



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

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Guatemala City, 31 October - 3 November 2006

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Information Only

REPORT OF THE EXECUTIVE DIRECTOR

Outline: This document contains the report of the Executive Director of the Global Fund to Fight AIDS, Tuberculosis, and Malaria to the Fourteenth Board Meeting

Friends and colleagues, welcome to the Fourteenth Meeting of the Board of the Global Fund. This is an historic meeting. By the time we depart, the Global Fund will have chosen its second Executive Director, approved a robust new set of grants, adopted an administrative framework under which to conduct its operations, and laid the foundation of a comprehensive strategy to guide its work over the next four years.

This is also the first meeting of the Global Fund Board in the Latin America and Caribbean region. Last week, Board members had the opportunity to witness successful programs in Cuba, Guatemala, and Jamaica, which have contributed to the increases in treatment access and declines in incidence that many countries have achieved with support from the Global Fund and other partners. But too many remain in urgent need of treatment and too many are newly infected every year. I know Board members will join me when I express to our Guatemalan hosts, and our many partners throughout the region, our deep gratitude for hosting us this week, our respect and admiration for the progress you have already achieved, and our fervent commitment to ensure that the Global Fund provides you with the sustained support you require to overcome the three great killers: AIDS, TB and malaria.

In the six months since the Board last met, the Secretariat has continued to drive forward the work of the Global Fund, signing and launching many Round 5 grants, disbursing an additional \$600 million to effective programs, and raising vitally needed resources, including generous contributions from the Gates Foundation and Russia among others. This report will not be an update on that work. Rather, I would like to take this opportunity to review the overall progress we have made in our nearly five years of work towards realizing the mandate that the founders of the Global Fund gave us. I will close by discussing three key issues for the Global Fund's work if it is to build on the progress it has made to date and have the necessary impact on the global burden of AIDS, TB and malaria.

1. Realizing the Mission and Principles of the Global Fund

Five years ago, the Global Fund did not exist. The Transitional Working Group, which for half a year had strived to translate the concept of a new fund into an outline of an effective financing mechanism, was nearing the completion of its work. The culmination of that work was the Framework Document, the constitution of the Global Fund, which laid the foundation for an ambitious and innovative new organization to turn the tide of the three pandemics.

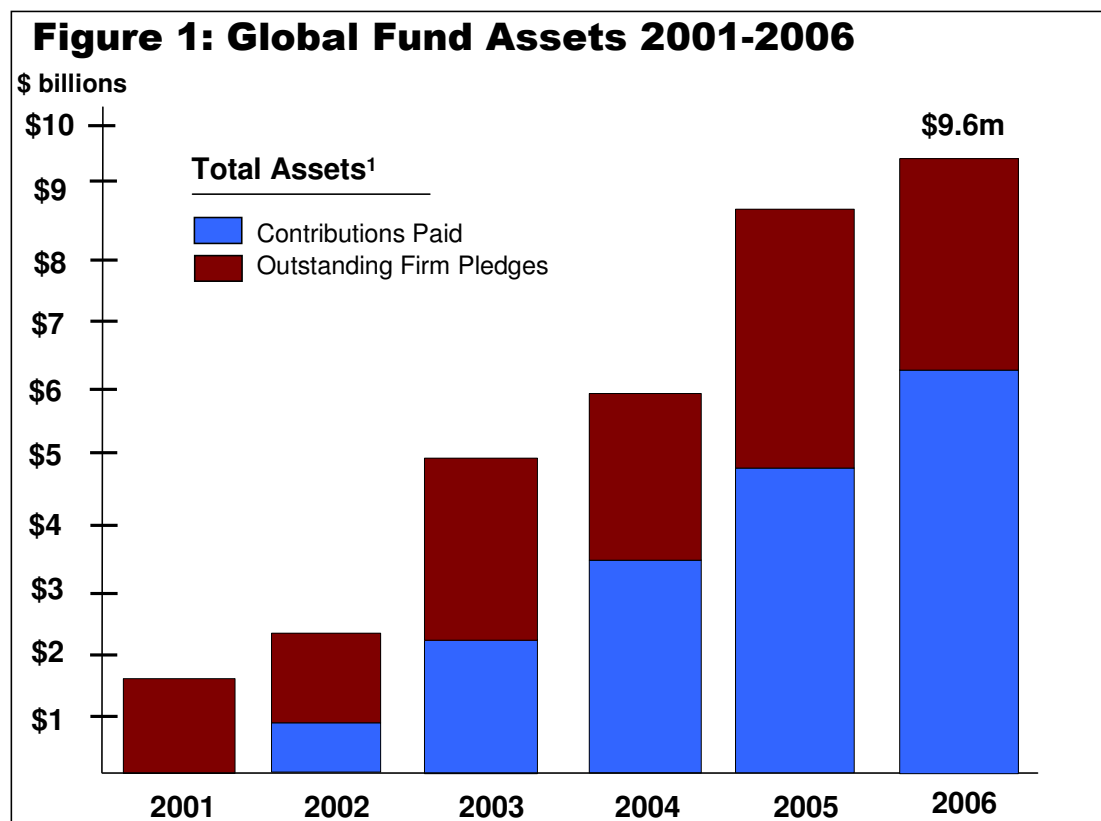
The mandate of the Global Fund, clearly stated at the opening of the Framework Document, has been the driving force behind all of our work over the past five years: "The purpose of the Fund is to attract, manage and disburse additional resources through a new public-private partnership that will make a sustainable and significant contribution to the reduction of infections, illness and death, thereby mitigating the impact caused by HIV/AIDS, tuberculosis and malaria in countries in need, and contributing to poverty reduction as part of the Millennium Development Goals."

It has been our task to translate that vision into reality, ensuring that the principles of the Global Fund result in increased health and prosperity for individuals and nations around the world. We have encountered frequent challenges as we have sought to deliver on this daunting charge that the global community has entrusted to us. As we near the fifth anniversary of the Global Fund, there is mounting evidence that we have crafted this new organization into the effective and vigorous global force that it was intended to be. To venture into cliché, the numbers speak for themselves.

This report considers our progress in fulfilling the mandate of the Global Fund in three parts, first examining the core business of attracting and channeling additional resources to countries in need, then turning to the impact of these actions on the burden of the three diseases, and finally examining our progress in executing a number of our core principles.

“Attract, manage, and disburse additional resources”

In May 2001, the first funding pledges, totaling roughly \$500 million, were made to the still inchoate Global Fund at a time when total international commitments for the fight against the three diseases amounted to less than \$1 billion annually. Today, the Global Fund has raised total assets, including firm pledges and cash contributions, of \$9.6 billion (see Figure 1). Of this, \$6.4 billion has been paid into our trust account at the World Bank. Over this period, we have experienced accelerating growth of annual income, from less than \$1 billion in 2002 to an anticipated \$2.5 billion in 2006. This growth has been driven by successful efforts to increase both the number of donors (from 25 in 2002 to 47 in 2005) and the magnitude of their contributions (from an average of \$43 million in 2002 to \$58 million in 2005).



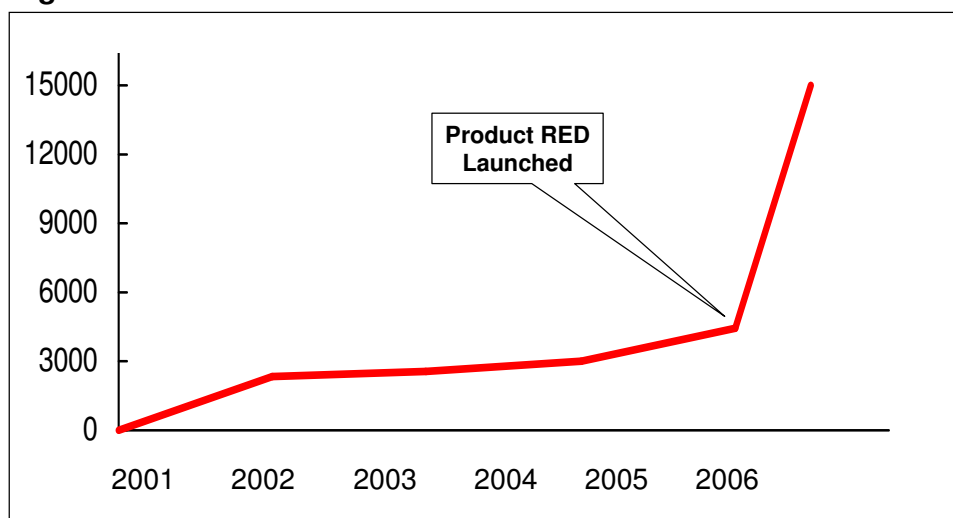
¹ Includes both contributions paid into the Global Fund's trustee account and pledges for subsequent years through 2008.

While the bulk of contributions have been by sovereign governments, there have been recent important and promising developments in fundraising from private sources. Building on its seminal contribution of \$150 million, the Bill and Melinda Gates Foundation made a \$500 million five-year commitment in August of this year, providing a substantial boost to both the size and predictability of our income. This commitment, according to the Gates Foundation, is a result of the rapid progress that we have made in increasing access to prevention, care, and treatment for the three diseases¹ and comes in addition to the other strong support the Gates Foundation has provided to the Global Fund, including as a member of our Board and financier of innovation within the organization.

¹ In the announcement of the contribution Bill Gates said: “The Global Fund is one of the most important health initiatives in the world today. The Global Fund has an excellent track record, and we need to do everything we can to support its continued success, which will save millions of lives.”

The other major development was the launch earlier this year of Product RED, the private initiative which harnesses the power of corporate marketing and consumer spending for the Global Fund and its beneficiaries. In just a few months of operation in the United Kingdom, RED and its corporate partners have generated more than \$10 million for the Global Fund, trebling total contributions from companies and individuals to date (see Figure 2), and increasing public awareness of the Global Fund and its work. I thank Bono and Bobby Shriver for the invention and realization of RED, and the five leading corporations (American Express, Armani, Converse, Gap, and Motorola) for their commitment and creativity. On October 13, RED expanded to the United States and France and added a powerful new corporate partner in the iconic electronics manufacturer, Apple. RED is still in its infancy, but its trajectory so far demonstrates that it has the potential to revolutionize the way private companies and individuals contribute to the Global Fund and the fight against the diseases. Together with the Private Sector Delegation of the Board, we are also working to develop other private initiatives, including the new “Hope Spreads” campaign, which will generate additional resources and awareness through the mass sale of postage stamps.

Figure 2: Private Sector Financial Contributions to the Global Fund 2001-2006*



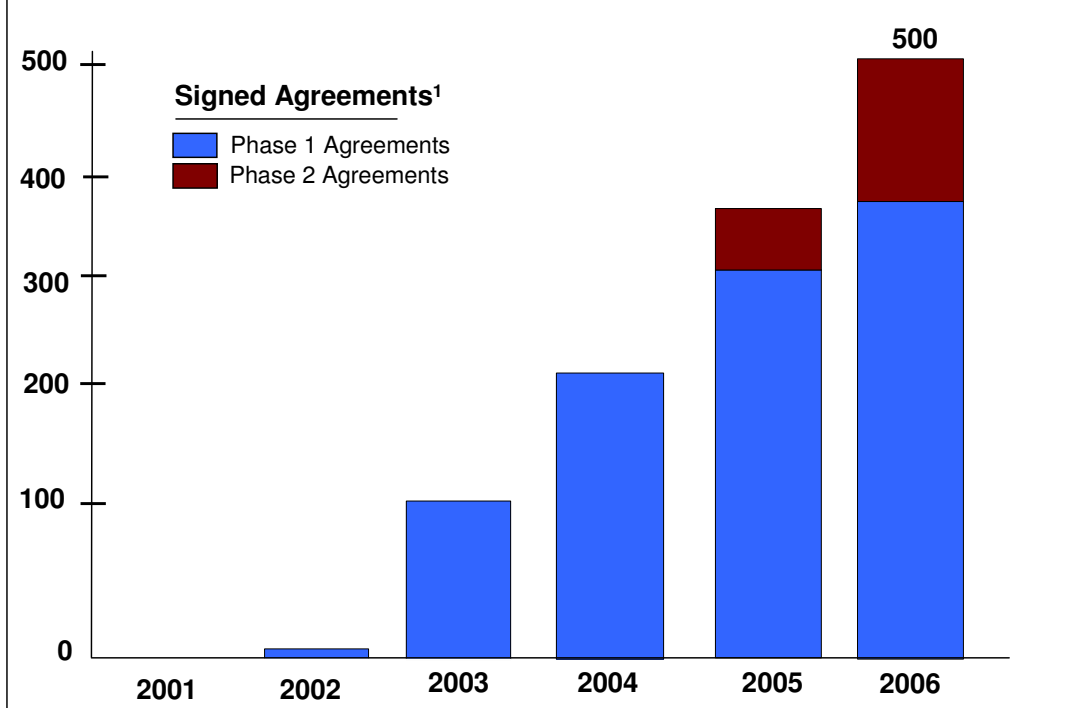
* Does not include private foundations

We have also made progress in developing and engaging with innovative sources of financing – a critical complement to traditional ODA and private contributions if the Global Fund is to grow to its required size. Earlier this month, the Board of the new drug purchase facility UNITAID, which shares many constituencies with our own Board, decided to make a \$52.5 million contribution to Round 6 as the first step in what we anticipate will be a close partnership with the Global Fund. Development of an initiative to convert bilateral debt commitments into financing for Global Fund grants has also progressed and we plan to launch a pilot in the near future.

We have rapidly translated our expanding assets into increased support for countries in need. When I joined the Global Fund more than four years ago, we had not yet signed a single grant agreement nor disbursed a single dollar. As of the start of October, we had signed 500 agreements², committing a total of \$4.9 billion to effective programs (see Figures 3 and 4). As Dr. Keith Bezanson noted in his independent assessment of the Global Fund, this pace of start-up significantly exceeds that of other international organizations: it took the Global Fund 16 months from its legal incorporation to the commitment of its first \$1 billion, compared to between 32 and 108 months for similar organizations such as the Global Environment Facility and the International Fund for Agricultural Development.

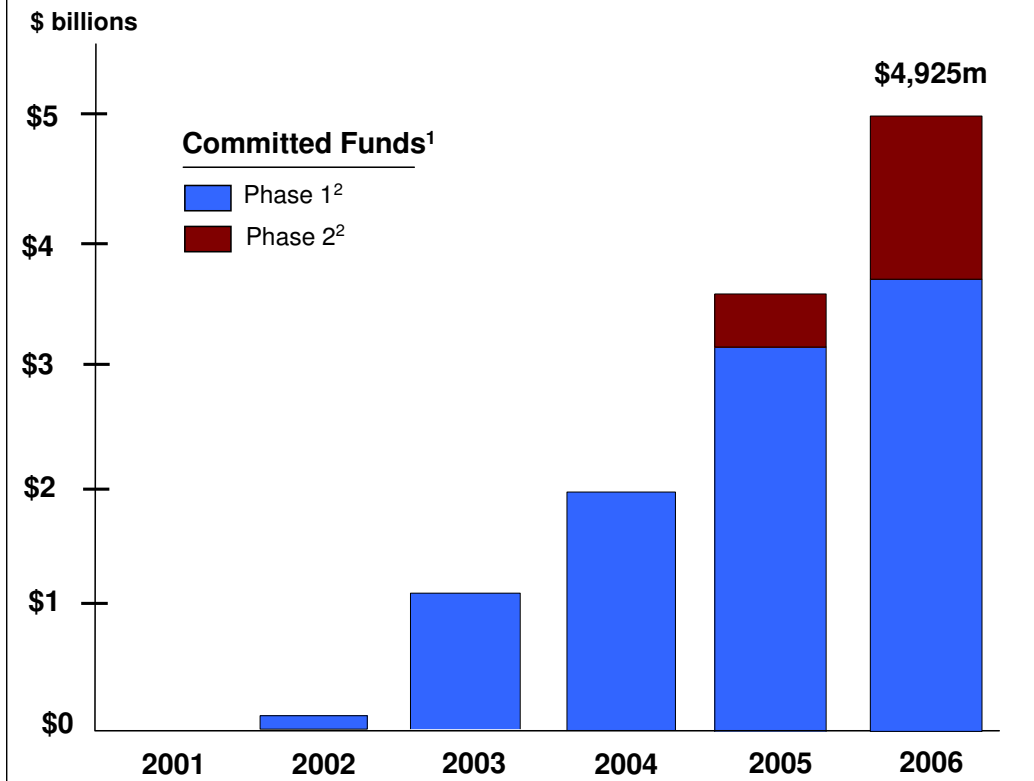
² Includes agreements for both Phase 1 and Phase 2 of grants.

Figure 3: Grant Agreements 2001-2006



¹ Cumulative grant agreements signed with Principal Recipients at end of each calendar year

Figure 4: Grant Commitments 2001-2006

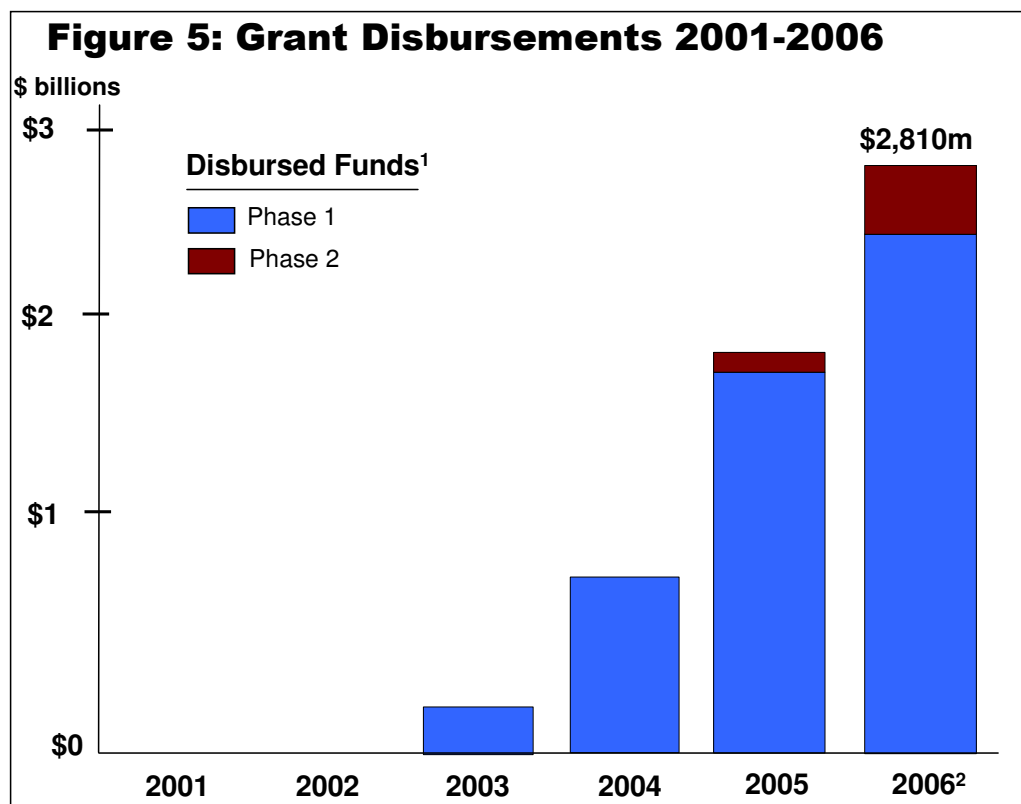


¹ All funding committed through signed grant agreements at end of each calendar year

² Phase 1 consists of the first two years of a usually five-year approved proposal. Phase 2 consists of the remaining three years.

Through our grant commitments, the Global Fund has become a truly global mechanism – with the addition of grants slated for approval in Round 6, we will have investments in all but six³ low and lower-middle income countries in the world as well as in 23 upper-middle income countries with high or rapidly growing burdens of the diseases. And while our reach is appropriately broad, our demand-driven approach has focused our investments where they are most needed: the majority of financing is committed to low income countries (67%), sub-Saharan Africa (57%), and the fight against AIDS (56%).

The actual disbursement of funds to programs has grown at a similar rate. In December 2002, the Global Fund made its first disbursement – a \$1 million transfer to a program in Ghana. Since that time, we have channeled more than \$2.8 billion to programs across the globe, with a growing portion flowing to programs which have entered the second phase of implementation (see Figure 5). These disbursements have consistently matched the needs of programs. Over the past two years, the average percent of grant sums disbursed to programs has closely tracked the amount of time elapsed in the grants, with the difference between the two rates averaging three percent over that period (see Figure 6). And once in countries, funds have been rapidly distributed to and used by local entities: as of June 2006, 91 grants which had entered Phase 2 review had expended or committed (eg, for procurement orders) 77 percent of the funds disbursed to them.

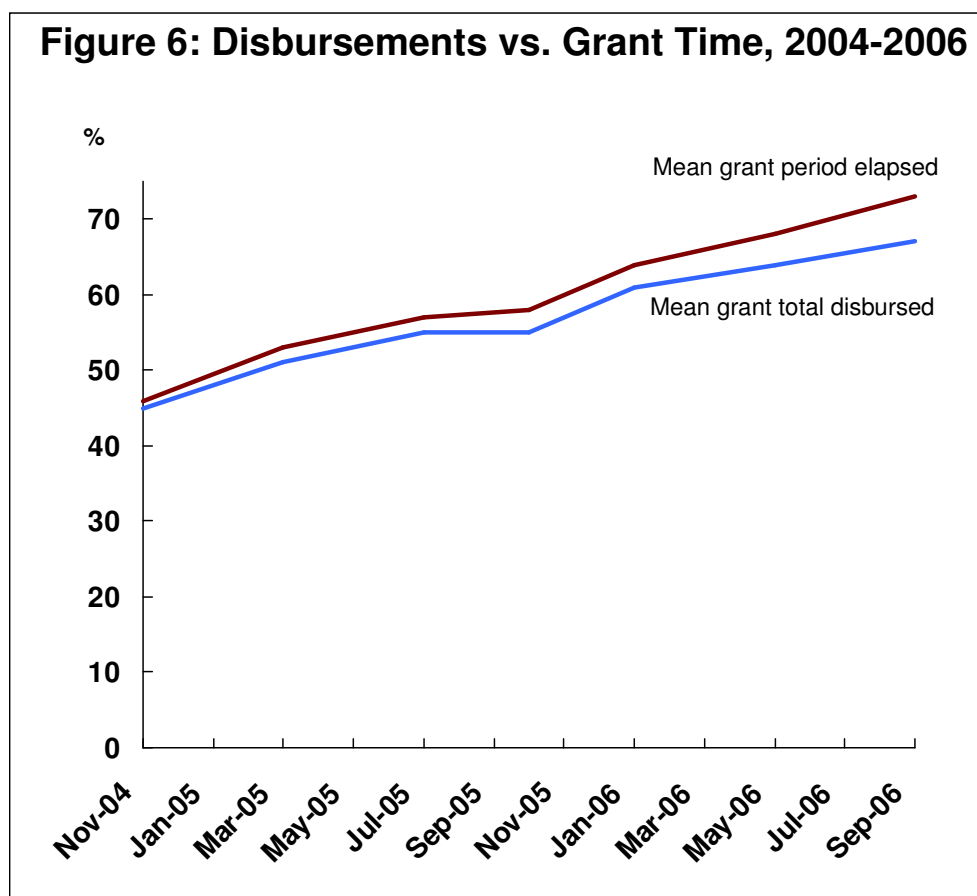


1 Cumulative disbursements to Principal Recipients as of the end of each calendar year

2 As of October 18, 2006

³ The six low and lower-middle income countries without active Global Fund grants are Cape Verde, Marshall Islands, Myanmar, North Korea, Turkmenistan, and West Bank/Gaza.

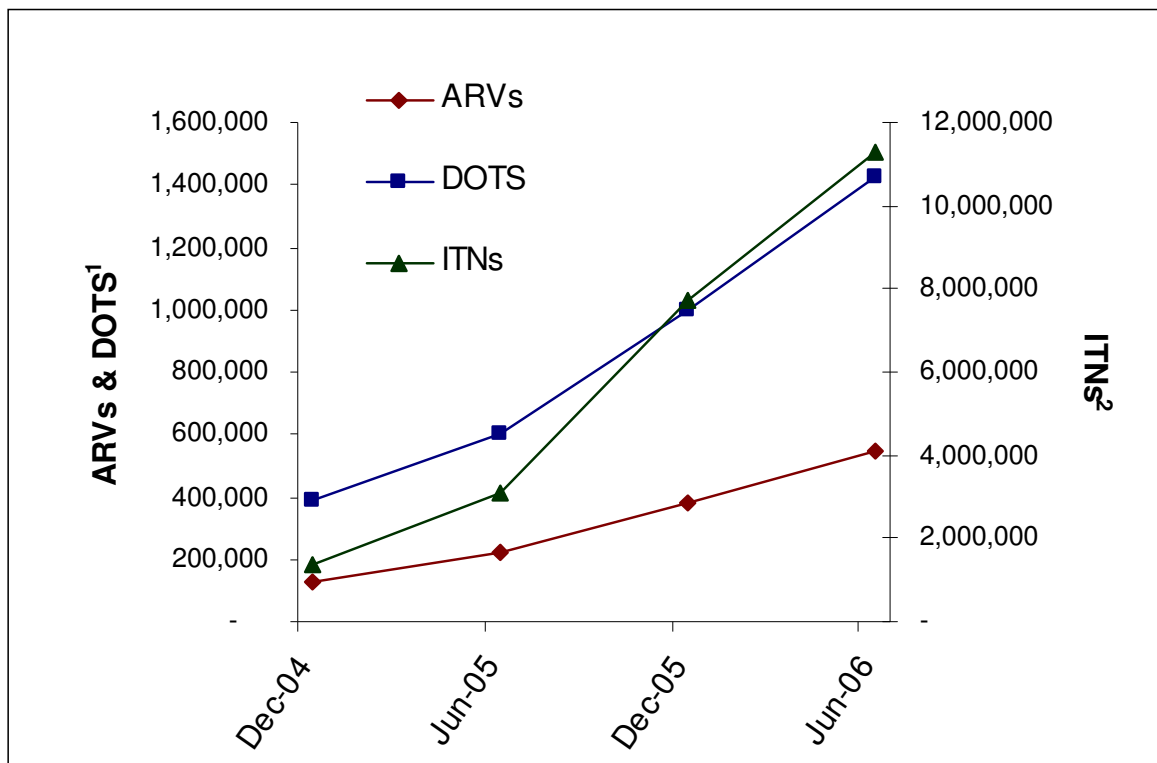
Figure 6: Disbursements vs. Grant Time, 2004-2006



“Make a sustainable and significant contribution to the reduction of infections, illness and death”

The core business of the Global Fund is the raising and management of funds, but it is the impact that money has on the lives of people affected by AIDS, TB and malaria on which the world will judge our efforts. Here too the evidence is promising. Essential interventions delivered with support of Global Fund financing, including antiretroviral (ARV) treatment, TB detection and treatment (through DOTS, Directly Observed Treatment Strategy), and insecticide-treated bed nets, have increased exponentially over the past 18 months (see Figure 7). Provision of other services, from HIV testing and prevention to the training of health workers and other capacity building measures, have grown at a similar rate. These results have been central to recent global progress, driving, together with U.S. bilateral programs and the World Bank, the eight-fold increase in ARV treatment access in Africa between 2004 and 2006 and accounting for the treatment of roughly 30 percent of expected new TB cases over a similar period, among others.

Figure 7: Growth in Services Financed, 2004 - 2006



1 Number of people receiving antiretroviral treatment or TB treatment through the DOTS strategy supported by Global Fund financing

2 Number of insecticide-treated bed nets distributed or retreated with support from Global Fund financing

The increase in services reflects the strong individual performance of Global Fund recipients. As of October 1, 75 percent of the 177 grants which had entered Phase 2 review had met or fallen just short of their programmatic targets (graded A or B1). Only 3 percent demonstrated unacceptable performance (graded C). In total, these grants have achieved, on average, 92.6 percent of their targets for ten of the most important services (see Figure 8). Several studies⁴ have shown that Global Fund recipients in low income countries have performed as well as – and according to some measures, better than – their counterparts in middle income nations. Similarly, those studies found that performance of grants to so-called “fragile states” does not significantly differ from grants to more stable nations.

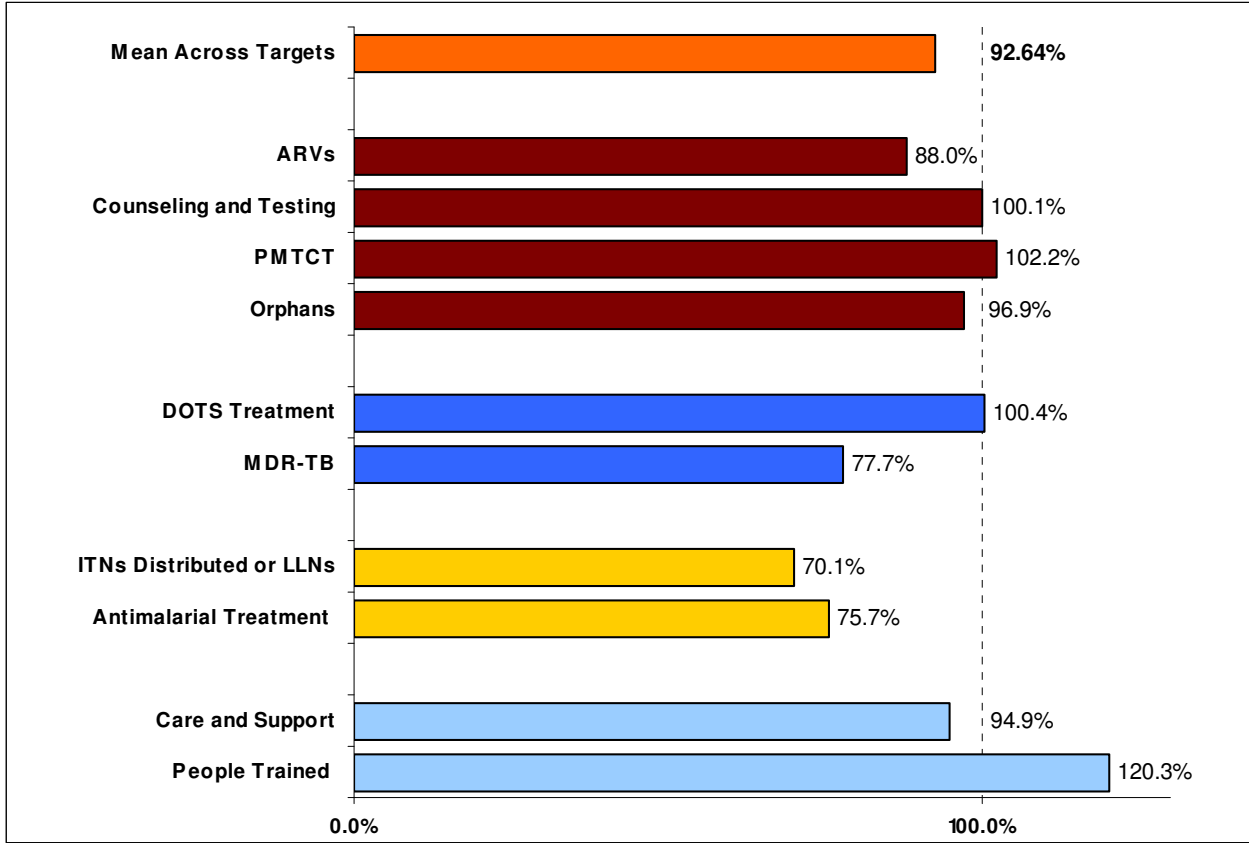
⁴ Lu, C. et al. *Absorptive Capacity and Disbursements by the Global Fund to Fight AIDS, Tuberculosis, and Malaria: Analysis of Grant Implementation*. Lancet 2006; 368: 483-488.

Radelet, S., and Siddiqi, B. *Global Fund Grant Programs: Which Are Most Likely To Succeed?* [unpublished]

Low-Beer, D., Banati, P., Komatsu. *Investing in Impact: Mid-year Results Report 2006*. Geneva: Global Fund to Fight AIDS, Tuberculosis, and Malaria, 2006.

Figure 8: Programmatic Results Achieved

Percent of two-year targets reached by Phase 2 Grants¹



¹ Percent of aggregate two-year targets reached by 177 grants reviewed for Phase 2 by Oct. 1, 2006

These results are striking for two reasons. The first is the pace and level at which they have been achieved. As many of us know from years of experience in the field, development results, especially in the “social sectors”, are notoriously challenging to deliver and many programs fall far short of their initial ambitions. It is therefore highly significant that Global Fund-financed programs have achieved more than 90 percent of their coverage targets.

The second reason is simply the fact that this performance information is available at all. Historically, the lack of successful development programs has had as much to do with the inability or failure to measure outcomes as with the actual production of those outcomes. As is clear from the information above, the Global Fund has collected a wealth of data on the performance of its grantees while at the same time ensuring that this evaluation imperative does not come at the expense of essential speed and flexibility. And, critically, we have not maintained a monopoly on this information, making all of it, good and bad, available to the world through our website. To be sure, there is still much more that we can and must learn about the work of our recipients (we are currently working to further refine and improve our monitoring systems), but we should not underestimate the Global Fund’s progress so far in monitoring and evaluating its investments.

As the Global Fund matures, we must increasingly ask not only how many people we have reached with vital services, but also what impact those services have had on the burden of the three diseases. It is still too early to measure this impact in most countries, although there are a few notable exceptions. In Indonesia, for example, the rapid scale-up of effective TB treatment through a Global Fund grant (in 2004, Global Fund financing supported more than half of all new cases treated) has contributed to an accelerating decline in new cases in the country. In the Lubombo Region of Southern Africa,

Global Fund financing has contributed to a 90 percent decline in malaria incidence in some areas and a newly launched grant will enable this success to be extended further into Mozambique.

Critical to our further understanding of the impact of our investments will be the proposed Five-Year Evaluation being brought before the Board this week by the Technical Evaluation Reference Group (TERG). This evaluation will be a watershed in the life of the Global Fund and the fight against AIDS, TB and malaria – it is the first multi-country impact evaluation ever conducted for the three diseases. The information it will provide will be invaluable in assessing and improving the effectiveness of the Global Fund’s model and, as a result, it will amply repay the funds that we invest in it.

“Contributing to poverty reduction as part of the Millennium Development Goals”

Ultimately, the goal of the Global Fund is to contribute to a world in which people live free from not only the threat of disease, but also the ravages of poverty, hunger, conflict, and other scourges. The clearest way it will do so is through the effect that the health outcomes it enables will have on the economic development of individuals, communities, and countries – noting that the impacts of health on economic growth have been frequently demonstrated over the past decade.⁵ We are many years from being able to detect this broader impact and even then it will be difficult to discern the role that the Global Fund and its recipients have played.

There is another, perhaps equally significant, means through which the Global Fund can contribute to global poverty reduction – the impact of its model on the many billions of dollars of foreign aid devoted to other global challenges. The Global Fund is a massive experiment, embodying a number of theories about health and development finance which, at the time of its founding, had yet to be tested on a large scale. We are thus being watched not just for our progress in driving back the three diseases, but for what implications that progress may have for the effectiveness of our approach and, by extension, the other approaches that are adopted throughout the business of development finance. If we are successful, we may see more institutions adopting elements of our model and a larger proportion of ODA flowing through these channels. If we fail, the development community will need to return to the proverbial drawing board in its continuing quest to for greater effectiveness, efficiency, and harmonization.

What then has been the experience of our model? The progress described above suggests that we are on the right track. But let us briefly examine a number of the most important aspects of our approach, all enshrined in the Framework Document, to gain a more complete picture of what that experience has been.

Local (Public-Private) Ownership

The principle of local ownership is oft discussed in development finance, but, for all its seeming simplicity, it is difficult to execute to a meaningful degree. The Global Fund’s approach to this principle has been defined by what we have not done. We have not been involved in the design of any of the programs we finance. We have not allocated resources other than on the basis of demand and technical merit. We have not chosen who will implement a country’s program, who will provide its technical guidance, or who will procure its products. The list goes on. All of these critical decisions have been made by stakeholders within the countries – a unique and significant feat given the history of development finance. This approach has been well received, with 73 percent of the more than 900 respondents in the recent stakeholder assessment conducted by the TERG rating the Global Fund’s performance in supporting country ownership as good to excellent.⁶

⁵ See, for example, the Report of the Commission on Macroeconomics and Health (www.cmhealth.org)

⁶ Percent of respondents rating the statement the Global Fund’s performance in “supporting programs that reflect country ownership” as “good, very good, or excellent.”

For some, local ownership means ownership by the government of a recipient country. But we have taken the approach that programs fighting the three diseases should be owned by all those in a country who have an interest in and can contribute to its success – governments, nongovernmental and faith-based organizations, private businesses, academia, and, most importantly, those living with and affected by the three diseases. Our primary means to put this principle into practice is the Country Coordinating Mechanism (CCM).

CCMs have been a topic of extensive discussion around this Board table as well as within development circles around the world. While the CCM model certainly has weaknesses and in some countries CCMs are operating well below the ideal, we should not let the perfect be the enemy of the good or even the good be the enemy of significant progress. We have embarked on an endeavor to catalyze radical change in the way disease control is approached in many countries and should not discount the steps that have already, in this short time, been made towards that goal. Currently, more than 40 percent of CCM members around the world represent non-government constituencies. While this representation does not ensure inclusion in decision-making, it has done much to provide groups in some countries with a voice and platform they have not had before. For every example of a CCM that is not working well, there is one that is exceeding expectations. The CCM in The Gambia, for example, is chaired by a member of a private firm and, by most accounts, is effectively and inclusively pursuing its mandate.

The distribution of the Global Fund's resources – roughly half of all investments are committed to nongovernmental groups – also indicate that many CCMs have successfully incorporated a broad range of strategies into their programs. Some groups have received a major increase in financing to extend their efforts and, increasingly, countries are pursuing coinvestment projects with private companies through the support of the Global Fund – the flexibility of the Global Fund has enabled companies and their partners to develop these projects during grant implementation after encountering obstacles during the proposal development and submission process.

Has this approach to local ownership been effective in realizing the mandate of the Global Fund? More extensive analysis is certainly required, including comparisons with other models, before we pass judgment. But it has undoubtedly contributed to the high rate of success among Global Fund programs – an assumption I believe many of our colleagues from countries receiving Global Fund financing would support. As Tedros Adhanom Ghebreyesus, the Minister of Health of Ethiopia, has put it: “The Global Fund is one of the most flexible and focused funding systems I have ever seen...There is still a huge gap but whatever we receive from the Global Fund fits in with the health development plan.”

Focus and Efficiency

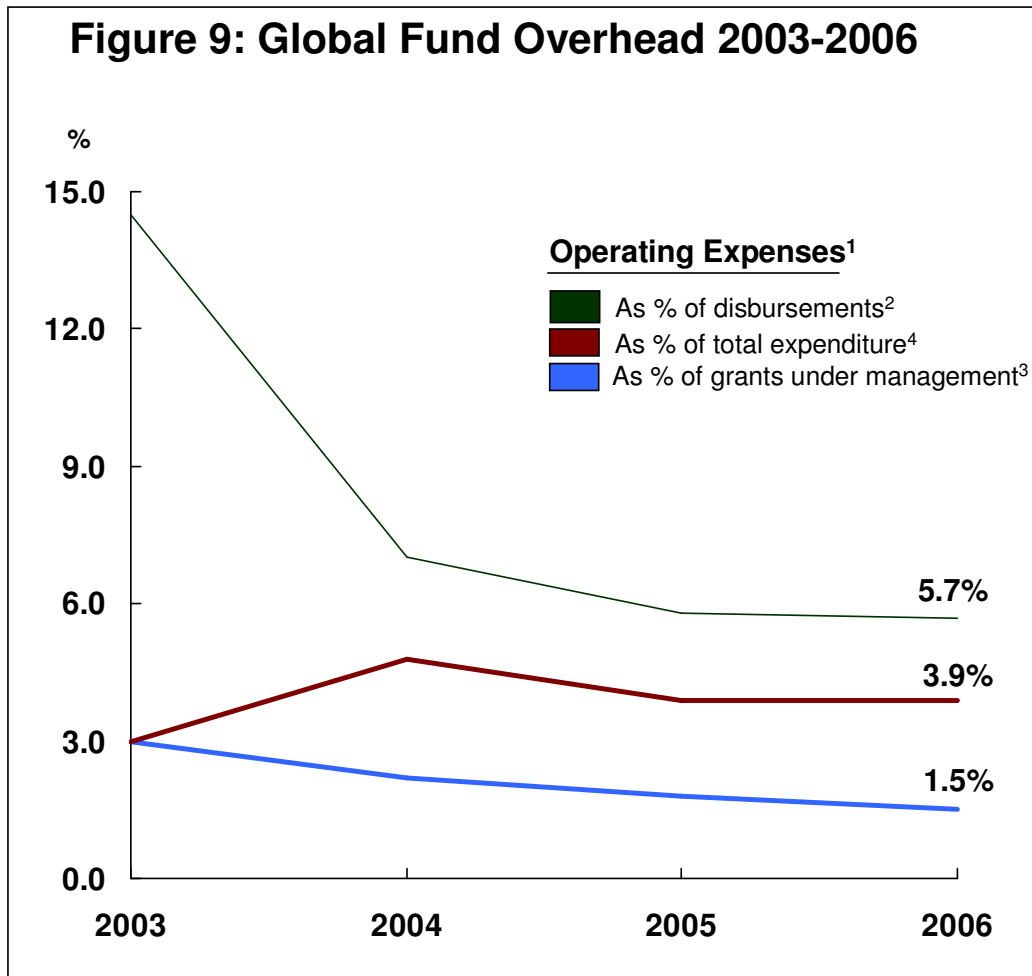
The first principle listed on the first page of the Framework Document states that “the Global Fund is a financing instrument, not an implementing entity.” Our efforts to remain true to this principle have been among the most important and challenging areas of our work over the past five years. There are a host of priorities in the fight against the diseases of which provision of financing is only one, albeit a critical one. The Global Fund was founded on the idea that these priorities are best pursued not individually by all, but rather collectively, with each organization specializing in the priorities for which they are best suited – an approach which has become an increasing focus of the global community through discussions on aid harmonization.

But with the complexity and urgency of the fight against the diseases, there is an understandable tendency to seek to expand focused mandates to meet other pressing needs. Over the past five years, the Global Fund has experienced frequent calls for it to broaden its mandate, from expanding

to finance other health priorities to taking a more active role in the implementation of its grants. We have resisted all of these.

This has had a number of essential, if unquantifiable, effects. As mentioned above, our continuing separation from and trust in the decision-making of our recipients has been critical to ensuring the local ownership and therefore the impact of our investments. That same separation has enabled us to achieve the progress we have in executing our performance-based funding model – it is doubtful whether we would have been able to penalize poor-performing grants to the extent we have if we had been actively engaged in their implementation.

And, perhaps most importantly, our unerring focus on our core business has enabled us to maximize the amount of our resources that are used to directly support countries in need. Since we began disbursing funds in 2003, our annual overhead expenses (operating expenditures for the Secretariat and Local Fund Agents) have remained at or below three percent of the value of our grants under management and below five percent of our total annual expenditures (see Figure 9). Moreover, most of those expenses are offset by the interest from our assets so that all but a small fraction of funds contributed to the Global Fund flow to programs.



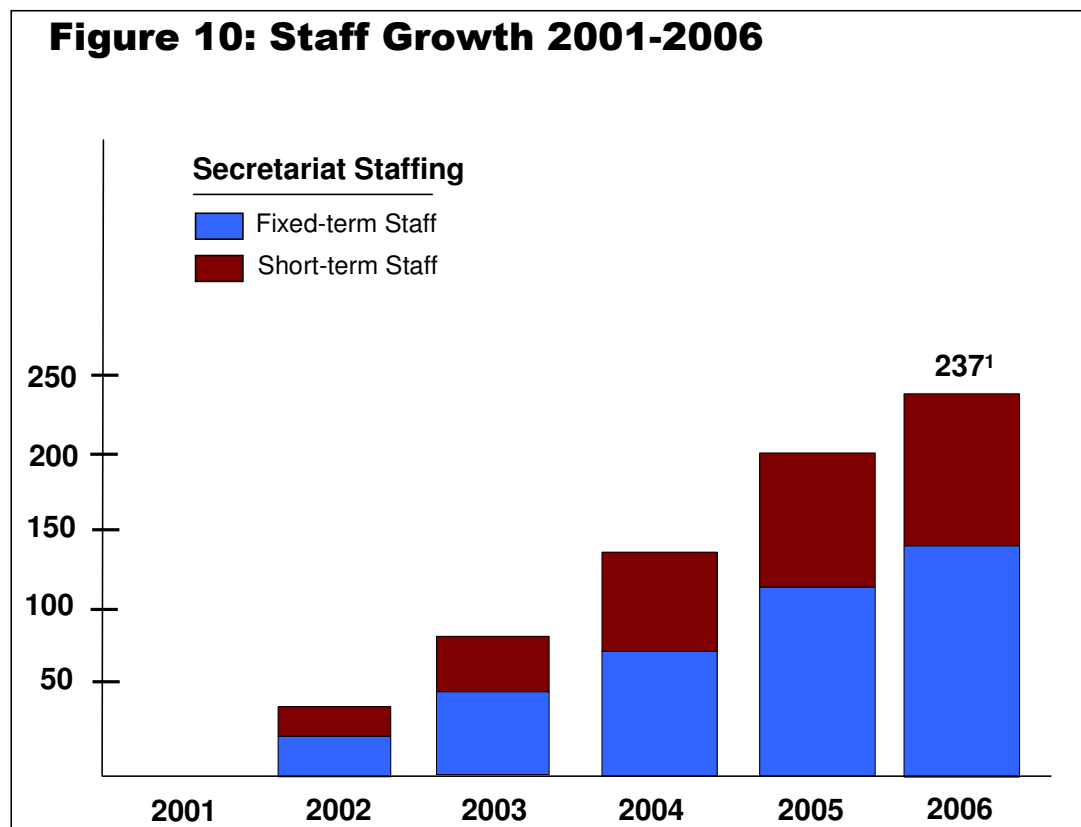
1 Operating expenses comprise Secretariat expenses plus fees of Local Fund Agents

2 Amounts disbursed to Principal Recipients in the year

3 The amount of new grant commitments plus operating expenses in the year

4 Cumulative amount of funds committed to active grants

This minimal overhead has been made possible by the lean and efficient Secretariat which has driven the work of the Global Fund. When the Board issued the first call for proposals in January 2002, the Global Fund had no full-time staff. Today, the Secretariat is operated by 143 fixed-term staff and roughly 94 short-term staff (see Figure 10). This growth has closely matched the demands of our expanding grant portfolio, with the annual ratio of funds disbursed to staff remaining consistently above \$5 million to one, more than double the ratio of other public and private finance institutions such as the World Bank, the Ford Foundation, and Citygroup.



¹ Total staff working at the Secretariat (not including the Office of the Inspector General) as of October 15, 2006. An additional 15 positions have been budgeted for but not filled at this time.

We have sought to build a team of diverse and committed individuals who reflect the fundamental principles of the Global Fund and who can effectively meet the challenges of our lean model. As a result, the geographic and gender diversity of our staff has grown over the years, with women making up 61 percent of current staff members and with more than 45 percent of staff hailing from regions other than North America and Western Europe. In addition, the number of staff known to be living with HIV/AIDS has increased to four currently and staff have joined the Global Fund with a broad range of professional backgrounds, including 43 percent coming from the UN system and 40 percent from the private sector and nongovernmental organizations. There is still room for improvement (for example, we would like to further increase the number of women on the management team⁷), but we have come a long way from the handful of consultants and secondees who laid the foundation of the organization just five years ago.

⁷ On November 1, the composition of the Executive Management Team is 5 women and 7 men coming from Australia, Germany (3), Ireland, Italy, Jordan, Nigeria, Norway, Peru, South Africa, and the United Kingdom.

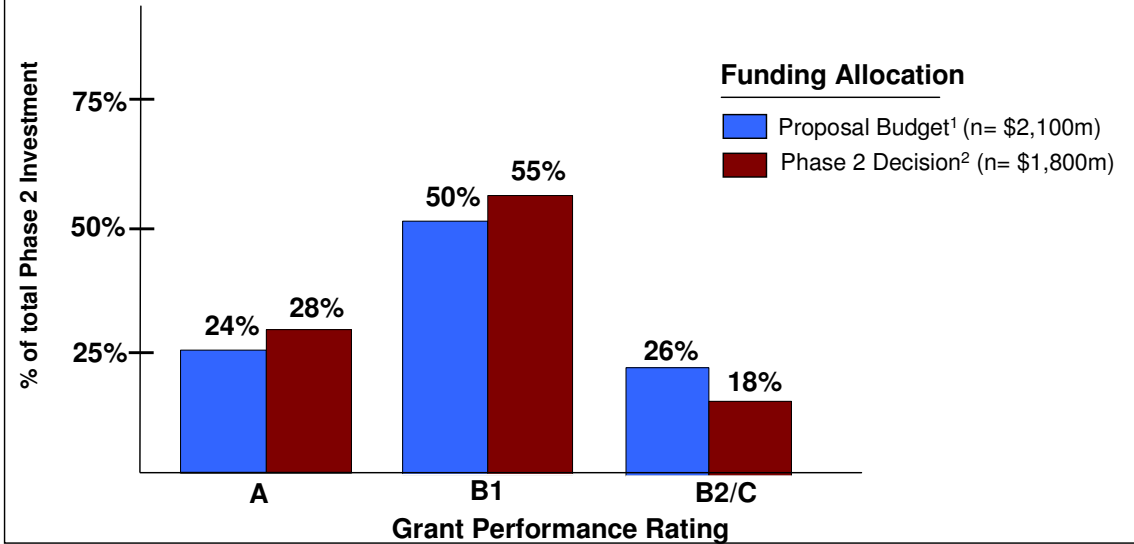
Let us then return to the core question of whether our execution of this principle has contributed to the Global Fund's impact on the three diseases. The answer is, I believe, a clear yes. At the least, tens of millions of dollars that we might have otherwise spent on salaries, consultants, and offices, have gone to support essential life-saving interventions. And at most, our strict adherence to our role as a financier has created clarity for our recipients and partners that has strongly contributed to the high performance of our investments.

Accountability and Transparency

Money should follow results. This idea has, perhaps more than any other, served as one of the primary driving forces of the Global Fund's operations to date. The founders of the Global Fund placed a particular emphasis on ensuring the accountability of the new investments which would be made, including repeated references to the imperative of "linking resources to the achievement of clear, measurable and sustainable results" in the Framework Document. To implement this principle, we have developed and continually refined a comprehensive performance-based funding system, which holds recipients accountable for their use of Global Fund resources throughout the lifetime of their grants.

This system relies on the execution of two fundamental components: the gathering of robust and appropriate performance information, and the ability and willingness to make funding decisions based on that information. The evidence so far suggests that we have been able to successfully execute both. Through the Phase 2 review process, more than \$300 million, or 15 percent of total investments, has been reallocated from poor-performing to well-performing (as judged primarily by their progress in achieving coverage targets) grants (see Figure 11). This is a result of both budget cuts for underperforming grants and cancellation of a number of grants. Ongoing disbursement of funds has also closely tracked performance, with A-rated programs receiving on average 89 percent of their two-year grant sums compared to 61 percent for C-rated programs (see Figure 12).

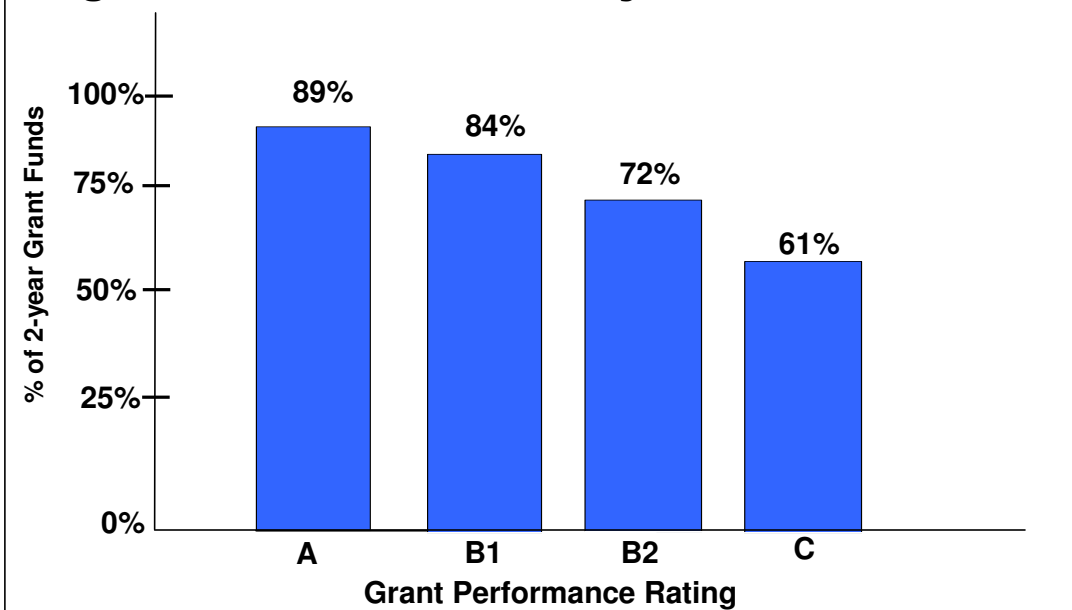
Figure 11: Shifting Investment to Performance



1 Total Phase2 budget included in original proposals submitted by recipients

2 Allocation of Global Fund Phase 2 investments based on final Board decisions on 177 Phase 2 proposals as of October 1, 2006.

Figure 12: Disbursements by Grant Performance¹



1 Median percent of 2-year Phase 1 grant commitments disbursed to the 177 grants with Phase 2 requests reviewed by the Secretariat as of October 1, 2006.

There are initial indications that this system is helping to create incentives to maximize the impact of the Global Fund's investments. Of the 35 grants which had received a low performance grade (B2 or C) at Phase 2 review and therefore the threat of discontinued or reduced funding, 81 percent demonstrated significantly improved performance during the next implementation period, with some making dramatic improvements (increasing by two or three performance grades on the scale of four). A malaria program in Ethiopia, for example, failed to deliver any bed nets during its first 18-months of operation and its funding was made conditional on the distribution of two million nets before the next malaria season. Within four months, all two million nets had been distributed and the program is on track to meet or exceed most of its other targets.

There is much more that we must do to ensure that our money does indeed follow results and that our recipients are properly incentivized to excel. We must capture more robust information without burdening our recipients. We must refine the Local Fund Agent system so that it can most effectively fill its critical role. And we must strictly apply our performance standards in the face of often agonizing funding decisions. But as a respondent to the TERG stakeholder survey notes, we have already done much to push the envelope in ensuring the accountability of development assistance: "Performance-based funding is nothing newbut few have been as rigorous in the application of the principles."

Our focus on accountability has extended beyond ensuring the performance of our recipients. In the end, all of us – recipients and donors, Board and Secretariat alike – are accountable to those that the Global Fund was created to serve: the individuals and communities affected by the three diseases. As a result, we have been constantly mindful of the question *quis custodiet ipsos custodes?*, seeking to hold ourselves to the same performance standards to which we hold our recipients. This has been manifested, in part, through our support and encouragement for independent evaluations of work. Over the course of our five years of operation, numerous organizations from the International Center for Research on Women to the U.S. Government Accountability Office have conducted substantial studies on the work and progress of the Global Fund. We have always ensured that these organizations have full access to the information they need and have strived to learn from their findings, adapting and enhancing our work appropriately. This self-reflection prompted Dr. Keith Bezanson to conclude in his 2005 Independent Assessment of the Global Fund that "it [the Global Fund] has become what other organizations talk about – a learning organization."

Critical to our efforts to ensure the accountability of both our recipients and ourselves is our commitment to transparency. As noted above, all information on our investments from approved proposals to performance reports and disbursement requests is available on our website alongside other essential information such as Board decisions and independent evaluations. This has in effect democratized the task of accountability, enabling anyone invested in the fight against the diseases, whether a person living with AIDS in Malawi or a taxpayer in London, to challenge our work.

2. The Road Ahead

We have come a long way in a short time. But despite this trajectory, the success of the Global Fund and its mission is not assured. That success will depend on the continued commitment, diligence, and flexibility of the many members of the Global Fund family, and on our collective ability to ensure that the progress over the last five years is a foundation for even greater growth in investments, more rigorous application of our principles, and a larger impact on the three pandemics.

This is my last Board Meeting as Executive Director of the Global Fund. In the coming months, I will pass the torch to my successor and, while I will continue to contribute to and fiercely advocate for the work of the Global Fund, I will no longer be leading this endeavor which we have jointly pursued over the past five years.

I would therefore like to use the remaining pages of this report to briefly outline certain key priorities for the work of the Global Fund over the next five years, if it is to live up to its responsibilities in the fight against AIDS, TB and malaria. There are a host of actions that must be taken in the coming years, from the refinement of LFAs to the more effective mobilization of technical assistance for recipients. All are critical to the work of the Global Fund. But with the continued commitment of our staff and partners, the guidance of the Board, and the leadership of my successor, I am confident that all of these actions will be effectively taken forward. I will therefore focus on three priorities which I believe are of particular importance and which will require heightened attention and courage from all of us if they are to be robustly implemented.

Retaining our Focus

As described above, our unwavering focus on our essential but limited role in the fight against the diseases has been a critical factor in the progress we have achieved over the past five years. That focus will be increasingly difficult to maintain in the coming years. As the Global Fund moves fully from adolescence to maturity – a transition which will, in part, be symbolized by the hand-over to my successor – it will face many challenges which have plagued countless organizations that have come before it. Among these will be an increasing pressure to expand beyond our founding mandate.

Overcoming those challenges and sustaining the focused and efficient nature of the Global Fund will require constant vigilance. We must be wary of even the seemingly smallest steps away from our founding model. “Mission creep” is so called because dilutions of mandates do not occur overnight, but through a long chain of mundane and minor events. For example, what might begin as a handful of staff stationed outside of Geneva may soon develop into a large structure of regional and country offices around the world and the end of the Global Fund’s unparalleled overhead ratios. That is not to say that the many other tasks in the fight against the diseases, from implementation support to financing of health systems, are not important. Rather, it is because we believe them to be important that the Global Fund should not seek to take on those tasks, leaving them to other partners who are better suited to fill those roles.

This also does not mean that we should abandon the flexibility which has been so important to the success of the Global Fund. We must continue to pursue innovative solutions to the many new challenges that arise, as long as those solutions fall within the Global Fund’s mandate. In fact, there are currently unrealized opportunities within that mandate. I refer particularly to the massive potential of the Global Fund’s investments to influence markets.

We have already committed more than \$2.5 billion for the purchase of medicines, bed nets, and other essential commodities and will add to that amount this week with the approval of Round 6. But in our current approach, we divide those commitments, which, for some products comprise the great

majority of global purchasing power, into small pieces among our recipients in 132 countries. This in effect dilutes the demand that is communicated to manufacturers, limiting their willingness and ability to invest in new production capacity and new products. It also greatly diminishes the power of Global Fund finance to drive price reductions. The proposals for further developing pooled procurement and other modifications in our interaction with product markets currently being considered by the Board would be an important first step towards changing that situation. In addition to the millions of people whose treatment the Global Fund directly finances, we could, through these measures, ensure that many millions more have access to essential medications by helping to reduce prices and stimulate product development.

There are other areas that, however important, fall outside our mandate. The financing of health systems is one of these. Support for the long-term development of health systems is currently one of the largest gaps in development finance. Beyond the immediate imperative of training health professionals and building facilities, there are fundamental questions about the structure of and roles within health systems that, in most countries, remain unanswered and unfinanced. That gap must be filled if health in the developing world is to sustainably improve.

But as Alexander Shakow concludes in his report released earlier this year⁸, it is not the role of the Global Fund to do so. We were designed to finance the fight against three specific deadly diseases, to measure and act on rapid progress in that fight, and to remain detached in making our investments. None of these are in line with the work that must be done to improve health systems. We have financed – and must continue to finance – the building of essential systems in connection with the scale-up of efforts to combat the three diseases. But as Shakow states, the true needs in health systems strengthening – the in-depth consultations, analysis, and planning, the long-term financing windows, and much more – are best met by the World Bank. It is agonizing for us to remain passive while such a clear need goes unmet – after all it was the response to such a need that led to the creation of the Global Fund. But the Global Fund exists in a community of mutually essential partners and, in the end, we must trust and support our partners in filling their roles just as they must trust and support us. It is only in that way that we will reach the goals for which we all strive.

Improving our Governance

I do not need to tell this audience the role that good governance has played in the success of the Global Fund to date and the even more critical role it must play going forward. It has been an honor to work alongside this Board over the past five years – itself an important innovation of the Global Fund. Representatives from nongovernmental organizations, private foundations and companies, and communities living with the diseases, form a quarter of its membership and wield the same voice and vote as their government colleagues. And its lean size (20 voting members) and streamlined operation (now two meetings per year) enable it to carry out its important work with greater efficiency than some other governing bodies. But we are still not realizing the full potential of this unique governance structure. I outline below two specific issues.

The first is the dual governance situation which currently exists between the Global Fund and the World Health Organization (WHO). This must be resolved as a matter of urgency. Failure to do so will jeopardize the future effectiveness of the Global Fund, its important technical and other relationships with WHO, and the ability of my successor to achieve the Key Performance Indicators (KPIs) which the Board of the Global Fund will set.

The dual governance problem is inherent within the Administrative Services Agreement (ASA). It exists despite immense goodwill and forbearance on the part of both WHO and the Global Fund

⁸ The full report is available at: http://www.theglobalfund.org/en/links_resources/library/position_papers/gen2/

Secretariat. I would like to express my great appreciation to the late Dr. J.W. Lee and Dr. Anders Nordstrom and their colleagues for their tireless efforts to make the ASA work. Regrettably, the dual governance problem is not a matter that can be negotiated away by discussions between the new Executive Director of the Global Fund and the new Director-General of WHO.

In practice, dual governance means that the Global Fund Board is not sovereign and that decisions that it may take that lie outside WHO policy may be unimplementable. Dual governance also means that a number of sound and practical measures that Global Fund Management has taken or may wish to take, to advance the mission of the Global Fund within Board-determined policy, may be disallowed if they fall outside WHO policy. The core reason for these realities is that Global Fund staff members are also WHO staff members.

Finally, concerning dual governance, WHO has clarified that the costs of the Administrative Services Agreement, if it were to continue, would rise to the level of roughly US\$5 million per year. For any other outsourcing contract issued by the Global Fund Secretariat, even for a much smaller annual amount, failure to include legally-binding clauses with financial penalties which require the contractor to meet specific service standards suited to the business needs of the client would be regarded as negligent. However, with the best will in the world, it seems unlikely that WHO would be able to agree to such clauses.

The second governance priority is the relationship between the Board and the Secretariat. There is a natural and productive tension between an organization and its governing body. But over the past five years that tension has, at times, risen to a level where it has detracted from the work of the Global Fund. Specifically, there are four issues that require resolution.

First, it will be beneficial to ensure that my successor and future Executive Directors have a more active role in the work of the Board. With its detailed knowledge of the daily operations and exigencies of the organization, the Secretariat must serve as an essential resource in the important policy discussions undertaken by the Board. This is reflected in the approaches of many of our sister organizations. For some, such as the Medicines for Malaria Venture, the UN Foundation, and the Millennium Challenge Corporation, the chief executive is a full voting member of the Board. For others the chief executive is not a member of the Board, but more fully supports its work, actively participating in all meetings and executive sessions. The result, as our colleagues who are involved with those organizations can attest, is greater harmony between the Secretariat and Board for the overall benefit of the work of these organizations and the people they serve.

Second, is the clear need for the Board to focus more effectively on strategic, policy, and financial issues and to leave operations to the Secretariat. The cry of “micro-management” has been heard many times over the last five years and the problem has not gone away. As the Secretariat has matured, so must the Board.

Third, it will be helpful to moderate and better focus the Secretariat’s preparatory work for the meetings of the Board and its Committees. The lean model of the Global Fund can only succeed if we ensure that the limited staff capacity we have is used as efficiently as possible to advance the business of the organization. Supporting the work of the Board is one of the core responsibilities of the Secretariat and one which our staff take very seriously. But, over the past five years, the work associated with this responsibility has at times become unbearable. For example, in the first four months of this year alone, the Secretariat prepared more than 100 papers to support Board and Board Committee meetings. I encourage Board members to remain constantly aware of this situation and to only request additional work from the Secretariat when it is absolutely necessary for the work of the organization.

A final critical area of the relationship between the Board and the Secretariat is the ongoing discussions on the size and capacity of the Secretariat. On 1 January, 2002, the Global Fund employed nobody. Today, we have roughly 240 staff. Every year we have seen a negotiation between the Secretariat and the Finance and Audit Committee (previously the Monitoring and Evaluation, Finance, and Audit Committee) and the Board concerning the increase in staff levels, and therefore in budget, that is appropriate to enable the Secretariat to carry out its work. Some Board members have been alarmed by the double digit percentage growth in staff numbers for which the Secretariat has argued and have contrasted this with essentially flat staff numbers and budgeting in a number of other organizations, such as WHO.

These discussions have failed to adequately take into account the massive growth in the size and complexity of the grant portfolio and consequently the volume of the business of the Global Fund. The reason that staff size has had to grow is that the business of the Global Fund has grown. Indeed, on a number of metrics, the growth in staff has proceeded at a slower rate than the growth in the volume of the business. This has caused, from the earliest days of the Global Fund, considerable stresses and strains on individual staff and staff teams and therefore risk to the work of the Global Fund. The Deputy Executive Director, Helen Evans, has reported to the Board on these matters, and will do so again in detail at the April, 2007 Board Meeting.

The appointment of the second Executive Director, coming at the fifth anniversary of the Global Fund, is an appropriate time to stand back and ask how large does the Secretariat need to be to effectively fulfill its functions. Questions about the structure of the Secretariat and its likely growth over the next few years, in the light of the size targets that the Board will set through the strategy process, should also be asked and answered at the same time. I recommend to the Board and to my successor that an independent firm be appointed to comprehensively review and make recommendations on the appropriate size and structure of the Secretariat during the period 2007 to 2010, having regard to the level of risk acceptable to the Board. This independent view will inform the ongoing discussions between the Secretariat (which may ask for too much) and the Board (which tends to approve too little).

These two issues – dual governance and Board/Secretariat relations – stand as the principle impediments to the realization of the great potential of the Global Fund's governance. If resolved, our Board will stand as a model for other organizations in the field and will become an even more effective driver and guide of the work of the Global Fund.

Increasing the Amount and Sustainability of our Income

The Global Fund was founded on the idea that a major injection of new resources was essential to turn the tide in the world's fight against three deadly diseases. Since that time, other challenges have proven more nettlesome than expected and other priorities more pressing.

But that initial premise still holds true today. In fact, the experience of the past five years has in many ways served as a resounding affirmation of that idea. Over those years we have seen the number of people in Africa with access to antiretroviral treatment increase eight-fold. We have, in some countries, seen the rate of new HIV, TB, malaria infections slow as investments in prevention have taken effect. And, as detailed above, we have seen the billions of dollars committed by the Global Fund rapidly translated into essential services for millions of people around the world.

It is because of this experience that my primary parting words to the Global Fund family will be among the first that I emphasized when I joined you more than four years ago – "RAISE IT." The question before us is no longer whether more money can have an impact on health in the developing world – we have shown that to be true. Rather, it is whether we will now act on that truth and provide

sufficient money to at last get ahead of the three diseases, which, despite our progress, continue to take such a terrible toll. Having proven the Global Fund as a potent weapon in the fight against these diseases, the future of that fight now rests on our ability to expand it to a scale which matches the massive enemy that we face.

Doing so will require setting an ambitious and appropriate target size for the Global Fund to serve as a goalpost for our invigorated efforts. It will require active advocacy from across our Board, a strong and focused Secretariat team, and even closer partnership with the many advocates around the world who have tirelessly raised their voices on our behalf. And it will require courage and conviction beyond that which we have mustered to date.

We must encourage our government donors to remain true to the principle of performance-based funding to which we all hold. Over the past five years, we have solicited contributions from many governments on the notion that their future support should match our ability to achieve the results that they and their citizens wish to see. The Global Fund is delivering those results and more funding should follow.

We must also maintain the momentum in private fundraising that has built over the past year. In its first few eager steps, RED has already changed the nature of private contributions to support our mission and its impact promises to grow rapidly as it matures. But as an infant, it is fragile, and we must nurture and support it over the coming years so that it can realize its full potential. Other embryonic private initiatives deserve similar attention and encouragement.

Recognizing the limitations that even our most ardent government donors face, we must continue to seek creative solutions to our financing challenge. This includes continuing to engage with UNITAID, the International Finance Facility, and other innovative mechanisms, as well as fostering the development of new ideas such as debt conversion. In doing so, we must recognize that, due to their unique structures, these mechanisms will require greater flexibility on the part of the Global Fund than that which we afford to our traditional donors.

And, lastly, we must ensure that the contributions the Global Fund receives are not only of increased scale, but also of increased duration. We, the global community, have made an unprecedented moral commitment to support life-long treatment for hundreds of thousands – and soon millions – of people around the world. All agree that it would be unthinkable to discontinue that support. Yet it is equally unthinkable to continue the current situation faced by our recipient colleagues who must constantly worry whether the funding to sustain the lives of their citizens will be available the following year and who must adjust their planning accordingly. It is our responsibility to provide them with more sustainable and predictable financing. But we can only do so if the financing flowing to the Global Fund is sustainable and predictable. Despite progress made through the replenishment process, 87 percent of the commitments to the Global Fund in the past year have been for only one or two years. Recently, the United Kingdom Government has taken a major step forward by making 10 and 20 year commitments to important development initiatives. In the years ahead, we must ensure that commitments such as those become the norm rather than the exception.

Next year, the gap between the amount needed to comprehensively fight HIV/AIDS in the developing world and the resources provided by the global community will be an estimated \$8 billion. Several billion more is needed for the fight against TB and malaria. The Global Fund must play a central role in closing that gap. During the birth of the Global Fund, more than \$1.5 billion – an unprecedented sum at that time – was pledged before the new organization had opened its doors for business, placing faith in our ability to translate those funds into saved lives. As we enter into this next phase of the fight against the diseases, we must once again take our income to a new level, with our faith in a

now mature and proven mechanism. The future of the Global Fund, the fight, and communities and individuals around the world rests on our ability to do so.

Post Script

In the end, the best means of ensuring the continued success of the Global Fund will be by sustaining the passion and drive that has propelled us to the level we have reached today. Anyone who has visited the Secretariat or attended one of our Board Meetings over the last five years has experienced the energy that has infused our work. Some might argue that this is simply the energy associated with any start-up and that it will fade as our novelty diminishes. And there will indeed be challenges as the Global Fund moves farther from its founding impetus.

But the Global Fund is not – and cannot be – a simple start-up. If we remain self-reflective and adaptable to the new challenges that will arise; if we remain convinced that the model of the Global Fund is not the latest fad, but a more effective way of tackling the challenges of the developing world; and if we believe that 16,000 people dying every day from preventable and treatable diseases is always new and always urgent; then we will maintain that energy and the Global Fund will succeed.

It is that mutual energy and the unique spirit of the Global Fund and all those who have been part of it that I will most carry with me. Over time, the disagreements we have had – themselves a product of our passion for our mission – will fade and all that will be remembered will be what we have built together and the impact we have had. I consider myself privileged to have been part of this endeavor and to have worked alongside all of you: Board members and staff, advocates and donors, partners and, indeed, critics. But most of all I am honored to have worked alongside our recipients. The Global Fund is about you, about ensuring that you have the resources you need to build a healthier and better future for your countries. I hope and believe that, in our time together, we have helped you do what only you can do. May the Global Fund continue to serve as your pillar of support until we, together, witness at last an end to the devastation and misery caused by AIDS, TB and malaria.

Thank you all.