The President’s Emergency Plan for AIDS Relief

Fiscal Year 2006 Report on
the Global Fund to Fight AIDS, Tuberculosis and Malaria

January 2007

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.”
**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 as an independent, non-profit foundation under Swiss law, 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. The Global Fund allows donors to pool their resources and finance essential programs in resource-limited settings.

Today, less than five years after its launch, the Global Fund is fully operational and still faithful to the core principles of its design. For example, the Fund’s operating expenses for the 2004-2005 period were $125 million, or 6.9 percent of total expenditures, evidence of its commitment to remain a streamlined financing agency.

The Global Fund has made strides in tapping private sector support too. In January 2006, the Executive Director of the Global Fund announced a new corporate initiative designed to deliver a sustained flow of private-sector resources to the Global Fund, called Product RED. Under this campaign, international brands have designated products that will bear the RED mark, indicating that a portion of their profits from the sale of these products go to the Global Fund. Launching partners of Product RED include American Express, Converse, Gap, and Giorgio Armani. As of December 2006, Product RED had already raised nearly $11 million in resources for the Global Fund.

The U.S. contribution to the Global Fund is an important part of an unprecedented commitment by the United States to combat HIV/AIDS globally. The President’s five-year, $15 billion commitment under his Emergency Plan for AIDS Relief (PEPFAR) – including 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 led by one nation to address a single disease. In the first three years of PEPFAR, the United States contributed $1.9 billion to the Global Fund. U.S. pledges to the Global Fund since its inception through 2007 total more than $2.3 billion.
The existence of the Global Fund is both an invitation and a challenge to the rest of the international community to join together to fight these three diseases. It is 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. The U.S. Government thus puts a priority on coordinating its bilateral Emergency Plan programs with the Global Fund and contributing significantly to enhancing the performance of Fund grants on the ground.

During 2006, The Global Fund Board and Secretariat worked successfully on shortening the lengthy Fund grant competition processes and speeding disbursements to country programs. To help support this goal, the U.S. Government launched a $12 million program to provide technical assistance to countries struggling with project bottlenecks, with a particular emphasis on TB prevention and treatment.

The Board’s Policy and Strategy Committee, under U.S. leadership, made significant progress on implementing a new five-year strategy, including institution of a new funding-extension mechanism for high-performing grants.

The United States 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 and its Committees, and 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:

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

The United States sees the Global Fund as part of a long-term strategy which will provide financing to enable developing countries to respond to the challenges of HIV/AIDS, TB and malaria. Coupled with the rapid, highly effective action of the bilateral program, the U.S. Government has a comprehensive and coordinated approach to Global HIV/AIDS through PEPFAR.

With the assistance of U.S. field staff and an inter-agency core team in Washington, D.C., the United States actively contributes to discussions on Global Fund policies and procedures at the Board and with the Geneva-based Secretariat, and on grant implementation in recipient countries.
Consistent with the requirements of section 202(c) of Public Law 108-25, this Report is organized into the following three sections:

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

I. Funds Pledged and Contributed

The Global Fund Secretariat reports two sets of data on donations. “Pledges” represent promised monies 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/.

Consistent with the Leadership Act, as amended by Section 595 of the Consolidated Appropriations Act of 2004 (P.O. 108-99), the U.S. Global AIDS Coordinator (the Coordinator) uses July 31 as the “snapshot” date for calculating the potential U.S. Government contribution and determining how to use any amount of the appropriation that is not available for contribution.

Pledges

Pledges through 2008 (as of December 13, 2006) (See Appendix 1):

$9.0 billion total pledged through 2008 by all donors (Governments, foundations, not-for-profit organizations, corporations, and private individuals or groups):
- $8.6 billion from all Governments (including the United States);
- $450 million from a foundation;
- $4.0 million from corporations, individuals and other entities; and
- United States pledges to date: $2.5 billion, or 26 percent of total pledges.

¹ The Global Fund also maintains a bank account with Credit Suisse in Geneva, which receives certain small donations that count toward the contribution total. See Section III for more details on this account, and some concerns the U.S. Government has about its use.
Pledges from all donors for the Global Fund’s 2006 fiscal year (which corresponds to the calendar year) amount to $2.2 billion; of this amount $1.6 billion is from non-U.S. Government donors. These pledges, if contributed in full, are an increase of $650 million above the amount donors provided in 2005.

Through the Global Fund’s voluntary replenishment process in 2005, the United States made a commitment of $600 million for the period 2006-2007. However, the Fiscal Year (FY) 2006 enacted appropriations provided $244.5 million beyond the President’s budget request, bringing the FY 2006 amount to $544.5 million. Combined with the President’s budget request for FY 2007 of $300 million, the U.S. pledge is $844.5 million to the Fund over the biennium.

Contributions

Contributions received since the inception of the Global Fund, as of December 13, 2006: (See Appendix 2):
- $6.6 billion total;
- $6.4 billion from all Governments, of which: $1.9 billion, or 29 percent of total contributions, is from the United States; and
- $250 million from a foundation.

For FY 2005, the United States was able to make its full contribution of $435 million in a manner consistent with the 33 percent ceiling on U.S. Government contributions, less deductions of $20,998,751.42 pursuant to Sections 202(d)(4)(A)(ii), and (v) of the Act. In addition to the deductions required by the Act, the Coordinator temporarily withheld an amount of $62 million, pursuant to Section 525 of the Foreign Operations, Export Financing and Related Programs Appropriations Act of 2005, until the Coordinator could certify the Global Fund Secretariat had fulfilled the conditions of Section 525 (P.L. 108-447). The

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2 Does not include second tranche of the United States FY 2006 contribution, which may total $140 million.
3 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), in addition to $87.9 million held over from the FY2004 appropriation.
4 Section 202(d)(4)(A)(i) of the Act, as amended.
5 Sections 202(d)(4)(A)(ii), (iii) and (v), as amended, generally provide 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. The President has delegated the responsibility for making these determinations to the U.S. Global AIDS Coordinator.
Coordinator made this certification on February 13, 2006, as previously notified to Congress, and he transferred the remaining $62 million to the Global Fund’s Trustee.

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, in accordance with limitation that U.S. contributions cannot exceed 33 percent of total contributions. The United States continues to see the Global Fund in general, and the statutory cap on the size of the U.S. Government’s contribution to the Fund in particular, as catalysts to encourage greater investment by other donor countries, the private sector, and individuals in the fight against HIV/AIDS, TB, and malaria.

Private-Sector Contributions

Of the $6.6 billion in contributions received, the Fund has collected $267 million from the private sector and other non-governmental sources since its inception. Of this amount, $250 million was from the Bill and Melinda Gates Foundation. During 2006, the Global Fund only received $250,000 from the private sector.

Because President Bush and the other founders of the Fund meant the organization to embody the principle of public-private partnership, committed to gathering resources from across the spectrum of possible donors, increasing private funding is an important challenge for the Fund Board. The Product RED campaign is a promising initiative in this direction. 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 (CCMs) and through active participation in the Global Fund Board and its Committees.

Nonetheless, 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 opposition of many Board members against in-kind contributions from the private sector has also discouraged some in the corporate world from seeking to give more generously.
The current policy is to allow the Secretariat to accept in-kind donations for Secretariat activities and to allow individual CCMs the discretion to accept in-kind contributions. Prompted in part by the offer of in-kind pharmaceuticals from the new UNITAID financing mechanism – which commits revenue raised from taxes on certain airline flights\(^6\) toward the purchase of pharmaceuticals – the Board is currently reviewing the issue of in-kind donations from the private sector. The United States remains committed to promoting a policy that facilitates the broader availability of in-kind donations.

II. Projects Funded and Disbursements

The Global Fund commits its resources to projects via periodic “Rounds.” The Global Fund Board initiates grant Rounds, and approve guidelines for proposals (See Appendix 3 for a timeline of Rounds). The Global Fund Secretariat then begins the process of proposal solicitation. In most cases, within each country or region 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 who are living with the diseases, faith-based organizations, the private sector, and bilateral and multilateral donor representatives.

Since the Global Fund began operations in January 2002, it has disbursed a total of $3.1 billion to grantees.\(^7\) In Rounds One through Six, the Board approved more than 448 proposals worth $6.9 billion, in 136 countries, including five regional programs. This includes 199 requests for Phase Two funding, worth $2.2 billion.

The Global Fund Secretariat has signed 396 grant agreements that total $5.3 billion, in 131 countries.\(^8\)

Sixty percent of funding proposals approved (by dollar amount) by the Board during the first six rounds are dedicated to HIV/AIDS, twenty-two percent

\(^{6}\) Currently, airline tickets purchased in France, the United Kingdom, Norway, Chile and Brazil are subject to this levy, in varying amounts.

\(^{7}\)“Disbursement” refers to money released by the Secretariat and sent from the Trustee to the PRs. This figure does not take into account whether the PRs have expended these funds. As of April 2006, according to an estimate provided by the Secretariat, PRs had expended $550 million of the $2.2 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.

\(^{8}\) A number of the 331 approved proposals were split into multiple grant agreements with separate PRs when signed, which is why the number of signed grant agreements is larger than the number of Board-approved grants.
to malaria, seventeen percent to TB, and one percent to integrated or health-system strengthening projects.

As previously mentioned, under the Global Fund’s Comprehensive Funding Policy (CFP), the Global Fund Board can approve grants against confirmed pledge amounts it expects donors to contribute prior to the time of grant signing. The Secretariat may only sign grants based on money in hand.

At the 14th Global Fund Board Meeting in November 2006, the Board approved 85 Round 6 proposals. By the time of the Board meeting, Global Fund pledges were sufficient to fully cover the cost of all approved Round 6 proposals.

III. Transparency and Accountability

Because the Global Fund is a young institution, the United States and other Board Members continue to play an active role in helping the Secretariat establish internal governance mechanisms that ensure adherence to transparent, accountable and efficient 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 nearly 400 grants under active management as of December 2006, the Global Fund Secretariat faces an enormous task in ensuring proper financial management of its projects. There is some evidence that the hectic pace of work to conclude grant-signing negotiations has impeded the Global Fund Secretariat’s grant monitoring efforts. Although the Secretariat's portfolio management team has grown, and will add new staff in 2007, we remain concerned that Portfolio Managers in Geneva are not always able to assess grant performance adequately, often because of incomplete information they receive from PRs, CCMs, and Local Fund Agents (LFAs).

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. Acting on appeals from the United States and the European Commission, the Global Fund investigated allegations of malfeasance for grants in Ukraine in 2004 and Uganda in 2005. Although the Global Fund Secretariat suspended these grants until it could ensure
the CCMs had resolved the concerns, in neither of these instances did the Fund's own internal oversight mechanisms identify the problems. The United States has similarly worked with other donors to highlight difficulties with the HIV grants in Burma, Cote d’Ivoire, Kenya, Nigeria, and South Africa.

In 2005 the Global Fund Secretariat set up an early warning system (EARS) to flag grants in difficulty and notify relevant CCMs and PRs. In some cases, EARS prompted significant improvement in grant performance, although the system has been hampered by worries over stigmatization. The Secretariat is currently working on a revised and improved system to share such early-warning information more publicly, so that the U.S. and other donors who are prepared to support technical assistance can take more timely action.

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 the U.S. Government at the founding of the Fund.

In a study\textsuperscript{1} released in June 2005, the U.S. Government Accountability Office (GAO) noted the Fund Secretariat did not always base its disbursement recommendations on documented results or even adequate information on expenditures. 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.

Likewise, the U.S. Government was concerned to learn from the Global Fund’s Deputy Executive Director, in her report to the 13th Board Meeting, that “staff were caught in a dilemma between the conflicting demands of the Board and senior management for rapid grant approvals and disbursement, and a significantly increasing focus on documentation for results, risk assessment and detailed internal accountability.” The U.S. Delegation will continue to raise questions about these practices over the coming year, and consider appropriate responses.

Grant Renewals and Terminations

As of December 2006, the Global Fund had considered more than 200 grants for continued funding into “Phase Two,” which covers years three through five of any grant. The Global Fund Board considers all Phase Two renewals decisions on the basis of a recommendation from the Secretariat. In many cases, the Secretariat presents a renewal recommendation for funding amounts smaller than the five-year “ceiling” amounts approved notionally by the Board at the grant's inception, typically because of somewhat weak performance. In eight of these cases, the Secretariat recommended that the Board cancel grants entirely because of inadequate performance.

In all but one of these eight recommendations for cancellation, however, the Board voted initially to oppose the Secretariat's recommendation for termination of the grants. Under Global Fund procedures, when the Board opposes a Secretariat recommendation, this serves to send the Phase Two proposal back to the Secretariat for review and clarification. After one or two months in which the Secretariat seeks to address the issues raised by Board Members, the proposal goes back again to Board for a vote. Because the Global Fund Board is a consensus-based body, a two-thirds majority of both the “donor” and “recipient” blocs of the Board, which have ten members each, must approve any decision. Therefore, a blocking minority of only four votes is sufficient to reject a Secretariat recommendation. If the Board rejects the Secretariat recommendation a second time, the matter goes to an independent review panel, and the Board must consider the panel's findings and make a final decision at its next scheduled Meeting.

These procedures have led to the circumstance in which blocking minorities of Board members can easily reject Secretariat “No-Go” recommendations, which forces an extended re-examination of the proposals. However, in the event the Secretariat or the Independent Review Panel changes its recommendation to a “Go,” the Board must also vote affirmatively by a two-thirds majority of each bloc to approve funding. As a result, these procedures have created a circumstance in which it is easy to assemble a minority voting bloc that can delay the cancellation of a grant for several months, but then it is equally difficult to assemble the sufficient majority eventually to approve funding for these grants.

Understanding that these procedures have become a formula for extended deliberation of grant proposals that is not likely to lead to a different outcome upon final consideration, the Board is currently reviewing its Phase Two approval policy. The Board approved some modifications to the policy at the November
2006 Meeting, and hopes to refine the process further at the 15th Meeting in April 2007.

However, there was at least one instance in 2006 in which the Secretariat chose initially to ignore the results of a negative Board vote on one grant approval recommendation. In this instance, the Secretariat had presented a Kenya HIV grant to the Board for consideration, with a “Conditional Go” recommendation. After consultation with U.S. Government staff in Kenya, the U.S. Delegation to the Fund Board decided to cast a “No” vote on the Secretariat’s recommendation. At least six other donor-bloc delegations supported the U.S. Delegation’s position and called upon the Secretariat to review its conditions and present the matter to the Board a second time. Nevertheless, the Secretariat chose to view the “No” vote instead as support for approval of the grant, with concerns to be raised during negotiation of the final grant agreement. The Secretariat disclosed that it chose to adopt this interpretation of the Board vote despite advice from its own General Council in advance that such a decision would not be consistent with the Global Fund’s policies approved by the Board.

The U.S. Delegation to the Fund Board, along with several other Board Members, expressed strenuous objection to this decision, and the Secretariat reversed its decision and agreed to resubmit the grant renewal in question to the Board a second time, after modification of the conditions. The U.S. Delegation was pleased the Secretariat worked closely with Emergency Plan personnel in Kenya on the drafting of the new conditions, and we supported the second recommendation for conditional renewal.

The Office of the U.S. Global AIDS Coordinator views this incident as part of an occasional pattern of Secretariat circumvention of the institution's stated policies, making decisions on its own that properly belong to the Board.

However, during the latter part of 2006, the Secretariat appeared to adopt a tougher stance against non-performing grants by setting and adhering to conditions and withholding disbursements when conditions were not met.

**LFA Operations**

Local Fund Agents (LFAs) are meant to exercise a critical oversight function in 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 Secretariat does not have any staff located outside Geneva.

Over the past year the Secretariat has taken steps to clarify the roles and the authority of the LFAs, although their functioning remains an area of concern. The U.S. Government has received reports that LFA audits are widely variable in their thoroughness and quality. The U.S. Delegation to the Fund Board does not have clear evidence of how well this review system works, the type and quality of information the LFAs provide, or any deficiencies in their role as an evaluative tool.

Two or more studies are currently underway to evaluate the role and performance of the Fund’s LFAs. The U.S. looks forward to the results, and plans to play an active Board role in implementation of appropriate recommendations for change.

Global Fund Operating Expenses

In 2005, Global Fund operating expenses totaled $73.8 million dollars. When measured against the commitments begun through the signing of grant agreements, which totaled $1.5 billion during 2005, the Global Fund Secretariat has indicated that the Fund’s operating expenses (not including those covered through in-kind donations) as a percentage of grants are only 1.7 percent. However, when measuring actual disbursements to fund all programmatic activities ($1.05 billion), the operating expense percentage is somewhat greater, at 6.5 percent of the total expenditures (the sum of the operating expenses and grant disbursements) for calendar year 2005.

Section 202(d)(4)(A)(iii) of Public Law 108-25, 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.” The Global Fund’s operating expenses for the 2004-2005 period was $125 million, or 6.9 percent of total expenditures, which remain well under the total expenditure allotment.
Investigation of the World Health Organization (WHO) Internal Auditor

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 requested that the Office of Internal Oversight Services (OIS) at the WHO Secretariat conduct an investigation into the matter. The allegations related to contracting practices, recruitment involving a family member, staff turnover and organizational culture.

The WHO/OIS conducted a review, and produced a confidential final report for members of the Global Fund Board at their November 2005 meeting, which identified a number of improper actions by the Secretariat and contained a number of recommendations to remedy these concerns. Over the next several months, the Secretariat took steps to implement these recommendations, including replacing the Global Fund’s Chief Administrative Officer and establishing a number of internal checks to prevent future violations. The U.S. Delegation participated as a member of the Ad Hoc Oversight Committee of the Board that supervised the Secretariat’s implementation of the recommendations of the WHO/OIG report and the steps outlined in the management response. The Board was generally satisfied with the Global Fund management’s implementation of the recommended changes.

Secretariat Staffing

The Global Fund Secretariat 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. An additional concern of the U.S. Government has been the Global Fund's ability to retain talented staff. During 2004-2005, staff turnover at the Fund Secretariat stood at 15 percent for each year, which is significant. The 2005 WHO/OIG investigation similarly concluded staff morale and working conditions were serious concerns for the operation of the Global Fund.

As a result of the WHO/OIG report, the Global Fund Board at its September 2005 Meeting tasked the Fund’s newly appointed Deputy Executive Director to look into this matter. An outside management consulting firm, Monitor Group, conducted a review of staff opinion, and found significant concern among Secretariat staff around issues of trust, and also that complaints about workload were quite serious. The report confirmed that the Fund’s Operations staff, which constitutes the Fund's core function, was among those most affected.
In a report to the 13th Board Meeting, the Deputy Executive Director concluded that the Secretariat faces significant human-resource challenges pertaining to the following:

- Inadequate management rigor and skills, role modeling, and collaboration at all levels;
- Limited clarity of staff roles and responsibilities; and
- Poor clarification and documentation of Secretariat and Board policies and procedures, and the need to improve support systems.

In response to these concerns, the Global Fund Secretariat has created a new Staff Council to help provide a forum for raising and addressing staffing problems. The Deputy Executive Director has also acknowledged that many of the problems do not lend themselves to easy solutions, and will remain ongoing challenges.

Creation of the Office of the Inspector General

In July, 2005 the Global Fund Board decided to establish an Office of Inspector General (OIG) to provide the Global Fund with independent and objective oversight to ensure the integrity and effectiveness of its programs and operations. The OIG operates as an independent unit, and reports directly to the Board of the Global Fund. The Inspector General’s primary point of contact with the Board is the Finance and Audit Committee (FAC).

At the 13th Board Meeting, held in April 2006, the Board also approved the Charter of the Office of the Inspector General, which defines the functions and responsibilities of the OIG and serves as the framework for the work the office will carry out. Additionally, the FAC reviewed an OIG Preliminary Work Plan for 2006. The work plan, in addition to review and investigation of incoming allegations, includes the following four areas of audit:

a. Local Funding Agent (LFA) System and Management;
b. Travel Management;
c. Principal Recipient and Sub-Recipient Transactions; and
d. Credit Suisse Payments at the Secretariat.

The FAC will continue to work with the Inspector General to refine policies for reporting audit findings.

The Board’s Committee on Ethics, in conjunction with the Inspector General, developed a Whistle-Blower Policy, which the Board approved at its
April 2006 meeting. The Whistle-Blower Policy permits confidential or anonymous reporting of wrongdoing to the Office of the Inspector General, and is designed to ensure appropriate follow-up by the OIG. The Board encouraged the OIG to implement the policy as soon as practical. The Ethics Committee also developed a Lobbying Policy (titled “Code of Conduct for Contacts with Members of the Global Fund Involved in Funding Decisions”), which the Board approved.

An independent, external entity is currently conducting a review of the first year of work of the Global Fund’s Office of Inspector General. The U.S. delegation looks forward to the results of this review.

Search for the New Executive Director

Executive Director Professor Richard Feachem, announced in March 2006 that he would not seek another full term as Executive Director of the Global Fund (in July 2006, Professor Feachem completed his fourth year as head of the Global Fund).

During the 13th Board Meeting, the Global Fund Board established a recruitment process to govern the search for a new Executive Director and agreed upon revised terms of reference for the position. The United States served on the Executive Director Nomination Committee, represented by the Deputy U.S. Global AIDS Coordinator, Ambassador Jimmy Kolker, along with seven other Members of the Global Fund Board.10 The Board officially launched the search in June 2006, at the same time voting to extend Dr. Feachem’s contract to March 31, 2007.

Unfortunately, the Board deadlocked over the choice of new Executive Director during the November Board Meeting in Guatemala. The Board, which according to its consensus-seeking rules must vote by a two-thirds majority of each 10-seat bloc (donors and recipients), found itself in the rare position of being unable to reach agreement. After several days of balloting and discussion, the Board decided to re-start the process. A new Nomination Committee will present a new list of five candidates ahead of a special Board Executive Session in February,

10 Dr. Carol Jacobs from the Latin America and Caribbean Delegation; Dr. Lieve Fransen from the European Commission Delegation; Amb. Carsten Staur from the Point Seven Delegation which represents: Sweden, Denmark, Ireland, Netherlands, and Norway; Carol Presern from the United Kingdom and Australia Delegation; Peter Van Rooijen from the Developed Countries Non-Governmental Organization Delegation; Min. Urbain Olangena Awono from the West and Central Africa Delegation; and Dr. Ren Minghui from the Western Pacific Region Delegation.
2007. The Board intends to select and announce the new Executive Director before Dr. Feachem’s departure date.

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

**General Issues**

The U.S. Delegation to the Global Fund Board continues to work with its fellow Board Members and the Secretariat to rigorously implement a standard set of performance measures for all grants to maintain the consistent application of the Global Fund’s principle of “performance-based” funding. The Office of the U.S. Global AIDS Coordinator has shared with the Global Fund Secretariat the performance measures it is using to evaluate the performance of its contributions to the Fund, and has encouraged the Fund to use this or a similar list of indicators within the Secretariat to evaluate grant effectiveness.

An area of ongoing concern remains the Fund’s inability to track the budgets of specific prevention, treatment, and care spending within each grant. The Fund collects performance results for each grant by these categories, but it does not have a system to track the dollars spent on each intervention. Without these data, the Fund cannot measure the efficacy and cost-efficiency of its investments. The Global Fund Secretariat is working to improve its reporting system to capture this breakdown of budgetary data, having built a spreadsheet for this purpose into the new grant proposal form, and is seeking this information from existing grantees.

Equally important as the commitment to performance-based funding is the Global Fund’s maintenance of its Comprehensive Funding Policy (CFP), 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 relaxing this policy, the United States has opposed these efforts. In early 2006, the Board’s Finance and Audit Committee (FAC) completed a review of the CFP, and recommended no change to the policy’s underlying principles. However, the broader long-term strategy-development process that is taking place through the Board’s Policy and Strategy Committee (PSC) also includes review of the CFP as an agenda item, which will reopen the issue to those who would seek to make changes. The U.S. Delegation will continue to resist any change to the CFP that would allow the Fund to sign grant agreements without having the full amount of the committed resources on hand. The World Bank, which serves as the Global Fund's Trustee, has said that relaxing the CFP would have implications for its ability to continue as the Trustee of the Fund.
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 U.S. Delegation has encouraged the Secretariat to increase its portfolio-management capacity, even as we are committed to preserving the Fund's original vision of a lean Secretariat. The original model envisioned substantial collaboration with other donor entities to resolve implementation obstacles, and to that end the United States is working to help the Fund develop an appropriate array of outside, independent technical-assistance resources, and is deepening our cooperative efforts with Emergency Plan programs in recipient countries.

The Fund’s founding documents establish the Secretariat as an administrative body to assist the Board in completing key tasks and processes. The U.S. Delegation to the Fund Board 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 the purview of each Board Committee.

**U.S. Government Leadership on the Fund Board**

The U.S. Government holds one of the 20 voting seats on the Global Fund Board, and is currently active on two Board Committees: the Finance and Audit Committee (FAC) and the Policy and Strategy Committee (PSC).

Dr. William Steiger, Special Assistant to the Secretary for International Affairs at HHS, succeeded former U.S. Global AIDS Coordinator Randall Tobias as the U.S. Board Member, and the Board Chair and Vice Chair thereafter selected Dr. Steiger to chair the PSC. Ambassador Jimmy Kolker, Deputy U.S. Global AIDS Coordinator and former U.S. envoy to Uganda and Burkina Faso, became the U.S. Government Alternate Board Member in November 2005, and serves as the U.S representative on the PSC.

The United States also holds a seat on the Finance and Audit Committee, which makes recommendations on all policy and strategy issues relating to finance and audit including operating-expense budgets, resource mobilization, and financial statements.
Global Fund Strategy Development

In July 2005, the PSC began working on the development of a four-year strategy for the Fund. The Committee will make recommendations to the Board on options that will set the strategic course of the Global Fund from 2007-2010. The Committee first established the framework for the development of the future strategy, by focusing on questions that could affect the Global Fund’s business model and structures. There is broad agreement among Members of the Committee that the new strategy must remain true to the Global Fund’s principles.

At the fourth PSC meeting in March 2006, Committee Members began the process of gaining consensus on options in areas such as the size and strategic positioning of the Global Fund, the enhancement of grant performance, and the critical issue of what to do when well-performing grants reach the end of their term.

As a result of that meeting, in April 2006 the Board decided to pursue the option of a pooled-procurement mechanism outside the Global Fund to improve high-quality supply and lower costs for grantees, and the initiation of LFA assessments prior to grant approval to reduce the time between grant approval and signing, which currently takes, on average, 11 months. The Board adopted further elements of the PSC strategy during its November 2006 meeting, including provision for streamlined renewal of high-performing grants beyond the first five-year period, on a rolling basis.

Other upcoming issues include: leveraging civil society and the private sector; resource mobilization; alignment and harmonization; influencing market dynamics; measuring impact; and ensuring accountability. Throughout the strategy-development process, the United States is remaining focused on the role of the Global Fund as a performance-based, results-oriented financing instrument to combat the three diseases.

U.S. Government Membership on Country Coordinating Mechanisms

Another vantage point from which the U.S. Government maintains an active surveillance and decision-making role in its interactions with the Global Fund is through its membership in CCMs. In countries where U.S. Government staffs (from the U.S. Agency for International Development or HHS, or both) sit on the CCM, the United States participates in the development and selection of proposals to submit to the Global Fund, and also plays a role in the oversight of program implementation. For example, during the sixth round of grant approvals concluded in November 2006, U.S. Government representatives sat on 59 percent of CCMs.

The U.S. Government has designed this Global Fund TA to provide short-term, rapid assistance to grants that are faltering in their implementation. This TA, which the CCM or Principal Recipient (PR) must request, is time-limited and outcome-oriented, and focuses on alleviating specific bottlenecks that can cause grants to under-perform. Examples include inadequate or poor performance in governance, including aspects of the functioning of CCM or PR; program management; financial-management systems; procurement and logistics management; multi-sectoral implementation; and monitoring and evaluation.

As of June 23, 2006, twenty-one countries requested U.S.-funded technical assistance to their Global Fund grants by the June 15 deadline. The Office of the U.S. Global AIDS Coordinator has approved nearly 40 requests in 25 countries, and at least five technical assistance teams have already completed the work requested.

The Office of the U.S. Global AIDS Coordinator has also used the Global Fund TA to enable the Green Light Committee of the WHO to respond to country-driven requests for TA for Global Fund projects. The Green Light Committee helps ensure countries have the skill to manage their drug-resistant TB treatment programs adequately (thus minimizing further spread of drug-resistance). Additional Global Fund TA will support rapid expansion of public awareness campaigns for TB prevention and treatment, through the international StopTB Partnership.

The U.S. Global AIDS Coordinator has approved use of FY 2006 funds, up to the Congressionally-authorized ceiling of five percent, to continue providing Technical Assistance to Global Fund grants in need. The U.S. is also taking a more active role in multilateral efforts to identify sources of technical assistance and target them effectively.

The U.S. has developed specific outcomes measures for all of the Global Fund TA that we provide (see Appendix 4 for a copy of these measures).
Conclusion

The U.S. Government is committed to the Global Fund model and its role in helping in the international effort to combat HIV/AIDS, TB, and malaria. The U.S. Government stays fully engaged with the Global Fund through its seats on the Board and two of the Board committees; through our chairmanship of the critically important PSC; through formal representations and informal discussions with Secretariat staff in Geneva, CCMs, and LFAs; through provision of technical assistance to troubled grants; and through active engagement with both private and public sector stakeholders in affected countries.

U.S. support for the Global Fund is an integral part of the President’s Emergency Plan for AIDS Relief, and we applaud the Fund’s demonstrated accomplishments in delivering funding to where it is needed the most.

Nevertheless, the U.S. continues to have a number of pressing concerns. These include the imperfect capacity of developing countries to make quick and effective use of dramatically ramped-up approved commitments; in-country coordination with bilateral donors and other multilateral organizations; and fiduciary oversight and accountability. In addition, the Fund must improve its ability to demonstrate project outcomes.

By continuing to focus on these issues, the U.S. Government is carrying out its responsibility to taxpayers and to the Congress to monitor the effectiveness of our contribution, while helping to ensure the long-term success of the Global Fund itself.
### Appendix 1

The Global Fund to Fight AIDS, Tuberculosis and Malaria

#### Pledges

<table>
<thead>
<tr>
<th>DONORS</th>
<th>AMOUNT PLEDGED</th>
<th>EQUIVALENT IN USD</th>
<th>TOTAL PAID TO DATE (USD)</th>
<th>PLEDGES by YEAR DUE (in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2022-2023</td>
<td>2023-2024</td>
<td>2024-2025</td>
<td>2025-2026</td>
</tr>
<tr>
<td></td>
<td>2027-2028</td>
<td>2028-2029</td>
<td>2029-2030</td>
<td>2030-2031</td>
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<td>2034-2035</td>
<td>2035-2036</td>
<td>2036-2037</td>
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#### Total Pledges to Date

<table>
<thead>
<tr>
<th>COUNTRIES</th>
<th>AMOUNT PLEDGED</th>
<th>AMOUNT PAID TO DATE</th>
<th>TOTAL PAID TO DATE</th>
<th>PLEDGES by YEAR DUE</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2025-2026</td>
<td>2027-2028</td>
<td>2029-2030</td>
<td>2031-2032</td>
</tr>
</tbody>
</table>

#### Contributions to the Global Fund

1. 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. Furthermore, at the donor’s discretion, up to 5 percent of this funding may be applied in the form of direct bilateral technical assistance to activities related to Global Fund grant implementation, and the contribution to the Global Fund reduced correspondingly.

2. The United Nations Foundation and its donors:
   - With the support of the Global Fund’s consortium, the UN Foundation has provided funding to 18 countries to support the Global Fund’s core functions.
   - In total, the UN Foundation has provided USD 105 million to countries from 13 countries.

3. All (Product)RED(RD) partners have made long-term commitments to supporting the Global Fund; the latest figure reflects the actual contributions made by several partners to date.

4. Pledge includes USD 100m in 2009 and USD 100m in 2010.

#### Notes:

(a) For pledges made in currencies other than US dollars, the pledge amount in USD is the actual USD value realised from any contributions made plus the USD equivalent of the remainder of the pledge calculated using the operational rates of exchange at the dates stated. (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”.

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#### Table

<table>
<thead>
<tr>
<th>Date</th>
<th>Total Amount Pledged</th>
<th>Total Amount Paid to Date</th>
<th>Total Amount Paid to Date</th>
<th>PLEDGES by YEAR DUE</th>
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<tr>
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<td>2017-2018</td>
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<td>2019-2020</td>
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<td>2021-2022</td>
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<td>2027-2028</td>
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<td>2031-2032</td>
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<td>2035-2036</td>
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</table>

#### Last Updated:

13-Dec-06
## Appendix 2

### The Global Fund to Fight AIDS, Tuberculosis and Malaria

#### Contributions To Date

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td></td>
<td>AMOUNT PLEDGED</td>
<td>AMOUNT CONTRIBUTED</td>
<td>NOT YET PAID(^1)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Grand Total</strong></td>
<td><strong>3,405,625,921</strong></td>
<td><strong>3,242,863,488</strong></td>
<td><strong>1,100,000</strong></td>
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<tr>
<td><strong>Private Sector</strong></td>
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<tr>
<td></td>
<td><strong>150,000,000</strong></td>
<td><strong>150,000,000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>The United Nations Foundation and its donors:</strong></td>
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<td></td>
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<tr>
<td>The United Nations Foundation and its donors</td>
<td></td>
<td></td>
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<tr>
<td><strong>Total</strong></td>
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<tr>
<td><strong>Total</strong></td>
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</tbody>
</table>

### Notes:

1. (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 December 2006.

2. (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".

3. (c) Contributions held in the currency in which received are stated at their US dollar equivalent on the date of receipt.

4. (d) Contributions in process are amounts expected to be received within one month, and for which a contribution agreement has been signed or which have been deposited in a holding account with the Trustee pending signature of a contribution agreement.

5. (e) Amounts 'Not Yet Paid' will not equal 'Amount Pledged' less 'Amount Contributed', in instances where a donor has made contributions in excess of pledges for some years while not contributing the full pledge for other years.

6. (f) 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.

7. (g) Furthermore, at the donor's discretion, up to 5 percent of this funding may be applied in the form of direct bilateral technical assistance to activities related to Global Fund grant implementation, and the contribution to the Global Fund reduced correspondingly.
APPENDIX 3

TIMELINE OF GLOBAL FUND GRANT LAUNCHING AND APPROVAL

FIRST ROUND
February 2002 – First launch of grant solicitations
April 2002 – 2nd Board Meeting approves Round 1

SECOND ROUND
July 2002 – Second launch of grant solicitations
January 2003 – 4th Board Meeting approves Round 2

THIRD ROUND
March 2003 – Third launch of grant solicitations
October 2003 – 6th Board Meeting approves Round 3

FOURTH ROUND
January 2004 – Fourth launch of grant solicitations
June 2004 – 8th Board Meeting approves Round 4

FIFTH ROUND
November 2004 – Fifth launch of grant solicitations
September 2005– 11th Board Meeting approves over half of Round 5; the Board
approves the remainder in January 2006

SIXTH ROUND
April 2006 – Sixth launch of grant solicitations
November 2006 – 14th Board meeting approves all Round 6 proposals
## APPENDIX 4

### OUTCOME MEASURES FOR U.S. FUNDED TECHNICAL ASSISTANCE (TA) TO GLOBAL FUND GRANTS

(CTO Input incorporated 2/1/07)

<table>
<thead>
<tr>
<th>Objective</th>
<th>Illustrative Output indicators</th>
<th>Illustrative Outcome indicators</th>
<th>Method of measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Promote local ownership and sustainability</strong></td>
<td>--Number/percent of TA teams that include a local consultant or firm</td>
<td>1. Number/percent of CCMs or PRs using grant funds or other resources to seek subsequent TA from local consultants or organizations (reported within 12 months of TDY)</td>
<td>Key informant interviews (CCM/PR/local group/FPM)</td>
</tr>
<tr>
<td>Improved capacity of indigenous organizations and/or local consultants to provide TA address Global Fund issues</td>
<td>--TA teams undertake capacity building for local staff and/or organizations</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Promote multi-sectoral involvement</strong></td>
<td>--CCM workplan defined</td>
<td>Number/percentage of CCMs which, as a result of this TA, meet requirements set by Board for inclusiveness and transparency (reported within 6 months of TDY)</td>
<td>1. Interview FPM, CCM 2. Quarterly grant performance report</td>
</tr>
<tr>
<td>CCM governance structures improved</td>
<td>--Leadership workshop held</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--Diagnostic report produced by team is accepted by CCM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ensure performance-based management</strong></td>
<td>--Organizational and systems diagnostic assessment conducted</td>
<td>Number/percentage of PRs achieve x percent of stated objectives stated in the Action Plan (reported within 6 months of TDY) --Performance reports on the Web.</td>
<td>1. Interview with CCM/FPM or follow-up visit when planned 2. Interview with USG coordinator (local)</td>
</tr>
<tr>
<td>PRs and SRs have functional program and/or financial management skills and tools to meet GF project indicators</td>
<td>--Diagnostic is accepted by client and findings used to prepare Action Plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement/logistics systems functional</td>
<td>--Procurement and management plans for commodities (HIV, TB, or malaria) in place</td>
<td>--Relevant commodities in place (reported within 6 months of TDY) --Number/percent of sites reporting (patient/drug use monitoring) on a scheduled basis (within 6 months of TDY)</td>
<td>1. Interview with procurement staff from PR and SR 2. Interview FPM</td>
</tr>
<tr>
<td>--Logistics staff capacity strengthening activities undertaken</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M&amp;E systems functional</td>
<td>--M&amp;E indicators defined and have data sources with baselines and targets</td>
<td>--Reports that meet GF minimal requirements produced on schedule required by the GF (within x months of TDY)</td>
<td>1. Interview PR 2. Interview FPM 3. Review of performance reports</td>
</tr>
<tr>
<td>--Existence of functional system for program monitoring (patient management, drug use monitoring)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--PR conducts regular performance review meetings with SR --PR prepares performance update reports/presentations for CCM meetings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Management</td>
<td>--Guidelines available on financial documentation, reporting and verification process for implementation of GF grant --PR uses appropriate chart of accounts</td>
<td>--Financial reports that meet GF minimal requirements produced on schedule required by the GF (within x months of TDY)</td>
<td>1. Interview with LFA/PR/FPM 2. Review of progress reports</td>
</tr>
<tr>
<td>Objective</td>
<td>Illustrative Output indicators</td>
<td>Illustrative Outcome indicators</td>
<td>Method of measurement</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>Rapid investment of resources</td>
<td>Grants have timely access to operating funds</td>
<td>Bottlenecks preventing disbursements are resolved. <em>(While not actually an “output,” this principle reflects the success of TA interventions shown in previous outputs.)</em></td>
<td>1. Global Fund country disbursement reports</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduced disbursement delays occur in next complete quarterly period following TDY (within 2 disbursement periods of TDY)</td>
<td>2. Interviews with LFA and FPMs</td>
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<td></td>
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</tbody>
</table>

25