

The President's Emergency Plan for AIDS Relief

Fiscal Year 2005 Report on the Global Fund to Fight AIDS, Tuberculosis and Malaria



December 2005

Report to Congress Mandated by Section 202(c) of Public Law 108-25

Submitted by the Office of the U.S. Global AIDS Coordinator
U.S. Department of State

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The Administration provides this *Report* pursuant to section 202(c) of Public Law 108-25, as amended, the “United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003” (“The Act”), which requires the President to “submit to the appropriate Congressional committees a report on the Global Fund to Fight AIDS, Tuberculosis and Malaria (The Global Fund), including contributions pledged to, contributions (including donations from the private sector) received by, and projects funded by the Global Fund, and the mechanisms established for transparency and accountability in the grant-making process.”

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I. Introduction

The United States, as a founding member of the Global Fund and its first and largest donor, continues to play a leadership role in ensuring the success of this important international effort. The Global Fund is based on a unique model that relies on partnerships among governments; civil society, including community- and faith-based organizations; international organizations; bilateral and multilateral donors; the private sector; and affected communities in the fight against HIV/AIDS, tuberculosis (TB), and malaria. Founded in January 2002, the Global Fund operates as a financing instrument -- not as an implementing entity -- to attract and disburse additional resources to prevent and treat these three deadly diseases. As a partnership between governments, civil society, the private sector and affected communities, the Global Fund acts as a coordinated, multilateral financing mechanism, which allows donors to pool their resources and finance essential programs in resource-limited settings.

As the world's largest donor to combating HIV/AIDS, TB, and malaria internationally, the United States views its contribution to the Global Fund as both an invitation and a challenge to the rest of the international community to join in its commitment to fighting these diseases. It is, therefore, in the interest of the United States, as well as in the interest of all people who are struggling against HIV/AIDS, TB and malaria, to ensure the Global Fund is an effective, efficient and successful partner. As such, the U.S. Government coordinates its bilateral programs with and contributes significantly to enhancing the performance of Global Fund grants on the ground.

While many other countries have become increasingly generous contributors to the Global Fund, there have been few new donors recently. The United States is pleased existing donors continue to be generous, and that the private sector is remobilizing efforts to partner with the Global Fund. However, for the long-term viability of the Global Fund, the Board of the Fund must seek and engage new donors and turn them into sustained and committed contributors.

The United States has clarified for the Global Fund Board and other donors that the provision that limits the U.S. contribution to a cap of 33 percent of all contributions is a maximum limit, not a goal to be reached. The United States has contributed in just three years nearly 50 percent more than President Bush's pledge of \$1 billion over five years, which he made in his State of the Union address in January of 2003. The United States pledged an additional \$600 million

for 2006 and 2007 at the First Voluntary Replenishment conference in September 2005, which brings the total U.S. pledge to the Global Fund to more than double what the President outlined when he announced his Emergency Plan for AIDS Relief almost two years ago. .

It is important to note that the U.S. contribution to the Global Fund is just one part of an unprecedented commitment by the United States to combat global HIV/AIDS. The five-year, \$15 billion commitment of the President's Emergency Plan for AIDS Relief—which includes bilateral and regional funding, international HIV/AIDS research, and contributions to multilateral organizations like the Global Fund—is the largest international health initiative in history initiated by one nation to address a single disease. The Administration is committed to working with Congress to ensure that America dedicates no less than \$6.5 billion to fight HIV/AIDS globally over FY 2006 and FY 2007.

The United States is proud to have been the leading participant in launching the Global Fund, and remains committed to helping the Global Fund overcome the inevitable hurdles it faces as it continues to grow and develop. Through membership on the Global Fund's Board of Directors and its Committees, and through both formal representations and informal discussions with the Fund's Executive Director and Secretariat staff, the United States is working to ensure that the Global Fund:

- Operates with appropriate transparency and accountability;
- Maintains its performance-based funding approach and unique financing role in the global response to AIDS, TB and malaria; and
- Achieves maximum effectiveness.

With the assistance of U.S. field staff and an inter-agency core team staff in Washington, D.C., the United States actively contributes to discussions on Global Fund policies and procedures in Geneva, and on grant implementation in recipient countries. It is important to note that the Global Fund Secretariat recently requested that the World Health Organization (WHO) Secretariat conduct an audit of the Global Fund Secretariat as a result of allegations by two employees of mismanagement of resources. The United States will follow the investigation and its results closely to ensure Global Fund resources are managed appropriately.

The Fund has made progress toward ensuring that all its funding decisions are performance-based. The United States continues to work with the Global Fund Secretariat and its Board of Directors to establish a consistent set of performance measures for all grants to maintain the consistent application of the Global Fund's principle of "performance-based" funding. The United States has also shared with the Global Fund Secretariat the performance measures we are using to evaluate the performance of all U.S. contributions to the Fund, and has encouraged the Fund to use this list or a similar list of indicators within the Secretariat to evaluate grant effectiveness. An area of special concern, however, remains the Fund's current inability to track the results of specific prevention, treatment, and care spending within each grant. The Fund does collect results for each grant by prevention, treatment, and care but does not track the dollars spent on each category. This makes it difficult to measure the efficacy of the Fund's investment.

Equally important as the commitment to performance-based funding is the Global Fund's Comprehensive Funding Policy, which requires the Fund to limit its financial commitments to those grants it can completely fund with money in hand. While some Board Members and Secretariat staff have expressed interest in stretching the limits of this policy, the United States maintains that it is the most responsible approach, and has discouraged the Fund Board from relaxing the policy. The United States is concerned that there will be renewed scrutiny of the Comprehensive Funding Policy at the 12th Board Meeting (December 2005), when the Board might consider whether to launch a new round of grants in 2006.

As the number of Fund grants has steadily increased, some grant recipients have expressed a need for more attention and expertise from the portfolio management staff at the Secretariat in Geneva. The United States has encouraged the Fund to increase its portfolio-management capacity. At the same time, however, there has been significant growth in the Secretariat staff outside of the area of portfolio management. Through its membership on the Fund Board, the United States has carefully watched staffing issues to ensure the organization is building capacity in key areas while avoiding over-staffing in others. The United States is also working with the Secretariat to help the Fund develop an appropriate array of outside, independent technical assistance resources, to balance the Fund's expertise regarding its requirements and bilateral partners' expertise related to effective grant implementation. It is important that the Fund maintain its role as a financing agency, while outside organizations should help facilitate grant implementation.

The Fund's founding documents establish the Secretariat as an administrative body to assist the Board in completing key tasks and processes. The United States has expressed concern that the Secretariat occasionally oversteps its bounds in an effort to set its own agenda for the Fund. The United States continues to support Board control of the organization, especially regarding ongoing voluntary replenishment efforts, the parameters for and schedule of future rounds and the scope of items within each Board Committee's purview.

This *Report* is organized into the following three sections, consistent with the requirements of section 202(c) of the Act:

- I. Funds Pledged and Contributed
- II. Projects Funded and Disbursements
- III. Transparency and Accountability

II. Funds Pledged and Contributed

The Global Fund Secretariat reports two sets of data on donations. “Pledges” represent those monies donors have promised, but that the Global Fund has not yet received. “Contributions” are those monies donors have actually transferred to the Global Fund's bank account, held by the World Bank as Trustee.¹ The Global Fund maintains a website with an up-to-date listing of all pledges and contributions, as well as descriptions of funded projects and disbursements at www.theglobalfund.org/en/. As detailed below, the United States has always been and remains the largest single donor to the Global Fund, in terms of both pledges and contributions.

Pledges

Pledges through 2008 (as of October 5, 2005) (See Appendix 1):

\$8.6 billion total pledged through 2008 by all donors (governments, foundations, not-for-profit organizations, corporations, and private individuals or groups)

\$8.42 billion from all governments (including the United States)

\$150 million from foundations and other non-profit organizations

\$1.5 million from corporations

\$2.3 million from individuals, groups, and events

United States pledges to date: \$2.3 billion, or 27 percent of total pledges.

Pledges from all donors for the Global Fund's 2005 fiscal year (which corresponds to the calendar year) amount to \$1.42 billion; of this amount \$1 billion is from non-U.S. Government donors. These pledges, if contributed in full, stand at roughly the same amount that donors provided in 2004.²

¹ The Global Fund also maintains a small bank account with Credit Suisse in Geneva, which receives certain small donations that are counted toward the contribution total. Maintenance of this account is necessary to fulfill the legal requirements for the establishment of a foundation under Swiss law, and the Secretariat additionally uses it to cover small operating expenses. See Section III for more details on this account, and some concerns the U.S. Government has about its use.

² Actual contributions received have slightly exceeded pledges in prior years -- by \$9 million in 2002, and by \$4.5 million in 2003. This discrepancy reflects instances in which donor contributions exceeded the pledges originally made, in some cases because of fluctuating exchange rates, and instances in which donors made contributions in the absence of formal pledges.

The Global Fund organized a voluntary replenishment process in 2005, and held the final of three meetings in London in September. Twenty-nine international donors pledged a total of \$3.7 billion to the Global Fund for 2006 and 2007, which included a two-year, \$600 million pledge from the United States. Only one new donor appeared during the seven-month replenishment process. Almost exclusively through the commitment of existing donors, the Global Fund is able to fulfill all of its existing commitments, including fully funding Round 5.

Contributions

Contributions received since the inception of the Global Fund, as of October 5, 2005³:

\$4.7 billion total

\$4.54 billion from all governments, of which:

\$1.43 billion, or 25 percent of total contributions, is from the United States

\$150 million from foundations and other non-profit organizations;

\$1.87 million from corporations;

\$3.29 million from individuals, groups and events.

The United States' FY 2005 appropriation for the Global Fund provided a maximum contribution of \$347.2 million⁴, plus an additional \$87.8 million allocated to the Global Fund from the FY 2004 appropriation which the Coordinator had been legally prohibited from contributing to the Global Fund. Therefore, the total FY 2005 contribution available to the Global Fund was \$435 million. The Coordinator withheld the sum from the FY 2004 contribution because of the legal requirement that U.S. contributions to the Global Fund must not exceed 33 percent of the total contributions from all sources, from the period beginning on October 1, 2003.⁵ In accordance with the Act, the calculation of the ability of the

³ Includes FY 2005 contributions with withholdings.

⁴ The FY 2005 contribution of \$347.2 million includes \$248 million from the U.S. Agency for International Development and \$99.2 million from the U.S. Department of Health and Human Services (HHS).

⁵ Section 202(d)(4)(A)(i) stipulates that "At any time during Fiscal Years 2004 through 2008, no United States contribution to the Global Fund may cause the total amount of United States Government contributions to the Global Fund to exceed 33 percent of the total amount of funds contributed to the Global Fund from all sources." This provision was further amended by Public Law 108-99, Section 595 (1), clarifying that "for the purposes of clause (i), 'funds contributed to the Global Fund from all sources' means funds contributed to the Global Fund at any time during Fiscal Years 2004 through 2008 that are not contributed to fulfill a commitment made for a Fiscal Year prior to Fiscal Year 2004."

U.S. Government to make contributions to the Global Fund is based on the total funds contributed to the Global Fund from all sources at any time during FY 2004 through FY 2008, rather than on pledges by other donors.

Consistent with the Act, as amended by Section 595 of the Consolidated Appropriations Act of 2004 (P.L. 108-99), the Office of the U.S. Global AIDS Coordinator uses July 31 as its “snapshot” date when it takes a picture of total contributions to the Fund to calculate the potential U.S. Government contribution and to determine how to use any amount of the appropriation that is not available for contribution.⁶

For FY 2005, the United States was able to make its full contribution of \$435 million in a manner consistent with section 202(d)(4)(A)(i) of the Act, as amended, less withholdings pursuant to sections 202(d)(4)(A)(ii), and (v) of the Act.⁷ In addition to the withholding required by the Act, the Coordinator is withholding an amount of \$62 million, pursuant to Section 525 of Foreign Operations, Export Financing and Related Programs Appropriations Act of 2005 (P.L. 108-447). (See Appendix 2 for a detailed explanation of this withholding and recent update from the Global Fund Secretariat.)

The United States and the Global Fund leadership continue to urge other donor nations (especially in the G-8), the private sector and private citizens around the world to leverage their investment to the Global Fund by maximizing the potential U.S. contribution. The United States continues to see the Fund as an important implementing partner, as an opportunity to make U.S. funds go farther, and as a catalyst to encourage greater investment by other donor countries, the private sector, and individuals in the fight against HIV/AIDS, TB and malaria.

⁶ The Conference Report (H.R. 108-401) to the Consolidated Appropriations Act of 2004 states that “...[t]he managers also recognize that funding cycles for donors vary, and that the application of the above provision may cause a portion of funds allocated for a United States contribution to the Global ATM Fund to remain unspent. The Conference Report also discusses the Section 595 “kick-out” clause, which was intended to ensure that funds are used for bilateral HIV/AIDS programs if other donors are unable to fully match the intended United States contribution to the Global Fund. The Conference Report indicated that the managers expect that the Global AIDS Coordinator will bear in mind the managers’ support for the Global ATM Fund and will judiciously use the flexibility provided by this “kick-out” clause to ensure that funds are allocated to the most effective uses.”

⁷ Section 202(d)(4)(A)(ii), (iii) and (v), as amended, generally provides that the United States must withhold from its contribution to the Global Fund certain amounts if the President makes certain determinations regarding the Global Fund's activities. In particular, such determinations include whether the Fund has provided assistance to a country, the government of which the Secretary of State has determined, for the purposes of section 6(j)(1) of the Export Administration Act of 1979 (50 U.S.C. App. 2405(j)(1)), has repeatedly provided support for acts of international terrorism; and, whether the salary paid to any individual employed by the Fund exceeds the salary of the Vice President of the United States.

Private-Sector Contributions

Of the \$4.7 billion in contributions received, the Fund has collected only \$156 million from the private sector, including private corporations, foundations or other private donors. Of this amount, \$150 million is from three large contributions from the Bill and Melinda Gates Foundation, which leaves only \$6 million attributed to other private-sector contributors. Because the Global Fund is based on the principle of public-private partnership and committed to gathering resources from across the spectrum of possible donors, this gap in private funding is an important challenge the Fund Board must more effectively -- and quickly -- address. The United States also notes the importance of private-sector participation in the Fund in non-monetary ways, such as through in-kind donations, involvement in Country Coordinating Mechanisms and through active participation in the Board and its Committees.

Former HHS Secretary Tommy G. Thompson, in his capacity as Chairman of the Board of the Global Fund until April 2005, frequently met with private-sector representatives and spoke to U.S. and foreign audiences in an effort to encourage corporations and citizens to contribute to the Global Fund. In March 2004, he also participated in the launch of Friends of the Fund Japan, dedicated to increasing the involvement of the Japanese citizenry and private sector in the work of the Global Fund.

Despite the best efforts of the United States' delegation, promoting increased corporate financial contributions directly to the Global Fund remains a difficult task. Most private companies of any significant size run their own corporate philanthropy programs, and are reluctant to dilute their brand equity in those efforts by making contributions to a pooled financial mechanism. The biased attitude of many Members of the Global Fund Board toward in-kind contributions from the private sector has also discouraged some in the corporate world. The current policy is to allow the Secretariat to accept in-kind donations for Secretariat activities and to allow Country Coordinating Mechanisms (CCMs) the discretion to accept in-kind contributions. Despite these set-backs to private-sector funding, at the Replenishment meeting in September 2005, the private sector delegation presented a new strategy for mobilizing additional resources, which the United States strongly supports; however, the private sector pledged no new funding at this meeting. Finally, at the 11th Board Meeting (September 2005), the private-

sector delegation and several other delegations noted the importance of having the Board revisit its previous decisions related to in-kind contributions.

III. Projects Funded and Disbursements

From Afghanistan to Zimbabwe, proposals approved by the Global Fund have been diverse in their focus. In almost every developing country, governments and/or non-governmental organizations are using Global Fund dollars to confront the three diseases.

The Global Fund commits contributions it has received to projects via periodic “rounds.” The Global Fund Board of Directors initiates grant rounds during its meetings, and approves guidelines for the calls for proposals (see Appendix 3 for a timeline of previous rounds). The Global Fund Secretariat then begins the process of proposal solicitation. Within each country or region, sub-proposals initially go to CCMs. The CCM functions as an in-country committee that includes a broad range of stakeholders, including government, non-governmental organizations, academic institutions, people living with the diseases, faith-based organizations, the private sector, and bilateral and multilateral donor representatives.

A CCM, ultimately, endorses only one consolidated national proposal per disease -- which can encompass numerous sub-recipients and a variety of different goals -- and then submits the proposal with its official endorsement to the Global Fund Secretariat in Geneva. After an initial screening for basic eligibility, the Secretariat forwards the proposals to a Technical Review Panel (TRP) composed of independent disease experts, and the TRP makes recommendations to the Board on the projects in the categories: for approval as submitted (Category 1); for approval with modifications or clarifications (Category 2); not for approval in their present form, but encouraged to resubmit (Category 3); or not for approval (Category 4). Board approval of the accepted proposals within the categories recommended by the TRP marks the final stage of the approval process, after which the Global Fund Secretariat begins negotiating the grant agreements with the designated Principal Recipient(s) (PR).

Proposals to the Global Fund are typically for five-year periods, broken into two phases. The Fund Board initially approves funding for grants for a two-year period (Phase One), and then toward the end of this period must make a decision whether to fund years three through five (Phase Two).

Since the Global Fund began operations in January 2002 through October 5, 2005, it has disbursed a total of \$1.5 billion to grant recipients.⁸ In Rounds One through Five, the Fund Board approved more than 300 proposals, which total \$3.9 billion, to be implemented in 128 countries, including five regional programs. The Board also approved its first monthly batch of Phase Two funding requests in early 2005. As of September 2005, the Board has approved 80 requests for Phase Two funding, worth \$823.7 million.

The Global Fund Secretariat has signed 316 grant agreements that total \$3.03 billion, in 128 countries.⁹

Summary Table on Grant Approval, Signings and Disbursements

Round	Proposals Approved by Board	Approved Amounts	Grant Signings	Signed Grant Amounts	Disbursements Begun	Amounts Disbursed
1 - April 2002	56	\$859,394,123	68	\$633,224,053	68	\$472,372,651
2 - Jan. 2003	98	\$959,355,968	98	\$831,225,205	97	\$493,118,915
3 - Oct. 2003	70	\$634,497,659	72	\$634,497,659	71	\$236,417,338
4 - June 2004	72	\$1,018,347,316	78	\$933,056,662	45	\$127,272,488
5 - Sep. 2005	63 ¹⁰	\$725,616,188	0	0	0	0
Total	296	\$3,471,595,066	316	\$3,032,003,579	281	\$1,329,181,392

Source: "Global Fund Grants: Progress Summary", The Global Fund, July 6, 2005

Fifty-six percent of funding proposals approved (by dollar amount) by the Fund Board during the first four rounds are dedicated to HIV/AIDS, 31 percent to malaria, and 13 percent to TB.¹¹

Under the Global Fund's Comprehensive Funding Policy, the Global Fund Board can approve grants against pledged amounts in a given year; however, the

⁸"Disbursement" refers to money released by the Secretariat and sent from the Trustee to the PR(s). This figure does not take into account whether the PRs have expended these funds. As of March 2005, according to an estimate provided by the Secretariat, PRs had expended \$550 million of the \$1.1 billion disbursed by the Trustee. This figure of PR expenditures likewise does not distinguish between money transferred to Sub-Recipients, and actual expenditures by Sub-Recipients.

⁹ A number of the 296 approved proposals were split into multiple grant agreements with separate PRs when signed, which thus explains why the number of signed grant agreements is larger than the number of approved grants.

¹⁰ The Fund Board approved the proposals in two tranches, with the second to be finalized as funds become available under the terms of the Comprehensive Funding Policy, but no later than June 30, 2006. The first tranche for immediate approval includes 26 grants that total \$382,077,061. The second tranche includes 37 grants that total \$343,539,127.

¹¹ These figures include "Integrated" HIV/TB grants, apportioned equally between HIV and TB grants for the sake of calculating these totals.

Secretariat may only sign grants and obligate funds against actual contributions received. Currently, the Fund has contributions in-hand to meet obligations for the Phase One portions of the first four rounds, and for all of the Phase Two renewals through the end of calendar year 2005.¹² However, Phase Two renewals expected to come up for Board approval during 2006, estimated at \$1.1 to \$1.6 billion, will consume most of the Global Fund's 2006 contributions. At the 11th Global Fund Board Meeting (September 2005), the Board approved Round 5 grants in two tranches to maximize the number of approved grants without violating the Fund's Comprehensive Funding Policy. The Board approved the first tranche of grants for immediate funding (consistent with the usual grant negotiation process, as necessary), and approved the second tranche pending future availability of funds and final Board approval via e-mail as funds become available, but no later than June 30, 2006.

¹² According to the bylaws of the Global Fund, countries that have had proposals rejected in two consecutive rounds have, under certain conditions, the right to appeal the decisions of the Board. The United States remains concerned about the possible effect that the appeals process, as currently structured, could have upon Global Fund calculations of its commitments *vis-à-vis* resources.

IV. Transparency and Accountability

Because the Global Fund is a young and rapidly growing institution, the United States maintains a close watch on the Fund's internal governance to ensure that the Global Fund establishes transparent and accountable operating procedures. The establishment and maintenance of rigorous standards of administration and oversight are critical to guaranteeing the long-term success of the Global Fund.

A. Global Fund Internal Management

Grant Management

With 340 grants under active management, as of October 5, 2005, the Global Fund Secretariat has a good track record in avoiding malfeasance in the financial management of its projects. Nevertheless, there is some evidence that the hectic pace of work to conclude grant-signing negotiations has meant that the Global Fund Secretariat has not monitored every grant as closely as it should. With approximately 48 staff devoted to portfolio management, the Fund Secretariat has not always been able to completely absorb reports from Local Fund Agents (LFAs) charged with monitoring grantees on the ground.

Senior managers at the Global Fund routinely rely on external sources, including the U.S. Government and other donors, to provide them with often-sensitive information on how grants are progressing. Based on appeals from the United States and the European Commission, the Global Fund investigated allegations of malfeasance for a grant in Ukraine in 2004, which resulted in the suspension of the grant and a subsequent change in PRs from the Ukrainian Ministry of Health, a Ukrainian NGO and the United Nations Development Program (UNDP) to the International HIV/AIDS Alliance. The United States has similarly worked with other donors to highlight difficulties with the HIV grants in Kenya, Burma and Uganda. The Fund Secretariat has since terminated the grants in Burma, and the grants in Uganda are currently in suspension.

Performance-Based Disbursements

The Global Fund's performance-based approach – in which the Secretariat instructs the Trustee to make incremental disbursements against grant awards, based on concrete measures of progress – is designed to ensure recipients use funds efficiently to scale up proven interventions. The Secretariat, however, has not

implemented this model thus far exactly in the manner envisioned by President Bush and the U.S. Government at the founding of the Fund. In a study¹³ released in June 2005, the U.S. Government Accountability Office (GAO) noted that few of the Fund Secretariat's disbursement decisions, or Phase Two renewals for the limited number of grants that thus far have reached that stage, appeared based on documented results or even adequate information on expenditures. Fund Secretariat Portfolio Managers also appear to have had difficulty in enforcing the requirement for quarterly disbursement reports, and, in 2005, the Fund changed its policy to biannual reporting instead. Nevertheless, large single disbursements – which remove the Fund's greatest tool for ensuring accountability, namely that new disbursements will not occur without adequate documentation – continue to occur. For instance, the Secretariat disbursed \$21 million of a two-year, \$55 million grant to Ethiopia in one tranche, which sat unexpended in Ethiopian Government accounts for more than a year. The Secretariat made a second disbursement of \$19 million 15 months later, in March 2005. The Global Fund has not publicly posted on its website the requisite Disbursement Request/Progress Reports for this grant. Further, efforts by the Ethiopian CCM to encourage the PR, the Ethiopian National HIV/AIDS Prevention and Control Office, to account for these funds have not been successful.¹⁴

LFA Operations

LFAs have also not played the role anticipated at the Global Fund's inception. LFAs are meant to exercise a critical oversight function in the recipient countries by screening the capacity of implementing organizations and partners, monitoring the progress of disbursements through annual audits, supporting and strengthening the financial and program capacity of implementers, and making related recommendations to the Global Fund Secretariat. The LFAs do not manage or implement the funded proposals. Their local presence is meant to ensure the maintenance of accountability. This is an essential role, given that the Global Fund Secretariat does not have any permanent staff located outside Geneva.

As the first Global Fund grants entered the Phase Two renewal process at the end of 2004 and the beginning of 2005, the great majority of these grant renewals were delayed, some by more than six months. Senior staff at the Global Fund

¹³ GAO: "The Global Fund is Responding to Challenges but Needs Better Information and Documentation for Performance-Based Funding," June 2005. GAO-05-639.

¹⁴ The Ethiopian CCM has been asking the PR for more detailed implementation, monitoring and evaluation, disbursement and planning details, particularly with regard to the involvement of the civil society. The U.S. Embassy in Ethiopia is aware of these accountability concerns, and is monitoring the situation.

Secretariat cited delays in the receipt of LFA reports as one of the primary reasons why the Phase Two renewal process was behind schedule. In addition, U.S. Government personnel have heard many complaints and concerns voiced by the LFA contractors themselves about lack of clarity as to their actual mandates, inadequate resources to carry out their work, and confusion about the relationship between the LFAs and the PRs. The United States has advocated for a realignment of the incentive structure within the contracts between the LFAs and the Fund Secretariat. The Executive Director of the Fund has taken steps to begin the process of restructuring the relationship with the LFAs. Clearly, much remains to be done for the Global Fund to address the challenges it is facing in the areas of accountability and monitoring of disbursed funds.

Global Fund Operating Expenses

In 2004, Global Fund operating expenses totaled \$31.3 million dollars (\$1.032 million under the \$32.3 million budgeted). When measured against the commitments begun through the signing of grant agreements, which now total \$3.47 billion, the Global Fund has stated that “[l]ess than three percent of annual commitments are used for central administration and management of the Global Fund each year.” When measuring actual disbursements to fund all programmatic activities, the operating expense percentage is somewhat greater, at 4.53 percent of the total expenditures (the sum of the operating expenses and grant disbursements) for calendar years 2003 and 2004.

Public Law 108-25, Section 202(d)(4)(A)(iii) requires that if “the expenses of the Governing, Administrative and Advisory Bodies (including the Partnership Forum, the Foundation Board, the Secretariat, and the Technical Review Board) of the Global Fund exceed 10 percent of the total expenditures of the Fund for any two-year period, the United States shall withhold from its contribution for the next Fiscal Year an amount equal to the average annual amount expended by the Fund for such two-year period for the expenses of the total Governing, Administrative, and Advisory Bodies in excess of 10 percent of the total expenditures of the Fund.” Operating expenses remain well under the total expenditure allotment, but the Office of the U.S. Global AIDS Coordinator will continue to monitor the percentage of Global Fund monies used for operating expenses.

Credit Suisse Account

The Global Fund maintains its funds for the most part under accounts of the World Bank and the WHO Secretariat, pending disbursements for grant activities and for administrative and operational needs, respectively.

The Fund has maintained a small account of its own at Credit Suisse Bank in Geneva to provide some flexibility for miscellaneous operational expenditures that might not fall within the WHO Secretariat's procedures or timeframe for payment. The United States has been concerned that there be proper accountability for expenditures from this account, which led to the adoption of standard procedures for accessing the account two years ago. Earlier this year, it came to light that the contributions, reimbursements and donations coming into the Credit Suisse account have resulted in a balance in excess of \$2 million. Through the Monitoring, Evaluation, Finance and Audit Committee, the United States worked with the Secretariat to reach an understanding that the Secretariat would identify an amount in the range of \$300,000 to \$400,000 that it might reasonably require as a contingency fund. The Secretariat would then transfer the remainder in the account to the Fund's account at either the World Bank or the WHO Secretariat. The U.S. Government needs to verify implementation of this understanding.

Secretariat Staffing

As a relatively newly founded grant-making institution, the Global Fund is in the process of ramping-up its operational and administrative staff. Ensuring the Global Fund Secretariat has adequate, but not excessive, staff levels to maintain an appropriate level of oversight over its grants and all other fiduciary responsibilities is a concern of the United States. The United States would like to see that the Global Fund remains focused on its core function as an efficient financing instrument with a low administrative overhead, and consequently, the size and composition of the Secretariat staff are important considerations in our support for the Fund.

An additional concern of the U.S. Government is the Global Fund's ability to retain talented staff. The past year has seen a significant turnover at the Fund Secretariat, in particular among portfolio management personnel. Some current and former Global Fund staff members have attributed these departures to senior management decisions and the daunting workload. U.S. Government personnel have raised these concerns in numerous meetings with Global Fund staff, including with the new Deputy Executive Director.

WHO Internal Auditor Investigation

In July 2005, Aidspan, an independent Global Fund watchdog organization, brought allegations of mishandling of resources to the attention of the Secretariat. As a result, the Secretariat contracted the Office of Internal Oversight Services

(OIS) at the WHO Secretariat to conduct an investigation into the matter. According to the Global Fund's Executive Director, the allegations relate to contracting practices, recruitment involving a family member, staff turnover and organizational culture. The WHO/OIS is currently conducting its review, and expects to produce a final report by the end of November 2005. The Ethics Committee of the Fund Board will analyze the report, and will make recommendations for action to the Board, as needed, at the 12th Board Meeting in December 2005.

B. Additional U.S. Efforts to Improve Global Fund Effectiveness

U.S. Government Membership on CCMs

Another vantage point from which the U.S. Government maintains an active surveillance and decision-making role is through its membership in local CCMs. In countries where U.S. Government staff are members of the CCM (from USAID or HHS, or both), the United States participates in the development and selection of proposals to recommend for Global Fund Secretariat and Board approval, and also plays a role in the oversight of program implementation. During the second round of grant proposal submission (January 2003), U.S. Government representatives had seats on more than 26 percent of the Global Fund CCMs around the world. By the third round (October 2003), U.S. Government membership in CCMs had risen to 42 percent, and by the fourth round (June 2004) to 47 percent.

United States Government Leadership on the Fund Board

In April 2005, former HHS Secretary Tommy G. Thompson stepped down as Chair of the Global Fund Board after completing a highly active and productive two-year term in that position. For his achievements, the Board awarded him the title of "Chair Emeritus," and he stated he will continue his activities in support of the Fund's fulfillment of its original vision.

The U.S. Global AIDS Coordinator, Ambassador Randall Tobias, succeeded Secretary Thompson as the United States Representative on the Board. The United States is currently active on two Global Fund Board Committees: the Finance and Audit Committee and the Policy and Strategy Committee (PSC). In June 2005, the new Board Chair and Vice Chair confirmed Ambassador Tobias to lead the PSC. Ambassador Tobias chose Jairo Pedraza, of the Developed Country Non-Governmental Organization delegation, as his Vice Chair. The PSC began its

work in July 2005 by taking the lead on the development of a five-year strategy for the Fund, scheduled for adoption by the Board in mid-2006.

Round Five and Phase Two Parallel Reviews

At the 11th Board Meeting in September 2005, the Board approved the recommendations of the TRP regarding funding of the fifth round of proposals. In accordance with section 202(e)(2) of the Act, the Office of the U.S. Global AIDS Coordinator coordinated a parallel review of these proposals by a U.S. Government interagency panel composed of Washington-based and field representatives. U.S. Embassies in 47 countries coordinated field reviews with in-country staff, primarily from USAID and HHS. A technical review coordinated in Washington, D.C., by the Office of the U.S. Global AIDS Coordinator complemented the field review.

The parallel review process looked at the proposals that had received Category 1 or 2 recommendations (approved for funding either as submitted or with minor modifications/clarifications, respectively) from the TRP.

The U.S. Government parallel review has proven to be a valuable process. It helps U.S. agencies in the recipient countries become more aware of Global Fund activities, and alerts them to future possible concerns about duplication of efforts, not only by the U.S. Government but with regard to other donors as well. U.S. field personnel raised questions and concerns about several of the Round 5 proposals, and the Office of the U.S. Global AIDS Coordinator is undertaking a consultation process with Portfolio Management staff to share these findings and discuss how to improve these grants. Concerns raised within the parallel review process included questions about absorptive capacity; the appropriateness of certain medicines recommended for procurement; the availability of human resources; the full engagement of civil society and the private sector within CCMs; and the ability to meet stated goals, given limited infrastructure or local security concerns. In past rounds, staff from the Global Fund Secretariat have responded positively to this input, and indicated that they find value in the contributions of the U.S. parallel review. In February 2005, the Office of the U.S. Global AIDS Coordinator began applying a similar parallel review process to Phase Two grant renewal recommendations.

The parallel review process has provided valuable information to the U.S. Delegation in using its voice and vote at Global Fund Board meetings. Moreover, the Office of the U.S. Global AIDS Coordinator is paying particular attention to grants in the 15 focus countries of President Bush's Emergency Plan for AIDS

Relief, several of which (e.g., Kenya, Zambia, and Tanzania) had large proposals approved by the Fund Board in Round Four, as well as in key other bilateral countries. Finally, the Office of the U.S. Global AIDS Coordinator, supported by USAID and HHS, is initiating dialogue among donors to search for ways to minimize duplication of effort and gaps in service.

V. Conclusion

The Global Fund has been fully operational since January 2002, and in less than four years the institution has made remarkable progress.

As would be the case with any new organization, the dramatic ramping up of approved commitments raises inevitable concerns about absorptive capacity in developing countries, coordination with bilateral donors and other multilateral organizations, and fiduciary oversight and accountability.

The U.S. Government remains deeply committed to ensuring that the Global Fund succeeds in its mission to help in the global fight to combat HIV/AIDS, TB and malaria. Through its seat on the Board of Directors and its Chairmanship of the critical Policy and Strategy Committee; through formal and informal discussions with Global Fund Secretariat staff, CCMs and LFAs; and through active engagement with both private- and public-sector stakeholders in affected countries, the U.S. Government will stay fully engaged with the Global Fund to ensure its ultimate success.

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Pledges (1 of 2)

DONORS	TOTAL PLEDGES TO DATE		PERIOD OF PLEDGING (if known)	PLEDGES BY YEAR DUE (in USD)						Amount Pledged to be Confirmed		
	AMOUNT PLEDGED (USD)	TOTAL PAID TO DATE (USD)		2001-2002	2003	2004	2005	2006	2007			
Countries												
Andorra	USD 100,000	100,000	2002	100,000								
Australia	AUD 75,000,000	28,855,900	2004-2007				15,028,400	15,197,568	11,398,176			
Austria	EUR 1,000,000	1,075,900	2002	1,075,900								
Bahamas	USD 100,000	100,000	2003	100,000								
Belgium	EUR 51,183,222	29,707,866	2001-2007	7,229,938	10,270,518	6,069,712	9,675,481	14,483,173	50,000			
Brazil	USD 200,000	50,000	2003-04, 2006-07	50,000								
Burkina Faso	USD 75,000	75,000	2002	75,000								
Cameroon	USD 100,000	100,000	2003	100,000								
Canada	USD 100,000,000	100,000,530	2002-2004	25,000,000	50,000,000							211,864,407
	USD 100,000,000	322,126,673	2005-2007			110,262,267						
China	USD 390,000,000	6,000,000	2003-2007	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000			
Denmark	DKK 715,000,000	67,637,290	2002-2007	13,790,866	16,188,433	22,841,480	22,580,645	22,580,645	22,580,645			
European Commission	EUR 522,500,000	521,394,461	2001-2006	137,064,385	50,360,226	264,413,350	89,556,500	108,173,077				
France	EUR 925,000,000	485,822,700	2002-2007	59,005,000	63,780,750	182,066,450	180,970,500	270,432,892	360,576,923			
Germany	EUR 328,500,000	198,322,103	2002-2007	11,995,200	37,427,325	45,944,850	102,954,728	86,538,462	88,341,346			22,235,577
Greece	EUR 600,000	300,481	2005-2007				300,481					420,673
Hungary	USD 22,000	22,000	2004-2005				10,000					
Iceland	ISK 15,000,000	206,299	2004				206,299					
India	USD 10,000,000	10,000,000	2006-2007									6,000,000
Ireland	EUR 70,000,000	81,723,622	2002-2007	9,835,000	11,161,430	12,299,000	12,370,500	18,028,846	18,028,846			
Italy	USD 200,000,000	215,160,273	2002-2003	100,000,000	100,000,000							
Japan	EUR 480,000,000	217,836,000	2004-2007	80,000,000	79,993,443	121,020,000	120,854,462	156,250,000	156,250,000			500,000,000
Kenya	USD 858,933,443	327,720,013	2002-2007	8,273		100,000,000	100,000,000					
Korea (Republic of)	USD 500,000	500,000	2001	8,273								
Kuwait	USD 1,000,000	1,000,000	2004			500,000						
Lebanon	USD 1,000,000	1,000,000	2003			1,000,000						
Liechtenstein	CHF 150,000	100,000	2002, 2005	100,000								
Luxembourg	EUR 9,400,000	6,998,640	2004			77,190	50,000					
Mexico	USD 100,000	100,000	2002-2007	1,037,500	2,277,320	2,235,300	1,448,520	2,043,269	2,043,269			
Monaco	EUR 132,000	132,000	2002-2004	44,000	44,000	44,000						
Netherlands	EUR 225,000,000	162,088,538	2002-2007	8,087,400	43,590,360	54,344,679	56,067,100	54,086,538	54,086,538			
New Zealand	NZD 3,450,000	2,168,440	2003-2005		734,000	625,200	810,240					50,000
Niger	USD 50,000	50,000	2003-2005									
Nigeria	USD 30,000,000	9,080,914	2002-03, 2005-06	9,000,000	1,000,000		10,000,000	10,000,000	10,000,000			
Norway	NOK 769,800,000	73,402,113	2002-2006	17,962,003	17,709,581	17,864,799	19,865,730	41,487,400				
Poland	USD 30,000	30,000	2003-2004			10,000						
Portugal	USD 7,500,000	2,500,000	2003-2007	400,000	400,000	600,000	1,500,000	2,000,000	3,000,000			
Russia	USD 40,000,000	15,000,000	2002-2007	1,000,000	4,000,000	5,000,000	10,000,000	10,000,000	5,000,000			5,000,000
Rwanda	USD 1,000,000	1,000,000	2002-2006			2,500,000	2,500,000	2,500,000	2,500,000			1,000,000
Saudi Arabia	USD 10,000,000	6,250,000	2003-2006			2,500,000	2,500,000	2,500,000	2,500,000			200,000
Singapore	USD 1,000,000	400,000	2004-2008			200,000	200,000	200,000	200,000			
Slovenia	SIT 1,000,000	5,479	2004			5,479						
South Africa	USD 10,000,000	4,000,000	2003-04, 2006-07			2,000,000	2,000,000	2,000,000	2,000,000			2,000,000
Spain	EUR 200,000,000	50,000,000	2003-2007	35,000,000	15,000,000	15,000,000	15,000,000	35,000,000	35,000,000			65,000,000
Sweden	SEK 1,001,000,000	127,941,851	2002-2005	1,201,923	1,201,923	46,302,900						125,000,000
Switzerland	USD 125,000,000	10,000,106	2006-2007	22,369,965	11,488,363	47,780,623	46,302,900					
	USD 10,000,000	10,000,000	2002-2003	5,594,133	4,405,867							
	CHF 21,000,000	6,270,497	2004-2007			2,343,384	3,927,113	4,651,163	5,426,357			

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Pledges (2 of 2)

	USD	5,000,000	2003-2007	3,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Thailand	USD	2,000,000	2004-2007	1,000,000	500,000	500,000	500,000	500,000	500,000	500,000
Uganda	USD	2,000,000	2004-2007	1,000,000	500,000	500,000	500,000	500,000	500,000	500,000
United Kingdom	GBP	359,000,000	2001-2007	267,934,258	89,353,020	89,353,020	89,353,020	89,353,020	176,366,843	176,366,843
United States ²	USD	2,295,606,279	2001-2008	1,433,617,529	322,725,000	458,881,279	414,000,000	300,000,000	300,000,000	200,000,000
Zambia	ZMK	83,500,000	2002	25,000	25,000					
Zimbabwe	USD	158,462	2003	158,462						

Foundations and Not-for-profit Organizations

Gates Foundation	USD	150,000,000	2002-2004	150,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Intl Olympic Committee	USD	100,000	2001	100,000	100,000					
Other				300,130						

Corporations

Ent S.p.A.	USD	500,000	2002	500,000	500,000					
Winterthur	USD	1,000,000	2002	1,000,000	1,044,225					
Other				324,014						

Individuals, Groups & Events

Mr. Kofi Annan	USD	100,000	2001	100,000	100,000					
Amb. D. Fernandez	USD	100,000	2001	100,000	100,000					
Health Authorities of Taiwan	USD	2,000,000	2002, 2004	2,000,000	1,000,000	1,000,000				
Real Madrid Soccer Match	USD	112,487	2002	112,487	112,487					
Treatment Action Campaign	USD	10,000	2003	10,000	10,899	10,000				
Other				1,011,231						

Notes:

- (a) For pledges made in currencies other than US dollars, the pledge amount in USD comprises the actual USD value realised from any contributions made plus the USD equivalent of the remainder of the pledge calculated using UN operational rates of exchange at: 1 October 2005
 - (b) Where pledges have been made that are not specific to individual years, the amount shown as pledged for a period is the sum of contributions received in that period. The remainder is shown under "Pledge Period to be Confirmed".
- 2 The United States contribution to the Global Fund is subject to certain U.S. legislative restrictions, including that, during 2004-2008, no U.S. government contribution may cause the total amount of U.S. government funds contributed to exceed 33% of total contributions.

Last Updated: 5-Oct-05

Appendix 2



United States Department of State

Washington, D.C. 20520

www.state.gov

SEP 21 2005

Dear Mr. Chairman:

I am writing to you regarding the United States Government's contribution to the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund) for Fiscal Year (FY) 2005.

In accordance with the U.S. Leadership Against HIV/AIDS, Tuberculosis and Malaria Act of 2003 (U.S. Leadership Act) (P.L. 108-25) and the Consolidated Appropriations Act of 2005 (P.L. 108-447), the U.S. contribution to the Global Fund for FY 2005 is \$414,011,249.58. This amount is consistent with the thirty-three percent limitation set out in Section 202 (d)(4) of the U.S. Leadership Act, and reflects two withholdings required by that same section, made against the total FY 2005 Global Fund appropriation of \$435,000,000.

To comply with Section 202(d)(4)(A)(ii), I withheld \$9,036,871.92, an amount equal to the amount expended by the Global Fund to the Government of Cuba, a state sponsor of terrorism. In addition, in accordance with Section 202 (d)(4)(A)(v), I withheld \$3,918 – an amount equal to the aggregate amount by which the salary of one Global Fund employee in 2004 exceeded the salary of the Vice President of the United States.

The Consolidated Appropriations Act of 2005 permits me to access up to five percent of amounts made available by Congress to the Global Fund to provide technical assistance to the Fund. Both my office and our partner implementing agencies have received repeated requests from Global Fund grantees to fill the critical need for technical assistance to improve the performance of Global Fund grants. Based on an interagency review of that need, I have dedicated five percent

The Honorable
Jim Kolbe, Chairman,
Subcommittee on State,
Foreign Operations, and Related Programs,
Committee on Appropriations,
House of Representatives.

of these funds, a total of \$11,947,960.50, to assist Global Fund grantees in expanding access to care and support for people living with HIV/AIDS and those suffering from malaria and tuberculosis. Ensuring the success of these Global Fund grants should help them gain access to continued funding.

Furthermore, as required by Section 525 of the Consolidated Appropriations Act of 2005, I have temporarily withheld \$62 million (twenty-five percent of the funds appropriated for a Global Fund contribution under the Appropriations Act) until such time as I am able to certify that the Global Fund is establishing an Inspector General's office that is "full time," "professional," "independent," and "reports directly to the Global Fund Board." Accordingly, I will release the FY 2005 Global Fund contribution in two tranches. I will release the first tranche of \$352,011,249.58 immediately, and I will release the second tranche of \$62 million upon my certification that the Global Fund is in full compliance with Section 525 of the Consolidated Appropriations Act.

By releasing the U.S. contribution to the Global Fund in two separate tranches, I believe I am providing the Fund the maximum amount of legally available resources with the least delay. I hope to be able to release the remaining sum as soon as possible, and I have directed my staff to be in close contact with the Global Fund Secretariat to work through the remaining areas of concern.

Thank you for your continued assistance.

Sincerely,



Ambassador Randall L. Tobias
U.S. Global AIDS Coordinator



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Report by the Secretariat of the Global Fund Secretariat

Compliance with § 525, 2005 Foreign Operations, Export Financing and Related Programs Appropriations Act

The Fiscal Year 2005 Appropriations legislation of the United States Congress sets out a number of requirements which need to be met by the Global Fund in order to receive the full US contribution. Over the past year, the Global Fund has been working hard to fully comply with the requirements set out in the legislation. The following report by the Secretariat of the Global Fund lays out the progress made on all relevant dimensions.

(A) Establishment of a full time, professional, independent office which reports directly to the Global Fund Board regarding, among other things, the integrity of processes for consideration and approval of grant proposals, and the implementation, monitoring and evaluation of grants made by the Global Fund

At the 10th Board meeting, the Board requested the Finance & Audit Committee ("FAC") to:

"develop, and present for approval by email prior to the 11th Board Meeting, Terms of Reference and a plan for the establishment of an Office of the Inspector General, and recommend a candidate for the position of Inspector General for appointment by the Board at the 11th Board Meeting."

To assist the FAC in its response to this request, the Global Fund has retained the services of the law firm of DLA Piper Gray Cary ("DLA Piper"), which has taken on this mandate on a *pro bono* basis.

DLA Piper has prepared proposed Terms of Reference and a plan for the establishment of the Global Fund Office of the Inspector General ("OIG"). Both documents have already been distributed to members of the FAC and will be discussed at that Committee's July 7 meeting.

The Terms of Reference proposed by DLA Piper foresee an office that reports only to the Board, informing the Executive Director of the progress of investigations and other matters where appropriate. Under DLA Piper's proposal, the OIG will be entirely independent of the Secretariat.

As proposed by DLA Piper, the primary purpose of the OIG would be to provide independent and objective oversight to ensure that the Global Fund and the entities that it funds comply with established policies and procedures. The Office of Inspector General would therefore focus on two areas: (1) the prevention, detection and resolution of fraud and abuse, misappropriation, corruption and mismanagement and (2) the effectiveness of the organization's internal management processes.

DLA Piper has also prepared for the FAC a detailed action plan that would have a sub-group of the FAC identify and recommend to the Board a candidate for the position of Inspector General at the 11th Board Meeting, and oversee the establishment of the OIG soon thereafter.

(B) Strengthening domestic civil society participation, especially for people living with HIV/AIDS, in country coordinating mechanisms

Civil society participation was a focus of discussion at the Global Fund's Partnership Forum in Bangkok held in July 2004. Since then, significant steps have been undertaken to improve participation of civil society, and in particular of persons living with HIV/AIDS, in CCMs. A new policy was adopted at the 9th Board Meeting strengthening both requirements and recommendations for civil society representation and participation in CCMs. Thereafter, new guidelines for CCMs to operationalize this policy were developed and distributed to all CCMs in early 2005. These requirements are being used as eligibility criteria in Round 5 and in committing further resources in Phase 2 decisions.

Additional efforts are made during country visits of Secretariat staff to continue to strengthen the participation of civil society – both with CCMs directly and with partners in-country. CCM workshops are being organised for all regions during 2005 and early 2006 to provide further guidance and support to CCMs and to ensure civil society participation. Lists of CCM members for nearly all countries have been compiled by the Secretariat and are available on the website, and all communications by the Secretariat are now being sent out to the entire list of members.

While some CCMs already had begun to strengthen their civil society representation and functioning prior to the adoption of Board requirements of November 2004, many CCMs have initiated restructuring processes since then. This has also been supported by a CCM (self-) assessment tool which translates recommendations and requirements into clear and measurable indicators. Some examples of recent actions taken by CCMs are listed below:

- The CCM in India recently elected a person living with HIV/AIDS as its Vice Chair. The CCM in Kenya recently elected a representative of an NGO as its Vice Chair;
- The Vice-Chair of the CCM of Swaziland has spear-headed an election process to ensure that all constituents are appropriately represented in the CCM. Following adoption of the new Guidelines, the CCM in Malawi has also embarked on an election process to ensure each constituency is represented by a duly elected member;
- China, Laos, Mali and Vietnam are in the process of restructuring their CCM. Mozambique (with some Global Fund support) is currently reviewing the composition, roles and responsibilities, and functioning of mechanisms related to Global Fund proposal development and oversight of implementation in the context of the Health Sector Wide Approach (SWAP).

Finally, at its 10th Meeting in April 2005, the Global Fund Board adopted a decision to strengthen CCM functioning and their access to resources, by allowing the use of grant money to support CCM activities where necessary. The Secretariat has since developed supporting policies for the application of the Board decision. These guidelines will be shared with CCMs at regional meetings and documentation will be placed on the Global Fund website for CCMs and

the general public. The use of these funds will contribute to the strengthening of the governance functions of CCMs and facilitate the inclusion of non-governmental entities.

(C) Establishing procedures to coordinate technical assistance for Global Fund activities

An internal electronic **Early Warning and Response System**, with data entered for all countries, is now up and running within the Secretariat, tracking calendar-driven and disbursement-related indicators from TRP clarifications through the Performance Based Funding cycle of a grant. These indicators, which are currently being validated, flag grants across the portfolio that are behind schedule on reporting, disbursements, burn rates, and progress indicators, or judged to be otherwise underperforming by the LFA and the Secretariat.

In addition to this internal monitoring system, the Secretariat has developed a set of more qualitative indicators to be tracked by partners in-country (CCMs, LFAs, and other bi- and multi-lateral partners) and by the Portfolio Management teams. These indicators are based on a range of issues which have been identified as potential bottlenecks to implementation. Consultations with partners on these indicators are ongoing both centrally and with countries through various regional meetings and other fora. A set of simple tools to help PRs, CCMs and partners in country monitor these indicators will be sent to all recipient countries by beginning of August 2005. CCMs will be requested to nominate a focal point to facilitate communication with the Secretariat on the Early Warning and Response System. At the same time, all CCM members and other partners will be encouraged to engage in the monitoring of grant implementation in order to ensure the earliest possible identification of challenges and problems with grants. We expect this system for country level input into the Early Warning and Response System to be fully functional by the end of August 2005

To increase the sensitivity and relevance of the Early Warning and Response System, the Secretariat is continuing the development of a risk model, which will inform the approach to the management and oversight of grants by classifying the relative risk of each investment. The model will be used to inform the LFA and Secretariat approach to monitoring the grant from grant signature onwards. Grants viewed as facing potential risks to timely implementation will

be more closely monitored than those with less risk and used to accelerate the flagging of issues in the Early Warning and Response System.

Coordination of technical assistance at both the local and global level is critical to the success of the Global Fund. In addition to an intensified focus by Portfolio Managers on ensuring coordinated technical assistance at the country level, a number of key overarching initiatives are underway to build a solid framework for well coordinated and accountable technical support:

- At regional meetings, the Secretariat is working together with technical partners and countries to draw up annual technical assistance plans for each country;
- The Early Warning and Response System is intended to engage country level partners (PRs, CCMs and partners) in the diagnosis of identified problems and in the subsequent development of remedial action plans, including plans for mobilizing appropriate technical assistance to address the relevant problems. The above mentioned focal point for the Early Warning System within the CCM will play an important role in this regard;
- A country-by-country partner mapping exercise is underway to facilitate the coordination of appropriate responses and technical assistance for grants in need. This mapping exercise will then be shared with partners for validation and coordination with similar exercises that they have conducted;
- Following the recommendations of the Global Task Team, the Global Fund with UN partner organizations and the World Bank will establish a joint problem solving team for technical assistance issues identified by country level stakeholders.

D) Establishing clear progress indicators upon which to determine the release of incremental disbursements; and (E) releasing such incremental disbursements only if positive results have been attained based on those indicators

Since last year, the Secretariat has developed and agreed with partners a clear set of progress indicators, which form the basis for disbursement and Phase 2 decisions:

- The M&E toolkit brought a clear set of grant progress indicators for the three diseases together for the first time and was published in 2004. These progress measures were agreed by a wide range of partners (including the US government, USAID and CDC) and have wide recognition as clear progress indicators;
- A simplified top ten set of these high level indicators for portfolio reporting were agreed in 2005 which focus on people reached by services;
- All Phase 2 grants and new grants have key coverage indicators. For the 51 Phase 2 grants evaluated to June 2005, 342 high level coverage indicators were evaluated, on average 6.7 per grant. 43% of all results were of the highest level coverage indicators of people reached by services;
- Performance measures are continually improved in response to technical developments in the field with partners. An updated version of the M&E toolkit which fine tunes indicators will be published in 2005. Joint training of country staff with partners (UNAIDS, WHO, USAID and CDC) has been carried out regionally in 2005 to embed these performance measures in country reporting.

In day to day business, disbursements are based on the performance of grants. Analyses of the maturing grants that reach Phase 2 decisions confirm that overall money is following performance. However, major efforts are underway to more consistently document all disbursement decisions and make such information transparently available in real time through the Global Fund's web-based information systems. A target set by the Secretariat is that 95% of disbursements (other than initial disbursements) will be made on the basis of documented performance. To achieve this goal, a dedicated M&E support team has been created in 2005 to assist Fund Portfolio Managers in ensuring relevant data required to make a decision on a disbursement request is collected and adequately recorded. This is supported by the development of a **standardized disbursement form and tool** to capture relevant information required to make a decision to disburse. This will incorporate necessary elements from the PR Request and LFA verification report and provide criteria to consider for the decision.

Other concrete steps include:

- Transparent publication of progress against performance indicators, by making **Grant Performance Reports (GPR)** publicly available on the web with regular updating. All grants that reach 12 months will have a GPR on the web, with regular updating, by 1 September 2005;
- Input of all grant data into a **robust information system** so that it can be made transparently available for all decisions and review in the Secretariat;
- Implementation of **Annual Reviews** as an important source of contextual information and a condition for Phase 2 decisions. Considerable contextual information is already collected for grant decisions. The Request for Continued Funding Application Form has several sections on contextual information submitted by both the Principal Recipient and the CCM. These are material elements in the decision to continue funding. An additional source of contextual information will be more extensive annual reviews of programs, which require implementation in 2005.

F) Providing an appropriate level of support and oversight to country-level entities, such as country coordinating mechanisms, principal recipients, and local Fund agents, to enable them to fulfill their mandate

Following the adoption of a decision at the 9th Board Meeting concerning **CCM** functioning, regional workshops have been held with CCMs to clarify roles and responsibilities of CCMs, in particular with regards to grant oversight, the Phase 2 renewal process and conflict of interest. The Global Fund has requested CCM Chairs to invite Principal Recipients, CCM Vice-Chairs, people living with the diseases, and representatives of civil society and the private sector to participate in these regional workshops. In 2005, workshops have been conducted for CCMs in Southern Africa, South Asia and West Africa. Workshops are planned for the Eastern Mediterranean region, East Africa, South East Asia and the Pacific during the remainder of 2005.

Clear indicators have been developed to translate the CCM recommendations and requirements into measurable indicators for CCM self assessments and external audits. This CCM checklist has been distributed to CCMs along with user guides to support CCM functioning. The use of the self-assessment tool has triggered reorganization efforts in some countries as well as requests for support visits of Secretariat staff to CCMs. A number of these visits have now been conducted at the request of these countries (including India, Laos, Madagascar and Vietnam), and more are planned.

The CCM indicators are also used in the context of an external assessment of CCM processes and procedures, commissioned by the Secretariat and conducted by the Futures Group, including the extent to which CCMs are meeting established guidelines and criteria for their composition, roles and responsibilities. The assessment is intended to provide guidance on areas requiring greater effort and to establish a baseline against which future progress can be gauged. By June 2005, the assessment was launched in 104 countries. To date, assessments have been completed and submitted for 49 countries. Final input from CCMs is expected by July and a final report will be available for the September Board Meeting. The assessment results will prove valuable in efforts to target the areas of CCM performance that require the greatest degree of support. Once the final report has been issued, it will be made available to CCMs and to partners.

The **LFA model** is a vital component of the Global Fund's governance and oversight structure. The Secretariat is committed to its success and has developed a strategy and associated initiatives to strengthen the LFA service model and to address difficulties experienced, following a comprehensive review of the LFA system commissioned by the Secretariat in 2004. These include:

- Establishing closer linkages with the senior HQ teams of the major service providers, in particular KPMG and PricewaterhouseCoopers (PwC), with a view to ensuring consistently high service levels and developing a better partnership arrangement. A senior level conference is planned with PwC for September/October of this year;
- Providing training and policy guidance for LFA field representatives. An example of this is the Phase 2 renewal process, where LFAs were issued with written guidance

and a web-based training presentation;

- Intensified in-house training of Fund Portfolio Managers in relation to the management of the LFA resource;
- Simplified contracting procedures so that services can be engaged without the need for protracted negotiations. This process has already yielded improvements with simpler fee structures now being introduced;
- Move towards a more tailored grant oversight and Terms of Reference for LFAs based on grant risk profiles, which will enable a better allocation of resources to where the oversight and scrutiny is most required;
- Streamlining of assessment tools, and a revision of aspects of the Terms of Reference to ensure that the LFA mandate is well understood and is consistent with a more tailored approach;
- Based on findings of the independent LFA review of 2004, piloting certain modifications to the model in late 2005, keeping the relevant Board Committee informed.

The Secretariat is also in the process of recruiting a LFA Manager who, in conjunction with a focus group, will be responsible for coordinating LFA services and driving forward the above initiatives to strengthen the model.

Appendix 3

TIMELINE OF GLOBAL FUND GRANT LAUNCHING AND APPROVAL

FIRST ROUND

February 2002 - First launch of grants

April 2002 – 2nd Board Meeting approves Round 1

SECOND ROUND

July 2002 - Second launch of grants

January 2003 – 4th Board Meeting approves Round 2

THIRD ROUND

March 2003 - Third launch of grants

October 2003 – 6th Board Meeting approves Round 3

FOURTH ROUND

January 2004 - Fourth launch of grants

June 2004 – 8th Board Meeting approves Round 4

FIFTH ROUND

November 2004 - Fifth launch of grants

September 2005– 11th Board Meeting approves over half of Round 5, with the remainder to be approved as funds become available, but no later than June 30, 2006