

**Australian Independent Review of Aid Effectiveness
Submission from the Global Fund to Fight AIDS, Tuberculosis and Malaria**

The Global Fund commends the Australian Government for taking the initiative to carry out the Independent Review of Aid Effectiveness, and is grateful for the opportunity to engage the Panel on a topic that should remain at the centre of the public policy debate at a time that Australia's ODA budget is set to increase dramatically. The Global Fund is pleased to provide the following submission for the Panel's consideration, and stands ready to provide any clarification or further material as required.

1. Introduction

The Global Fund is a public-private partnership designed to combat the AIDS, tuberculosis and malaria pandemics. It was created in 2002 in recognition of the fact that traditional multilateral and bilateral mechanisms had failed to prevent the unchecked and devastating spread of these diseases. The Global Fund represents a new model of multilateral development that has scaled up quickly and effectively to accelerate progress toward the three Millennium Development Goals for health.

Since 2002, support from Australia and other donors has enabled the Global Fund to disburse more than \$13 billion in grant funding across 140 developing countries. This investment has achieved genuine development results in countries in most need and has saved, by conservative estimates, more than 6.5 million lives. Its success has been underpinned by an innovative funding model in which performance-based funding, country-ownership of programs, inclusive partnership, and transparency are paramount.

The Global Fund has considered the issues identified in the Review terms of reference, notably geographical focus, sectoral focus, relative focus on low and middle income countries and the balance between bilateral and multilateral aid, as well as coordination with other donors and institutions. The Global Fund believes it is well positioned to expand its relationship with the Government of Australia to support it in achieving its outcome of assisting developing countries "reduce poverty and achieve sustainable development, in line with Australia's national interest."

Global Fund model

The Global Fund is a financing mechanism rather than an implementing agency. It provides grant funding to in-country recipients in developing countries to fund disease prevention, treatment and care programs and to strengthen health systems. Features of the Global Fund model includes that it is:

Demand-driven: grants are funded on technical merit, disease burden and poverty levels.

Country owned: country stakeholders take full ownership of programs and results.

Performance-based: grant funding is based strictly on performance against agreed, measurable targets.

Inclusive: governance comprises governments, civil society, affected communities and business.

Transparent and accountable: full funding and performance information is placed in the public domain.

The Global Fund model embraces the principles outlined by Foreign Minister Rudd in his speech on October 2010, in which he highlighted measurement of real development outcomes against MDG targets; evidenced-based decisions; full engagement and ownership by recipient countries; coordination with the UN and other partners; and active civil society involvement. The Global Fund strongly endorses these principles, which have been defining features of the Global Fund's model since the Fund's creation in 2002 and which have underpinned its success to date.

2. The Global Fund's Place in Australia's Aid Program

The need for a multilateral approach to public health

Improving the health of people in developing countries is a prerequisite to more rapid and sustainable economic growth. The Australian Government has rightly identified investing in health as a development priority, highlighting that it “helps lay the ground work for skilled and productive populations, and ensures that the poor can expand their range of choices, improve their productivity and participate more fully in society”.¹ Development funding for health lies at the core of all of the UN Millennium Development Goals, with three of eight Millennium Development Goals focusing directly on health: MDG4 (child mortality), MDG5 (maternal health) and MDG6 (HIV/AIDS, malaria and other diseases).

The health sector has, however, proven to be one of the most fragmented and complex areas of development, with a multitude of actors, insufficient scale of many interventions and limited institutional capacity in many countries. It is for these reasons that health lends itself particularly well to a focused multilateral approach in which organizations such as the Global Fund and GAVI, bring together donors in a form of “upstream harmonization”. The Global Fund's experience has been that pooling donor resources, on the basis of a strong model that responds to country demand, has enabled donors to achieve remarkable development outcomes in a short period of time. The Global Fund is a vehicle through which donors such as Australia can scale up its investment in health in a way that rapidly achieves results, that intrinsically ensures harmonization and alignment, and that comes with lower transaction costs than bilateral programs.

Geographical synergies

Like Australia, the Global Fund strives to deliver ODA where it is most needed, in the Global fund's case as determined both by income poverty and disease burden. As outlined in figure 1 below, sub-Saharan Africa receives the largest level of Global Fund support (55%), reflecting high disease prevalence and high poverty levels in the region. Other regions' funding shares have been as follows: East Asia and the Pacific (14%), South Asia (9%), Eastern Europe and Central Asia (8%), Latin America and the Caribbean (7%), and the Middle East and North Africa (7%). While the Global Fund does not pre-allocate funds, the geographical distribution of grants broadly corresponds to global disease burden.

Figure 1: Approved Funding by Disease and Region (cumulative, USD, Jan 2011)

Region	HIV	Malaria	TB
East Asia & the Pacific	1,291,723,666	796,185,737	960,296,304
Eastern Europe & Central Asia	1,130,392,889	30,791,877	542,258,444
Latin America & the Caribbean	1,013,073,568	207,570,913	238,842,623
North Africa & the Middle East	578,463,794	547,479,297	306,861,230
South Asia	1,124,976,203	347,281,917	533,653,009
East Africa	2,909,461,945	1,917,976,767	438,003,052
Southern Africa	2,412,578,429	650,556,749	227,328,355
West & Central Africa	1,578,082,193	1,568,265,530	369,390,600
Grand Total	12,038,752,687	6,066,108,787	3,616,633,618

The Global Fund is a major investor in the East Asia and Pacific region, having approved about \$3.1 billion in grants since 2002. Of this amount, about \$307 million is for Pacific island countries, through country

¹ <http://www.ausaid.gov.au/keyaid/health.cfm>

grants to Papua New Guinea, Fiji and Solomon Islands, as well as through multi-country regional grants.² The impact of Global Fund grants in the Asia-Pacific region has resulted in continuing strong demand for Global Fund support, with \$210 million in grants approved by the Board in December 2010. These new grants included, among others, Indonesia (TB and health systems); Vietnam (health systems); East Timor (malaria and HIV) and Papua New Guinea (HIV and health systems).

The Global Fund has been actively engaged with Australia in the Asia-Pacific region, where Australia's development priorities and national interests are focused, and where AusAID has an extensive footprint. The Global Fund would like to maintain and where possible intensify cooperation with AusAID in the region, including through its continued participation in Country Coordinating Mechanisms;³ closer collaboration in countries with challenging implementation environments such as Papua New Guinea; and enhancing coordination on technical assistance. Increased Australian funding to the Global Fund, complemented by in-country support in countries of core interest to Australia, potentially offers a cost-effective model for expanding Australia's investment in the health sector in the region in a way that achieves impact while maintaining a high in-country profile for Australia.

The Global Fund also welcomes Australia's increased ODA focus on sub-Saharan Africa. It is in this region where the world's greatest development challenges, lowest income levels and highest disease burdens exist (including 90% of the global malaria burden). The size, diversity and complexity of the development challenges in Africa highlight the logic of focused multilateral approaches – especially in the health sector. The Global Fund has a track record of delivering interventions in Africa quickly and effectively, having approved about \$12 billion in grants since 2002. The Global Fund Secretariat is eager to explore with the Australian Government ways of increasing the visibility of the impact in Africa of Australia's increasing support for the Global Fund, recognizing the reality of a limited Australian official presence in the region.

3. The Global Fund's Engagement with Australia

Australia is a major donor to the Global Fund, a partner in innovative finance, and a key development partner in the Asia Pacific region.

Australian Funding

Australia's is the 16th largest donor to the Global Fund and has contributed \$A210 million since 2004 (see figure 2, below). At the October 2010 Replenishment pledging conference in New York, Australia announced a new \$A210 million pledge for 2011-13, representing a 56% increase compared to its previous pledge for the 2008-2010 period. This increase is expected to make Australia the 14th largest donor by the end of the current Replenishment period (overtaking Russia and Denmark) and the 13th largest Government donor.

In addition to its regular contributions, the Australian Government has signed a Debt2Health agreement with Australia and Indonesia. Debt2Health is a ground-breaking Global Fund initiative which involves creditor countries forgiving debt on the condition that the debtor country invests an agreed amount into Global Fund-approved programs. Under the agreement, Australia agreed to cancel \$A75 million of Indonesian debt owed to the Export Finance and Insurance Corporation. In return, Indonesia is investing half (\$A37.5 million) in national programs to combat tuberculosis through the Global Fund over six years.

The Australian private sector is also supporting Global Fund grants on the ground. BHP Billiton, for example, led the development of the cross-border malaria program in southern Africa, now supported by the Global Fund. In January 2011, Penfolds (part of the Fosters Group) became the first Australian partner

² The Global Fund Pacific islands multi-country grants cover the Marshall Islands; Nauru, Solomon Islands, Vanuatu, Kiribati, Federated States of Micronesia, Palau, Cook Islands, Niue, Samoa, Tonga and Tuvalu.

³ The CCM is the Global Fund's in-country governing body. AusAID sits on CCMs in Indonesia, East Timor, Cambodia, Papua New Guinea, Solomon Islands and the regional CCM that covers multi-country grants in the Pacific islands.

for the (PRODUCT) RED initiative, through which companies such as Apple, Nike and Starbucks have raised more than \$160 million for Global Fund HIV/AIDS grants in Africa. Under the partnership, Penfolds will contribute a portion of US sales of two wines to the Global Fund. The Global Fund is also currently developing a strategy to engage leading Australian companies and high net worth individuals for direct support, with Australia potentially serving as a catalyst for further support in the Asia-Pacific region.

Figure 2: Pledges and Contributions from the Australian Government: 2004 to 2013

Year	million AUD		million USD	
	Pledged	Contributed	Pledged	Contributed
2004	20.0	20.0	13.8	13.8
2005	20.0	20.0	16.6	16.6
2006	17.0	17.0	11.1	11.1
2007	18.0	18.0	15.3	15.3
2008	42.0	42.0	38.9	38.9
2009	46.5	46.5	32.8	32.8
2010	46.5	46.5	42.5	42.5
2011	40.0		40.6	0.0
2012	70.0		71.1	0.0
2013	100.0		101.6	0.0
TOTAL	420.0	210.0	384.4	171.0

Visibility of Australia's contribution

The Global Fund receives untied and non-earmarked ODA funding from government donors, in line with Paris aid effectiveness principles. This presents challenges in providing the visibility sought after by Australia and some other donors. The Global Fund nonetheless works to maximise donor visibility wherever possible and is interested in developing new initiatives with Australia to this end. Ways in which Australia has gained visibility for its contribution to the Global Fund have included:

- The 'turning red' of the Sydney Opera House on World Aids Day (organized by Pacific Friends of the Global Fund with the NSW Government) and involving Bono and Prime Minister Gillard, which received wide international press coverage;
- Australia's participation in Global Fund Country Coordinating Mechanisms in the Asia-Pacific region, which give clear recognition Australia's role in the Global Fund.
- Support for grant implementation by Australian NGOs, including the Australian Federation of AIDS Organisations, the Australian Red Cross, Save the Children Australia, the Burnet Institute, and Care Australia, in countries such as Myanmar, East Timor, Cambodia and Fiji.
- The signature of Debt2Health Agreement with Australia and Indonesia.

The Global Fund has identified Australia as a priority country for communications and outreach during 2011 and 2012 – a central element of which will be increasing recognition of Australia's financial contributions to international and domestic audiences. Possible initiatives may include:

- A further high-profile World AIDS day event in 2011 with a Global Fund focus
- Developing Global Fund related touring exhibition or cultural event during 2011/12 (initial options and contacts being developed)
- Signing ceremony/press release for expected signature of Multi-Year Contribution Agreement for Australia's 2011-13 pledge.

4. Funding Profile

The Global Fund model works to ensure that funding is directed to where it is most needed. This is done through linking grant eligibility and prioritization to country income levels and disease burden, as well as technical merit and capacity to deliver. More than half (54%) of Global Fund grants have been disbursed in low income countries, with the vast majority of the remainder provided to lower-middle income countries. Since 2002, the Global Fund has approved \$21.7 billion in grants, signed grant agreements worth \$17.5 billion, and disbursed \$13 billion to recipients across more than 140 countries. The Global Fund is the largest multilateral funder of health programs in developing countries. It provides about 20% of international funding for HIV-AIDS, 64% of funding for tuberculosis and 57% of funding for malaria. In addition the Global Fund is also the biggest international funder of work on health systems strengthening (HSS). The Global Fund estimates that between 2002 and 2009 about 37% of its portfolio has been for activities to strengthen national health systems.

In terms of funding sources, about 95% of contributions have been from governments. The biggest donors are the USA, France, Germany, Japan and the UK. The Global Fund has been successful in diversifying its funding base, having obtained \$948 million from the private sector and innovative financing mechanisms. The Gates Foundation is the largest single non-government donor, having announced in October 2010 a five-year \$100 million annual contribution to the Global Fund. Other private sector donors include the Product (RED) partnership, Chevron and Takeda Pharmaceutical.

5. Development Impact

Since 2002 the Global Fund has been the major engine driving progress in the fight against AIDS, tuberculosis and malaria and strengthening the health systems of developing countries. The Global Fund's contribution to the three Millennium Development Goals for health is underpinned by a rigorous and comprehensive focus on aid effectiveness.

Achieving genuine development outcomes

As at December 2010 an estimated 6.5 million lives had been saved through Global Fund-supported programs. The following summarises some of the interventions it has funded:

- 3 million people with HIV currently receiving life-saving antiretroviral (ARV) treatment
- 1 million pregnant women have received treatment to prevent transmitting HIV to their children
- 5.1 million care and support services have been provided to orphans and vulnerable children
- 2.7 billion condoms have been distributed
- 7.7 million new smear-positive TB cases have been detected and treated.
- 160 million insecticide-treated bed nets have been distributed to protect against malaria.
- 170 million cases of malaria have been treated
- 13 million 'person episodes' of training for community health workers

These interventions have underpinned a clear shift in the trajectory of the three global pandemics and have delivered public health benefits to millions of people in need. Some examples are provided below.

HIV/AIDS outcomes

Ten years ago, anti-retroviral therapy (ART) was rare in low and middle income countries. By December 2009, the number of people receiving ART in such countries had reached 5.25 million (about half provided by the Global Fund). Eight low and middle-income countries had achieved universal access to ART; and 21 additional countries had reached coverage rates higher than 50%. The massive increase in access to prevention and treatment has led to a decrease in the number of new cases of HIV as well as in annual AIDS deaths worldwide. The number of children born with HIV has also decreased by 24% in the past five

years, with more than half of pregnant women with HIV receiving ART to prevent HIV transmission to their babies and 15 countries having reached the (80%) coverage target.

For example, in Ethiopia, Global Fund investment, together with strong support from international agencies and civil society, has enabled the rapid scale-up HIV prevention and treatment. At the end of 2010, 207,000 people were receiving ART, compared to 90 at the beginning of 2005. This, together with HIV prevention campaigns and massive community outreach, has contributed to a 50% decline in population-level AIDS mortality in Addis Ababa.

Tuberculosis outcomes

The Global Fund has helped accelerate case detection and successful treatment of TB, with 1.7 million additional cases detected and treated in 2010 by Global Fund supported programs, compared to 1.4 million in 2009. Global Fund investment has helped achieve a global reduction in tuberculosis incidence in five of the six WHO regions. About 55% of TB cases in 2009 were in South-East Asia and the Western Pacific regions. If sufficient resources are provided to sustain this trend, the MDG target for TB for 2015 can be achieved (13 of 22 high-burden countries are on track to meet this target). Global TB deaths fell by 35% between 1990 and 2009 and if the trend holds, the target of 50% reduction by 2015 can also be achieved (12 out of 22 high-burden countries are on track to reach this target).

For example, in Cambodia, one of the 22 TB high burden countries, the Global Fund has disbursed \$20.6 million since 2004 to support national TB control efforts, enabling the national TB program to achieve 64% case detection and 93% treatment success rates. TB mortality in Cambodia declined by 37% between 2000 and 2009, from 113 to 71 per 100,000 people. Significant reductions in TB mortality have also been recorded in Indonesia, the Philippines, China, Bangladesh and India.

Malaria outcomes

Global Fund investment in programs to fight malaria have focused on rapidly scaling up the distribution of insecticide treated bed nets. Global Fund supported programs have distributed 160 million bed nets since 2002, a number expected to grow to 230 million by 2011. Similarly the number of malaria cases treated with Global Fund support has expanded rapidly, doubling to 62 million cases in 2010 alone. Reductions in malaria mortality of 50-80% have been recorded in the 10 African countries in which malaria is most endemic, particularly among children.

In Nepal, for example, the Global Fund has supported intensified malaria control since 2004, focusing on the 13 highest-endemic districts. More than 9 million insecticide treated bed nets have been distributed, mainly through mass campaigns undertaken with international and national NGOs. National surveillance data and WHO estimates indicate that Nepal had achieved the MDG6 malaria targets of halving malaria morbidity and mortality by 2009. From a peak in 2002, the annual parasite incidence fell by 80% in 2009.

Health Systems Strengthening

The Global Fund has invested heavily in strengthening the national health systems that underpin disease-specific interventions, allow the expansion of basic health care services to the wider population and help countries transition to self-sufficiency. In its first four years, funding for health systems strengthening (HSS) was integrated into disease-specific HIV, TB and malaria grants. Since 2005, this has been complemented by funding for cross-cutting HSS programs. In the future HSS funding will also be provided through a new joint funding platform developed by the Global Fund, GAVI and the World Bank.

In Rwanda, for example, the Global Fund investment of \$77 million in health systems strengthening has involved strengthening human resources, which, combined with the efforts of other donors, have led to an increase of 141% in the number of basic health care facilities. This grant also supported a mechanism of social health insurance for more than 3 million people living with HIV, orphans and vulnerable children, and the poorest of the poor.

Contributing to the MDGs

The Global Fund provides the largest source of multilateral funding for the health-related MDGs, particularly MDG 6 (combat HIV/AIDS, malaria and other diseases), but also to MDG 4 (reduce child mortality) and MDG 5 (improve maternal health). The Global Fund Secretariat has estimated that about 44-54% of its funding benefits women and children, notably through funding for high-impact HIV, TB and malaria interventions throughout the continuum of pre-pregnancy, pregnancy, birth and childhood. The G8, at its 2010 Summit, decided that 46% of new G8 member funding to the Global Fund should be counted as funding under the G8 Muskoka Initiative on Maternal Newborn and Child Health. The Global Fund has assessed that with sufficient scale up of donor investment over the next four years, it is positioned to deliver major further progress towards MDG targets, including through: eliminating malaria as a public health problem in most countries where it is endemic; containing the growing threat of multi-drug resistant TB; and virtually eliminating the transmission of HIV from mothers to their children.

6. Development Effectiveness

Adhering to Paris Declaration Aid Effectiveness Principles

At the core of the Global Fund's work is the goal to deliver aid as effectively as possible to maximize impact. The Global Fund regularly monitors the transaction costs of its financing and improves policies and processes where needed. The Global fund is committed to the Paris Declaration principles on aid effectiveness (ownership, alignment, harmonization, managing for results and accountability) and has also signed the 2008 Accra Agenda for Action, which aims to improve progress in aid effectiveness.

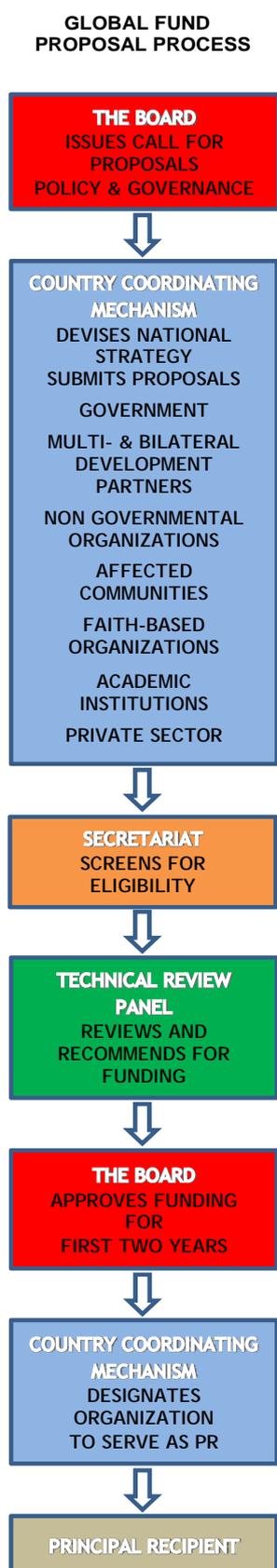
The Global Fund was an early adopter of aid effectiveness, having many of its principles in its foundation document. All Paris Declaration indicators are part of the KPIs that are regularly reported to the Board. The Global Fund established 13 aid effectiveness targets for 2010, in consultation with the OECD.

Figure 3: Global Fund Aid Effectiveness Scorecard – 2009

Paris Declaration principle	Indicator	2005 result (n=32)	2007 result (n=54)	2008 result (n=54)	2010 target
Ownership & alignment	Aid recorded in national budgets	15%	23%	29%	85%
	Grants aligned with country cycles	62%	62%	75%	90%
	Aid using public financial management systems	39%	39%	42%	59%
	Aid using national procurement systems	33%	56%	87%	55%
	Countries with parallel implementation units	16%	13%	0%	5%
Aid is predictable & untied	Ratio of actual versus expected disbursements	90%	95%	106%	95%
	Aid recorded as scheduled	16%	30%	29%	60%
	Untied aid	100%	100%	100%	100%
Harmonization with partners	Aid provided in support for program-based approaches	74%	68%	79%	66%
	Joint missions with other donors	15%	14%	14%	40%
	Joint analytic reports with other donors	50%	22%	33%	50%
Managing for results and accountability	Grants with transparent and monitorable performance frameworks	100%	100%	100%	100%
	Grants aligned to national monitoring and evaluation systems	73%	82%	84%	90%

Color legend: Orange: 30 to 59% of 2010 target achieved in 2008; Yellow: 60 to 89% of 2010 target achieved in 2008; Green: More than 89% of 2010 target achieved in 2008.

The 2009 scorecard indicated that of the 2010 aid effectiveness targets, six were fully met, one nearly met and three were within reach (see Figure 3, above). The Global Fund has been addressing the three targets where performance had been lagging (joint donor missions, providing aid disbursements as scheduled, and reporting assistance provided on budget). In 2011 the OECD is conducting the third and final Paris Declaration monitoring round in over 80 partner countries. The Global Fund is reducing the reporting burden and transaction costs on countries by coordinating and harmonizing with GAVI.



Basing funding on performance

The Global Fund applies performance-based funding to all aspects of its financing, in line with the Paris aid effectiveness principle, “managing for results”. In essence, performance based funding at the Global Fund links funding to the achievement of results, assessed against time-bound targets. The Fund continually assesses and evaluates performance both at the individual grant level (through periodic reviews) and at the ‘corporate level’ (through KPIs), with full public disclosure of all performance information.

The performance of Global Fund grants is measured against agreed country-owned targets that are ambitious yet realistic for the country context. A review of grant performance is undertaken at the time of each disbursement, and a more comprehensive review including outcomes and impact occurs by year two of the grant, at which a decision is made on whether to continue funding for a further three years. It offers countries the opportunity to address weaknesses and to refine strategies for scaling up interventions. In a few cases, non-performing grants have been suspended.

Grant ratings help guide the Secretariat’s disbursement and other grant management decisions. Grants that are unable to meet their performance targets may have funding reduced, withheld or terminated. In 2009, 78% of programs were assessed as performing well; 19% as inadequately, but demonstrating potential and requiring actions; and 3% as demonstrating poor performance. The application of performance-based funding has resulted in significant grant efficiencies, with \$956 million re-allocated between under-performing grants and well-performing or new grants between 2005 and 2009.

Learning and innovating based on evidence

The Global Fund’s grant funding system has built in feedback mechanisms to allow for continuous learning. At the proposal level (see adjacent chart) countries prepare grant applications based on their national plans and the specific circumstances and conditions in that country, with the assistance of technical partners such as WHO, UNAIDS, Stop TB and Roll-Back Malaria (RBM) to ensure that proposals are evidenced based. In this way the Global Fund only provides funding for well-established, scientifically-proven practices recommended by technical partners.

Proposals that are found eligible for funding are reviewed by a technical review Panel (TRP), made up of 40 independent international experts in HIV/AIDS, TB, Malaria, HSS and development. The TRP reviews the

proposals for technical merit. The TRP's expertise has been critical in making informed practical recommendations to improve Global Fund operations based on research, evidence and best practice, including for example, the introduction of initiatives such as Voluntary Pooled Procurement (VPP) and the new grant architecture.

The Global Fund Board has also established a Technical Evaluation Reference Group (TERG) to provide independent technical advice and assessment on the Global Fund's work on monitoring and evaluation. The TERG oversaw the Global Fund's Five Year Evaluation, concluded in 2009, which assessed the Global Fund secretariat, implementation in countries and disease impact. The Evaluation broadly validated the Global Fund model and provided recommendations on how to further strengthen the Secretariat, simplify grant making and strengthen the business model (e.g. as regards oversight function of CCMs.) Global Fund Management has welcomed these recommendations and they are being addressed through management actions and the reform agenda (see section 10, below).

Maximising sustainability

The Global Fund was created to disburse new resources quickly to stem the advance of the three pandemics "on an urgent basis." Since its creation, however, the Fund has sought to ensure that public health impacts can be sustained by focusing on *country-ownership* (including through reforms to enable countries to apply for grants based on national disease strategies). Sustainability is reinforced by the Global Fund's *partnership* model, in which diverse national stakeholders including civil society and community groups, not just governments, take direct ownership of funded programs. In addition, the Global Fund's support for *health and community systems strengthening* (including through a new joint funding platform with GAVI and the World Bank), builds recipient country's health infrastructure as a means of maximizing the long-term sustainability of programs. Finally, the Global Fund also works towards sustainability through its *cost-sharing policy*, under which lower-middle income countries must contribute at least 35% of program costs and upper-middle income countries contribute at least 65% of program costs. The Global Fund is significantly strengthening its cost sharing policies to cover all income groups, ahead of its next funding round in 2011-12.

Addressing gender and sexual minorities

In order to deliver effective programs, the Global Fund places priority on ensuring its policies and grants prioritize the needs of groups most affected by, or vulnerable to, HIV, TB and malaria. The Global Fund is implementing two Board adopted strategies on promoting gender equality and also on the special needs of sexual minorities, such as men who have sex with men, transgender people and sex workers. These strategies seek to: strengthen Secretariat and Technical Review Panel expertise in these areas, sensitize CCMs to the particular needs and contributions made by these vulnerable groups, and adapt proposal guidelines to encourage countries to actively tackle the epidemics in these key groups and incorporate them in their national plans.

Funding programs in fragile states

The Global Fund has provided significant funding to address the needs of fragile states. Through its country led approach, the Global Fund has the ability to ensure ambitious yet realistic targets are set in these difficult contexts. As at July 2010, nearly \$5 billion had been disbursed to support 41 fragile states, including the following countries in Asia: Bangladesh, Democratic People's Republic of Korea, Myanmar, Nepal, Pakistan, Solomon Islands and Timor-Leste. On the whole, these grants performed well and reached their set targets.

7. Governance and Partnership

Unlike UN agencies, the Global Fund is not a member state based organization. Rather, it is structured as a partnership between governments, the private sector, civil society and affected communities. The Fund also works in close collaboration with other bilateral, UN and other multilateral organizations. These stakeholders are given an equal voice in the Global Fund governance structures, including at the country-level and their support has been critical to the results achieved to date (outlined in section 5).

Providing Effective Governance through the Board

The *Global Fund Board* is comprised of 20 voting members, made up of representatives from donor and implementer constituencies as follows: government donors (8) private donors (2); recipient governments (7) and civil society (3). In addition, four development partners sit on the Board as non-voting members, including the WHO, UNAIDS, and the World Bank. Australia is part of the UK-Australia constituency. Murray Proctor, Ambassador for HIV, serves as Alternate Board Member for the constituency. Australia is also represented on the Board committee that provides oversight on implementation and portfolio issues. The effective functioning of the Board has underpinned the effectiveness of the organization as a whole. Bringing together a wide spectrum of stakeholders has led to better informed Board decisions that are owned and supported by the Global Fund's partners and the people that implement them.

Incorporating and engaging civil society

A defining characteristic of the Global Fund partnership model is that civil society forms part of its governance. Three of 20 Board voting seats are dedicated to civil society from developing country NGOs; developed Country NGOs; and people living with the diseases. At the country level, civil society must be allowed to participate in CCMs for that country to be eligible for grants. In terms of implementation, the Global Fund recommends the routine inclusion of both government and civil society implementers in grant proposals. About 40% of approved Global Fund grants (by funding level) have civil society groups acting as principal recipient.

Bringing in-country partners together through the CCM

At the country level the Global Fund's governance and partnership is centered on the Country Coordinating Mechanism (CCM). The CCM does not handle Global Fund financing itself, but is responsible for coordinating the work of the Global Fund's in-country stakeholders to prepare grant proposals and oversee grant implementation. CCMs are normally chaired by the country's ministry of health and must include in their membership officials from relevant government agencies, civil society (including representatives of people living with the diseases), the private sector and bilateral and multilateral partners such as WHO, UNAIDS and UNICEF. The CCM is the chief mechanism for ensuring harmonization and alignment at the country level.

Harmonizing with donors and partners

At the global level, the Global Fund is an active participant in forums designed to improve aid effectiveness and donor alignment. The Global Fund engages closely in relevant UN forums and obtained UN observer status in 2009. The Global Fund is a member of the International Health Partnership (IHP) and IHP+ networks, which seek to achieve better health results by mobilizing donors and partners around a single country-led national health strategy, guided by the Paris aid effectiveness principles. The experience gained from such forums has influenced the Global Fund's adoption of the National Strategy Application mechanism (through which countries apply for funding based on a national disease strategies), as well as its work with GAVI, the World Bank and WHO to develop a Health Systems Funding Platform (which aims to reduce transaction costs through joint reporting, M&E and other systems).

Other Key Structures

In addition to the Global Fund Board and Country Coordinating Mechanism, outlined above, the Global Fund includes the following key structures:

Global Fund Secretariat: manages the grant portfolio, including screening proposals; managing disbursements and implementing performance-based funding. The Secretariat also executes Board policies; mobilizes resources; provides strategic, policy, financial, legal and administrative support; and oversees monitoring and evaluation.

Technical Review Panel (TRP): an independent group of 40 international experts in the three diseases, health systems, development, and financial management. It meets regularly to review proposals based on technical merit and provide funding recommendations to the Board.

Principal Recipients: receive Global Fund financing on the basis of legal agreements with the Global Fund to implement prevention, care and treatment programs (or sub-contract this work to sub-recipients). There can be multiple PRs in one country. The PR also makes regular requests for disbursements from the Global Fund, based on demonstrated progress towards agreed targets

The Trustee: currently the World Bank, manages the organization's money, which includes making payments to recipients at the instruction of the Secretariat and managing donor payments.

Two other key entities, *the Local Fund Agent (LFA)* and the *Office of the Inspector General (OIG)* are outlined in Section 10 on risk management.

In-country partner's perspectives

Since 2006, the Global Fund has conducted an annual portfolio survey in which implementers of Global Fund grants (principal recipients) anonymously provide feedback and suggestions for improvement. In the most recent survey, conducted in 2010:

- 91% rated the Global Fund's overall reputation as "good" or "very good"
- 57% rated the Global Fund's ability to attract, manage and disburse additional resources as "good" or "very good"
- 62% rated the Global Fund "much better" or "slightly better" than bilateral aid agencies.

Survey responses by region showed more favourable responses in the East Asia and the Pacific region, where the results against the above questions were 94%, 74% and 86% respectively.

8. Value for Money

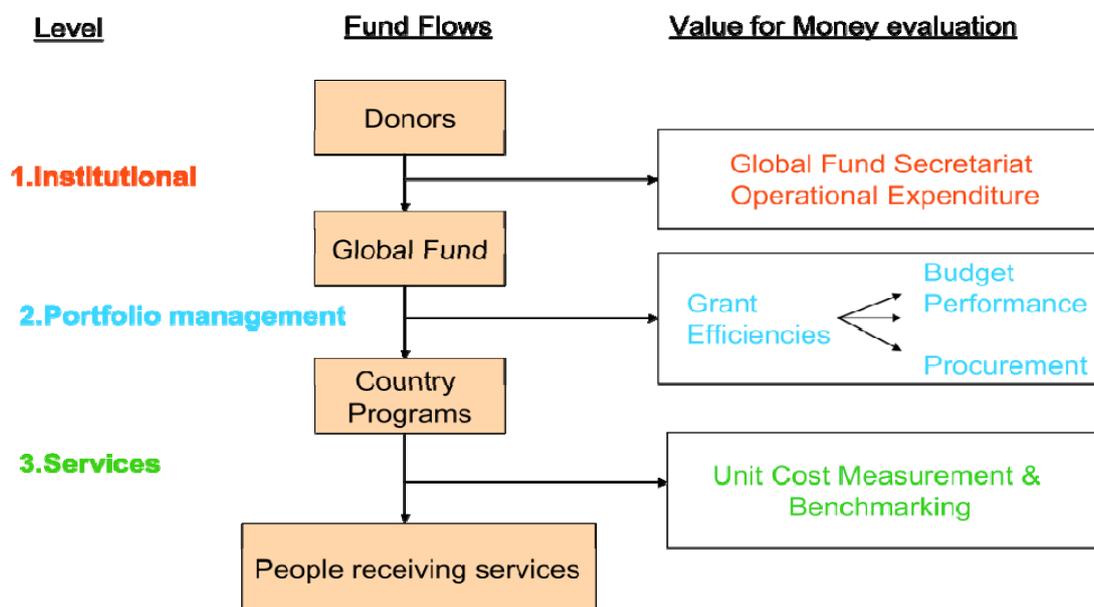
The Global Fund works to ensuring value for money at every stage of the financing chain, extending from donors to the people who benefit from program services directly. This includes using resources efficiently within the Secretariat, rigorous budgeting and reprogramming of grant funds at different stages of the grant life-cycle, and ensuring cost effective program implementation (see Figure 4, below).

Almost every dollar contributed to the Global Fund goes to fund programs in country. The Global Fund has no country offices, and cumulative interest earned on the Trustee account at the World Bank has covered all the operating expenses for the Global Fund Secretariat and Local Fund Agent fees to date. In 2010, administrative costs amounted to 5.4% of the Global Fund's total expenditures. In 2010 the Global Fund's committed \$8.1 million in grants per employee (full-time equivalent).

For the grants themselves, the Technical Review Panel assesses country proposals for cost effectiveness and value for money and, where possible identifies savings. Once grants are approved, grant administration and overhead costs are reviewed at the grant negotiation stage, and again at Phase 2, to ensure that they are reasonable. In addition, performance is continuously reviewed at the time of

disbursement, with disbursement volumes dependent upon achievement of nationally owned targets. Funds are actively shifted toward well performing grants (about \$1 billion reprogrammed to date).

Figure 4: Value for money in the flow of funds in the Global Fund model



Given the significant grant spending devoted to the purchase of the health products that underpin health interventions, the Global Fund works to ensure that procurement and supply management is scrutinized at every step. To this end, the Global Fund has put in place a range of measures to transparently record and provide data (including standardized unit costs) to implementers help them maximize value for money by reforming their procurement and management systems and by achieving economies in their purchases of key health commodities.

For example, the *Enhanced Financial Reporting (EFR)* system tracks spending by cost category, activity and implementer to link experience with program performance to enable optimal investment decisions. The *Program and Quality Reporting (PQR)* mechanism allows benchmarking of quality and other procurement information for key health products to better inform the Global Fund, Local Fund Agents and recipients about market conditions and enable price comparisons. *Voluntary Pooled Procurement (VPP)* was recently introduced to give recipients the option of more efficiently procuring core health products.

9. Risk Management

The Global Fund, by the nature of its mandate, often operates in environments where financial controls and oversight systems may be weak. It must sometimes also work with entities that lack strong programmatic and financial capacity. The Global Fund’s core principles of transparency, accountability and performance based funding, its risk management and assurance systems, and its willingness to take strong and rapid action when irregularities are detected, has enabled it to protect its resources and direct funds to where they have the greatest impact.

Managing Corporate Risk

The Global Fund’s risk management systems are robust, transparent, and constantly improving. External reports on the Global Fund by independent consultants and external auditors have generally been very favourable, identifying good practices in controlling and managing risk across the Global Fund’s systems

and processes. In November 2009 the Global Fund Board adopted a Risk Management Framework to ensure a more systematic approach to risk management, to make preventative and remedial actions more visible and explicit. This involved introducing a Corporate Risk Register, which identifies nine key risks, outlines their probability and consequences, identifies the main controls in place, and assigns clear responsibility for managing the risk.

Managing risks in the grant funding cycle

The Global Fund has established policies, procedures and standards of conduct that it sets out in legally binding agreements between the Global Fund and principal recipient. Grant implementation is based on detailed budgets and work plans, a performance framework (setting out targets and timelines) and procurement and supply management plans. The Global Fund manages risks across the grant funding cycle in five layers:

Principal recipient's internal controls: Principal Recipients (selected through a competitive process and subject to rigorous risk assessment including their financial management capacity), provide quarterly or semi-annual financial and programmatic reports that are published on the Global Fund website.

Local Fund Agents (LFAs): All performance reporting and requests for disbursement are reviewed by the LFA, an entity (often internationally reputed audit firms) contracted by the Global Fund to monitor implementation, provide recommendations on recipients' capacity and for verifying programmatic results in conjunction with disbursement requests.

Annual External audits of Principal Recipients: conducted annually by an independent auditor.

Secretariat monitoring: Grant funding is provided in instalments (taking into account advice from the LFA) with disbursements based on agreed budgets and work plans and subject to conditions and evidence of results against targets. The Secretariat can take remedial actions in response to concerns brought to its attention, including the application of the Additional Safeguards Policy (ASP).⁴

Office of the Inspector General: The Office of the Inspector General (OIG) is an independent body of the Global Fund that reports directly to the Board. It provides the Global Fund with independent and objective assurance on the design and effectiveness of controls to manage the key risks impacting on the Fund's programs and operations. The OIG has a broad-ranging mandate, including the responsibility to carry out random audits and investigate potential fraud abuse, misappropriation, corruption and mismanagement of grant funds.

Addressing identified cases of fraud and misuse of funds

The Global Fund has zero tolerance for corruption and actively seeks to uncover evidence of misuse of its funds. OIG audits have sometimes revealed weaknesses in developing country procurement, accounting and reporting capacity. In line with its commitment to full transparency, all OIG audit reports are available on the Global Fund website.

The Global Fund acts quickly to address any cases of fraud identified by the Secretariat, Local Fund Agents, recipients or the OIG. The Board and its Finance and Audit Committee are regularly updated on the status of on-going and completed audits and investigations. For example, at its December 2010 Board meeting the Inspector General advised of several instances of misuse of funds in Djibouti, Mali, Mauritania and Zambia. In response to these findings the Secretariat and OIG quickly instigated remedial and risk mitigation measures, including:

- Pursuing recovery of misappropriated funds;
- Changing principal recipients and re-tendering some Local Fund Agent contracts;

⁴ The ASP provides for more stringent measures such as selection by the Global Fund of recipients, disbursement on a reimbursable basis, direct payment for health products and mandatory quarterly reporting.

- Terminating grants and freezing disbursements (while allowing continuation of treatment);
- Imposing Additional Safeguards on several grants;
- Scrutinizing and freezing higher-risk expenditure items in other countries;
- Providing training to build the capacity of LFAs to identify and address 'red flag' issues.

10. The Global Fund Reform Agenda

The Global Fund's success in expanding key interventions against the three diseases has meant that its portfolio has grown rapidly in size and complexity. Annual disbursements have grown from about \$1 billion in 2005 to \$3 billion in 2010. Over the same period, staff numbers have increased from 150 to almost 600. This rapid growth has brought greater impact on disease programs, but also created operational challenges for both implementers and the Global Fund Secretariat.

The Secretariat is currently undertaking an extensive program of operational and organizational reforms for increased efficiency and effectiveness, and greater value for money. These build on earlier reforms including the National Strategy Application and joint funding platform for health systems strengthening. The current reform agenda was first presented to donors at the 2010 pledging conference, which are currently being taken forward through a comprehensive work plan coordinated between the Global Fund Board and Secretariat. Key reforms include:

Simplifying grant funding: the New Grant Architecture

The new grant architecture – a cornerstone and catalyst for the reforms – is designed to simplify the Fund's operating model, reduce transaction costs and enable more effective oversight. It involves consolidating existing individual grants into single streams of funding per recipient per disease, moving away from a fragmented, project-style approach towards a more holistic national program-based model, in which reviews, reporting and financial commitments are better aligned to national program and fiscal cycles. Implementation of the new grant architecture is currently underway, and is already generating promising results ahead of schedule.

Country Team Approach

In 2010 the Global Fund adopted a Country Team Approach to streamline the way it manages its grants. Country teams bring together operations-focused staff (Fund Portfolio Managers) and monitoring and compliance staff (legal, procurement, finance and monitoring and evaluation) to take shared responsibility and leverage increased specialised expertise for grants in high-impact recipient countries, throughout the entire grant cycle including grant negotiation, disbursement and audit/investigation. The new approach is designed to enhance the real-time quality of service delivery and reduce transaction costs and response times. Country teams were established for 13 initial "high-impact" countries in September 2010 through a reorganisation of 5% of the Secretariat staff. A further 29 Country Teams are planned.

Improving risk management

The Secretariat is currently implementing a wide-reaching set of reforms to strengthen its risk management model and improve the Global Fund's response to fraud. This includes the revision of Local Fund Agent (LFA) terms of reference to tailor work according to country risk profiles; specific training on fraud; closer monitoring of higher-risk expenditures; tighter measures to control theft of drugs; redoubled efforts for recovery of embezzled funds; additional safeguards, including grant suspension where necessary; and closer working relationships with the Global Fund's Office of the Inspector General (OIG), including a joint Secretariat-OIG work plan.

2 February 2011