the tenure of its Members and Alternates, and of the members of Committees**.

Appendix 1: Status of Implementation of Recommendations of the High-Level, Independent Panel (HLP) (86 total)				
	Implemented as Recommended by the HLP (27)	**In Progress, as Recommended by the HLP (19)**	**Implemented, but in a Manner Different Than That Recommended by the HLP (26)**	**Not Implemented (14)**
Turn the Page from Emergency to Sustainable Response	1.1 (i) 1.2(i) 1.2(iii) 1.2(iv: b) 1.2 (v: a, c, d, f) 1.2(vii) 1.2(viii)	1.2(ii)	1.2(v: e) 1.2(iv: a) 1.2(v: b) 1.2(ix: a, b, c)	1.1(ii) 1.2(iv: c) 1.2(vi) 1.2(x)
Declare a Doctrine of Risk and Manage to It	2.3(ii)	2.3(iv)	2.1(i) 2.1(ii) 2.2 2.3(i) 2.3(iii: a, b, c, d)	
Strengthen Internal Governance	3.3	3.1	3.2.1 3.2.2 3.2.3	
Streamline the Grant-Approval Process		4.1.1	4.1.2 4.1.3	
Empower Middle-Management's Decision-Making	5.1 5.2(i) 5.2(iii) 5.3(ii) 5.3(vi) 5.3(ix) 5.4(i) 5.4(iii) 5.5(i) 5.5(ii) 5.5(iii)	5.3(i) 5.3(v) 5.4(ii) 5.4(iv) 5.6(ii) 5.6(iii) 5.6(iv) 5.6(v) 5.6(vi) 5.6(vii) 5.6(viii)	5.2(ii) 5.3(iii) 5.3(iv) 5.6(i) 5.7(i)	5.3(vii) 5.3(viii) 5.4(v) 5.6(ix) 5.7(ii) 5.7(iii)
Get Serious About Results	6.1(iii) 6.2(i) 6.3(i) 6.3(iii)	6.1(v) 6.1(vi) 6.1(vii) 6.2(ii) 6.2(iii)	6.3(ii)	6.1(i) 6.1(ii) 6.1(iv) 6.3(iv)

Appendix 2: Status of Implementation of the Consolidated Transformation Plan

89 per cent of the Consolidation Transformation Plan was completed by February 2013

Count of deliverables in CTP, in % - As of February 2013



Detail provided upon request to bettergrantsteam@theglobalfund.org

Note: Out of 193 deliverables, 37 have been superseded by combining into single programmes or as a consequence of Board decisions (e.g., on iterative proposal process)
Note: 16 "completed" deliverables will be completed between today and February 29, 2013 with finalized Assurance Framework and NFM transition launch
Note: This document is intended as a report on the transformation plan rather than an auditable tracking process. The intent is to understand which Action Points have been solved and/or directionally impacted and are part of the daily work of the Secretariat.
Some CTP items are ambiguous, difficult to measure, and/or have become irrelevant due to changes in the business model. Key transformative actions that were not in the CTP have been included in the transformation program and on occasions prioritized ahead of CTP Action Points.

CTP update 130113 v3.pptx

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